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Ron DeSantis, Governor
Pedro Allende, Secretary

November 28, 2023

The Honorable Ron DeSantis, Governor
State of Florida
PL05 The Capitol
400 South Monroe Street
Tallahassee, FL 32399-0001

The Honorable Kathleen Passidomo, President
The Florida Senate
Suite 409 Capitol
404 South Monroe Street
Tallahassee, FL 32399-1100

The Honorable Paul Renner, Speaker
The Florida House of Representatives
Suite 420 Capitol
402 South Monroe Street
Tallahassee, FL 32399-1300

Dear Governor DeSantis, President Passidomo, and Speaker Renner:

The Florida Department of Management Services is pleased to submit the Division of Telecommunications Annual Financial Report for the period of July 2022 through June 2023 as required by section 282.702(15), Florida Statutes.

If you have any questions concerning the contents of this report, please contact the Department's Legislative Affairs Office at (850) 488-6285.

Sincerely,

Pedro Allende
Secretary, Department of Management Services (DMS)

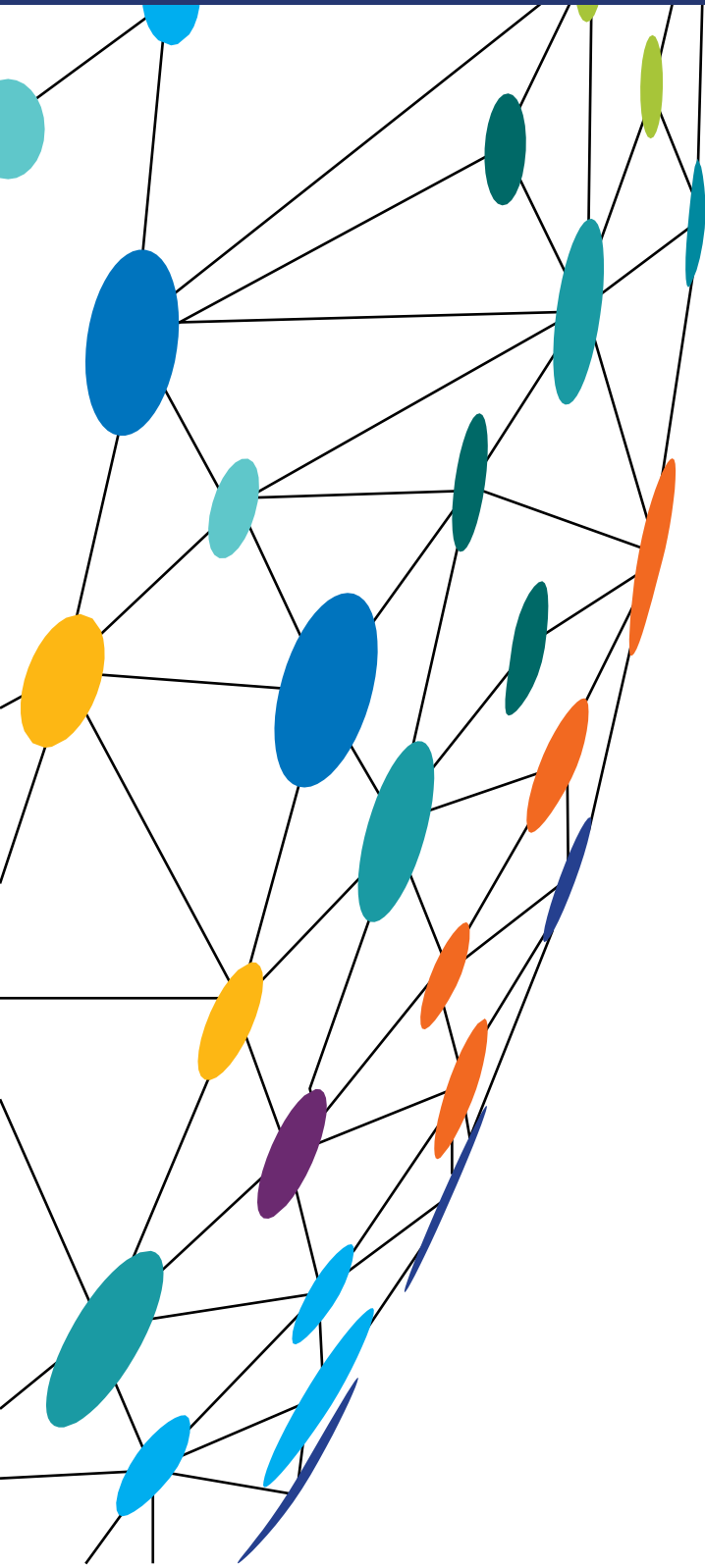
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Enclosure

