Pennsylvania's Data Center Cloud Deal Has Big Potential

Colin Wood | July 24, 2014

Government cloud projects are becoming big deals.

On July 15, Unisys announced that the state of Pennsylvania had signed a $681 million hybrid cloud-services contract with the vendor. The seven-year deal, which represents one of the biggest cloud contracts seen in state government, will unify the commonwealth's data centers and allow agencies greater flexibility.

For Pennsylvania, the deal with Unisys marks a new way of doing business, said state CIO Tony Encinias, adding that supporting data centers is expensive. "We don't have the CapX [capital expenditures] to refresh the infrastructure every four or five years and we don't have the CapX to maintain our utilities, our data centers, the generators, the building itself. We shouldn't really be in that business, anyway, when you can buy this as a commodity. Our main purpose is to provide services to citizens, not to maintain infrastructure, not to maintain data centers."

Getting out of the technology business and into the services business is a common theme in government today. But actually making it happen in Pennsylvania wasn't fast or easy, Encinias said. "It took almost three years from the RFI until now to get this thing in place."

To make sure the contract would serve the commonwealth and give them what they wanted, they were highly prescriptive in their RFP, Encinias said. Rather than specifying certain vendors, technologies or other conditions, the terms of the contract are based on the capabilities that the state gets.

The state chose a cloud solution so that it could consume data needs without having to guarantee the volume. Pennsylvania also wanted to have catalog-based services, which it could purchase and consume as needed. Encinias explained the agency now offers a catalog of 500 services that will continue to grow.

The cloud solution also simplified budget planning because IT no longer has to plan for capacity since the Unisys contract allows for services to scale as needed. The contract will also simplify relationships with future vendors, he said.

Work done on this agreement should help with future deals involving cloud-based services, Encinias said. “We no longer have to worry about negotiating terms and conditions with every vendor associated with cloud services,” he added. “We have a massive contract with Unisys, and if we have services that we require from other vendors than Unisys, on our behalf, will go work with that vendor.”

After years of viewing cloud computing with some skepticism, government has moved swiftly to sign some mega contracts. The Pennsylvania deal follows another huge cloud project announced in June when Los Angeles County said it was putting 100,000 workers on Microsoft's cloud version of its Office products, the largest public sector deal of its kind. Last year, the Central Intelligence Agency announced a $600 million public cloud computing contract with Amazon Web Services.

The scale of Pennsylvania's cloud agreement with Unisys goes well beyond what most states attempt to do at once, according to Shawn McCarthy, research director for IDC Government Insights. “ Taking this full cross-agency approach is unusual, but could be the wave of the future,” he said. “Once vendors work with states to standardize the types of services they need, other states can tap into this area of expertise.”

Financially, it’s hard to say whether or not this approach will save Pennsylvania money, McCarthy said, but the value seems good, and only having to work with one provider could be beneficial, as Encinias mentioned. “If a highly skilled vendor offers a well-priced and reliable solution, and if it meets the service expectations of the user community, then consolidating multiple data centers into a set of managed services can be a big win,” McCarthy said. “However, these issues can’t really be determined through a contract award alone. It takes time to measure the vendor performance.”

But McCarthy says there are also potential pitfalls of such an arrangement. Since the return on investment is unknown, it could turn out unfavorable for the state. Another

pitfall is if the state fails to negotiate “solid service level agreements,” because end users could be disappointed by slow service speeds, he said.

Nevertheless, this project represents a new opportunity for state government, according to McCarthy. “States are in a unique place to support the development of ‘community clouds’ which can allow multiple states to tap into a similar set of services,” he said. “ [For a government-owned host facility] this approach can turn a government agency cost center into a revenue center. By selling cloud solutions to other government organizations, host agencies can offset their costs. Local governments may be able to tap into state-run facilities, and buy cheaper cloud solutions than they might find on their own, and they may be able to reduce capex IT staffs.”

The system, Encinias said, will be installed during the next two and a half years. The agency’s enterprise data center is scheduled for integration by the end of the year, the former managed services data center should be integrated by summer 2015, and the remaining agency data centers are to be integrated over the next two and a half years.

“I expect to realize [benefits] immediately,” he said. “The reason I say that is it’s not just software as a service. It’s more of an infrastructure-based contract, although software as a service will be a catalog item in the catalog. Agencies need services as we speak. The benefits are going to be immediately seen when they start moving the services as a catalog.”

The contract shows that times are changing in state government and the skills needed by agencies are changing too, Encinias said, adding that the jobs of system and server administrators are going away. “We need capacity planners, we need subject matter experts in the particular technologies that these vendors are providing. We need folks that understand contracts and business analysts."

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