Cc: John Schrader, DMS Chief of Staff
Tom Berger, DMS Deputy Secretary of Business Operations
Jeff Ivey, DMS Deputy Chief of Staff
Denise Adkins, DMS Director of Telecommunications

Division of Telecommunications

Annual Financial Report to the Governor and Legislature

July 2022 – June 2023



Department of
**MANAGEMENT
SERVICES**



▶ Division of Telecommunications

Ron DeSantis, Governor | Pedro Allende, Secretary

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Executive Summary

The Department of Management Services (DMS or department) submits this report in compliance with section 282.702(15), Florida Statutes, which states the following:

“The department shall annually submit to the Governor, the President of the Senate, and the Speaker of the House of Representatives a report that describes each service and its cost, the billing methodology for recovering the cost of the service, and, if applicable, the identity of those services that are subsidized.”

The subject of this report is limited to the department’s duties as outlined in sections 282.702 and 282.703, Florida Statutes, which address SUNCOM services.

SUNCOM Mission

Engineered and managed by DMS’ Division of Telecommunications, the SUNCOM Network is Florida’s enterprise telecommunications system for providing local and long-distance voice, data, video, and radio traffic services to state agencies, political subdivisions of the state, municipalities, and qualified nonprofit corporations. In accordance with section 282.703(1), Florida Statutes, state agencies cooperate and assist in the development and joint use of SUNCOM telecommunications systems and services.

As provided in section 282.702(8), Florida Statutes, SUNCOM’s primary purpose is to manage and approve the purchase, lease, or acquisition and use of telecommunications services, software, circuits, and equipment provided as part of any other total telecommunications system to be used by the state or its agencies. In accordance with section 282.702(4), Florida Statutes, SUNCOM establishes contracts with telecommunications service providers to provide these services to the state. With reference to section 282.702(2), Florida Statutes, the service provider contracts are foundational to building agency Telecommunications infrastructures in compliance with technical standards established by rule. These contracts and strategies ensure the interconnection and operational security of networks and information systems for SUNCOM users.

The aggregation of state agencies’ telecommunications needs provides cost savings through economies of scale, volume discounts, and a centralized pool of engineering and technical expertise focused on delivering telecommunications solutions. The aggregation also brings transparency and accountability to the procurement, provisioning, and financial processes necessary to meet agencies’ needs.

SUNCOM Services

In section 282.703(2), Florida Statutes, DMS is charged with designing, engineering, implementing, managing, and operating, through state ownership, commercial leasing, contracted services, or some combination thereof, the facilities, equipment, and contracts that provide SUNCOM Network services. Furthermore, this section calls for the development of a system of equitable billings and charges for telecommunications services.

Section 282.702(15), Florida Statutes, requires DMS to establish policies that ensure the department’s cost recovery methodologies, billings, receivables, expenditures, budgeting, and accounting data are captured and reported timely, consistently, accurately, and transparently and comply with all applicable federal and state laws and rules.

Section 282.703(1), Florida Statutes, provides the following: “The SUNCOM Network shall be developed to transmit all types of telecommunications signals, including, but not limited to, voice, data, video, image, and radio.” The following sections describe the various SUNCOM services currently available in four broad categories: Voice, Data, Wireless, and Infrastructure.

Voice

Voice services are designed to facilitate transmission of voice or other sound between two or more points, with or without the use of wires.

Centrex Phone Service

SUNCOM Centrex service provides local phone access. Features of Centrex include access to SUNCOM’s long-distance service, caller ID, voicemail, and call forwarding. Incumbent Local Exchange Carriers (ILECs) provide Centrex within their designated calling areas. In addition, SUNCOM provides alternatives to Centrex for customers who own and maintain switching equipment on-site through Internet Protocol Private Branch

Exchanges (IP-PBXs) or through traditional PBX systems. This type of switching equipment moves some of the functions and features from telephone company facilities to customer sites, enabling customers to use shared access lines provided by SUNCOM. Charges for these local phone services and features are fixed monthly fees invoiced through SUNCOM. In fiscal year 2022-2023, Centrex Phone Service had a total cost of \$19,026,409 and an operating profit of \$617,640.

Hosted VoIP Phone Service

Through its telecommunications providers, SUNCOM provides a Voice over Internet Protocol (VoIP) alternative to traditional phone service. The providers offer their versions of hosted VoIP phone service, which provide the standard features of a traditional local phone service in addition to benefits inherent to VoIP technology. Hosted VoIP phone service provides not only local service but also a bundled, fixed amount of long-distance calling per line. Rather than traditional dedicated phone circuits, phone calls handled through VoIP use data circuits to place phone calls, helping consolidate circuit usage. Hosted VoIP is an alternative to premise-based VoIP systems and is meant for customers who do not need equipment on-site and who want to avoid a capital purchase or long-term rental. Charges for hosted VoIP phone service and features are fixed monthly fees invoiced through SUNCOM. In fiscal year 2022-2023, hosted VoIP phone service had a total cost of \$7,956,552 and an operating profit of \$48,230.

Session Initiation Protocol (SIP) Trunk Service

SUNCOM SIP Trunk service enables communication between an enterprise Internet Protocol private branch exchange (IP-PBX) and telecommunications service provider network services. The MyFloridaNet2 (MFN-2) data network is the underlying infrastructure that provides secure and reliable access to SIP Trunk service providers. Phone calls handled through SIP use data circuits rather than traditional dedicated phone circuits which are more economical to use for both computers and phones. SIP Trunk phone service options provide local service and either unlimited long-distance calling per line or access to long-distance calling. In fiscal year 2022-2023, SIP Trunk Service had a total cost of \$2,272,395 and an operating loss of \$25,087. As customers request competitive pricing from SUNCOM vendors, the amount of time staff consult with customers increases. As the subscriber base for SIP Trunk phone service grows, increased usage of the service will result in future profits.

STEPS

The SUNCOM Telephony Equipment Premises-Based Services (STEPS) program offers telephone switching equipment known as Internet Protocol Private Branch Exchanges (IP-PBXs), which moves some functions and features from a telephone company's central office to the customer's premises. IP-PBXs give customers more direct control over features, including voicemail and call routing within the customer's organization. This contract is being phased out and replaced with SUNCOM voice services. In fiscal year 2022-2023, the STEPS Program had a total cost of \$1,202,023 and an operating profit of \$28,717.

Contact Center Services

SUNCOM Contact Center Services offer customers the ability to implement an enterprise-wide Interactive Voice Response (IVR) and Automatic Call Distribution (ACD) service. Services include the following: speech recognition, the ability to retrieve and update real-time information by linking the IVR system to an agency's database (Computer Telephony Integration – CTI), the ability to transfer callers to live agents, and reporting capabilities concerning the operation and effectiveness of the Contact Center system. SUNCOM Contact Center also provides IP phones and other premise equipment. In fiscal year 2022-2023, SUNCOM Contact Center services had a total cost of \$26,228,890 and an operating profit of \$1,046,186.

Conferencing Services

SUNCOM offers video and web conferencing services. SUNCOM provides video bridging and gateway services that enable real-time audio and video interaction between three or more locations equipped with video conference equipment. Customers are invoiced through SUNCOM per hourly session. Many state agencies elect to accommodate video teleconferences using SUNCOM (MFN-2) data circuits and their agency equipment. Web conferencing is used to conduct live meetings, training, or presentations, enabling customers to share projects, data, presentations, and ideas using any computer equipped for voice communication that is connected to the internet and with or without a telephone. Charges for web conferencing services are fixed monthly fees that are billed to the conference sponsors and invoiced through SUNCOM. In fiscal year 2022-2023, SUNCOM conferencing services had a total cost of \$400,182 and an operating loss of \$19,613. The loss

is due to ending the legacy conferencing contract with high mandatory minimum commitments and lower utilization.

A' la Carte Services

SUNCOM customers are offered a variety of services that can be ordered as separate services or as add-ons. These services can be customized to suit customer needs. In fiscal year 2022-2023, A' la Carte services had a total cost of \$6,379,768 and an operating profit of \$51,711.

Data

To meet the growing demand for cloud-based services, network applications, and internet access, the State of Florida network infrastructure must provide sufficient functionality and reliability. The following services are designed to satisfy those growing demands.

MyFloridaNet-2 (MFN-2)

MFN-2 is based on Multi-Protocol Label Switching (MPLS), considered the current standard for robust enterprise data networks. When MFN-2 was implemented through SUNCOM, it combined the best features of several existing SUNCOM services providing more features, better security, and higher reliability at a lower cost. Through MFN-2, customers anywhere in Florida can get equipment and local access to a dedicated enterprise network and the internet, with the independent ability to design and manage their subnetworks, make connections, and monitor security. Charges for data communications circuits and features are fixed monthly fees invoiced through SUNCOM. In fiscal year 2022-2023, MFN-2 had a total cost of \$52,691,124 and an operating profit of \$93,061.

The Federal Communication Commission (FCC) Rural Health Care Program provides subsidy funding to eligible health care providers for telecommunications and broadband services necessary for providing health care. The goal of the program is to increase broadband access for eligible health care providers, especially those serving rural areas. Similar to E-rate, the Rural Health Care Program provides funding through the Universal Service Fund. Last year the total reimbursement for this program provided through MFN-2 was \$2,040,131.

Virtual Private Network-2 (VPN-2)

SUNCOM's VPN-2 service provides customers with remote access to a state network through the internet. User data is encrypted then encapsulated for transport through an encrypted tunnel. The encrypted tunnel protects passing data from intrusion by using strong encryption and user authentication of remote users or host devices while masking information about the private network topology. A VPN-2 may exist between an individual machine and a private network (Client-to-LAN), or a remote network and a private network (LAN-to-LAN). In fiscal year 2022-2023, VPN-2 service had a total cost of \$923,700 and an operating loss of \$119,377. As the volume for VPN-2 service grows, increased use will result in future profits.

Remote Broadband Services-2 (RBS-2)

SUNCOM's RBS-2 provides customers with access to the internet from locations outside large customer offices. RBS-2 uses the latest business grade, rather than consumer grade, broadband transport. RBS-2 provides cost-effective remote broadband access via Digital Subscriber Lines (DSLs), which transmit digital data over local telephone wires. Charges for RBS-2 circuits are fixed monthly fees invoiced through SUNCOM. In fiscal year 2022-2023, RBS-2 had a total cost of \$509,608 and an operating profit of \$1,955.

Florida Information Resource Network-2 (FIRN-2)

The Florida Information Resource Network-2 provides data communications to K-12 schools. Schools pay for FIRN-2 services almost exclusively through a federal subsidy program known as E-Rate. The E-Rate subsidies come from the Universal Service Fund, which is financed through fixed fee charges to every user of telecommunications services throughout the U.S. Charges for FIRN-2 services are fixed monthly fees invoiced through SUNCOM. In fiscal year 2022-2023, FIRN-2 had a total cost of \$6,329,312 and an operating profit of \$95,436.

Southwood Shared Resource Center (SSRC) Usage Based Services

Almost all servers in the SSRC need to communicate outside the building, which requires a WAN connection. SUNCOM meters usage by each customer to achieve substantial enterprise savings and an equitable chargeback model. Customers are charged monthly by SUNCOM for their incremental use of this service (per

gigabyte). In fiscal year 2022-2023, SSRC services had a total cost of \$437,826 and an operating loss of \$10,980.

Wireless

This category of telecommunications service is designed to facilitate the wireless transmission of voice and data.

Wireless Data Services

SUNCOM's AirCard service gives laptop computers mobile access to the internet or the state network through SUNCOM's secure and encrypted VPN-2 service. Charges consist of fixed monthly fees billed through SUNCOM. Additionally, cell phone services are included in this contract. In fiscal year 2022-2023, Wireless data services had a total cost of \$4,224,296 and an operating loss of \$473,431 due to a large customer rebate.

Infrastructure

This category of service involves facilitating the installation of low-voltage cabling requirements for telecommunications systems in new construction or renovation projects. This category of service is unique because SUNCOM's statutory authority and business model do not include services within a building infrastructure or campus infrastructure beyond the point where a building or campus connects to the state network, in accordance with section 282.0041(35), Florida Statutes.

Telecommunications Infrastructure Project Services (TIPS-2)

Telecommunications Infrastructure Project Services assists customers in procuring, installing, and project-managing infrastructure (e.g., cabling and wires) for telecommunication services, including voice, data, video, closed-circuit TV, imaging, and wireless LAN within a building or campus. TIPS-2 establishes contracts, monitors performance of vendor installations, and simplifies contracting and project management with a single point of contact from start to finish. SUNCOM invoices customers on a case-by-case basis for time and materials. In fiscal year 2022-2023, the total cost for TIPS-2 was \$3,202,529. During the same period, this service had an operating loss of \$94,543. TIPS-2 services were used to complete projects in DMS buildings for automation and HVAC projects and to improve wireless for the Capitol.

SUNCOM Cost Accounting the Cost Recovery Model

In compliance with the statutory requirement to "develop a system of equitable billings and charges for telecommunications services" stated in section 282.703(2), Florida Statutes, SUNCOM uses a cost recovery method to establish rates for each service. Approximately 93% of SUNCOM's costs are payments to contracted telecommunications vendors. The remaining 7% pays for the costs of engineering, designing, procuring, ordering, installing, monitoring, auditing, invoicing, and managing these services. These support service costs are added to vendor charges for SUNCOM services. Some services bear more of these costs than others based upon the relative share of support service resources committed to sustaining the service. The underlying goal of the cost recovery model is to ensure the solvency of the Communications Working Capital Trust Fund.

Rate Reductions and Customer Credits

The convergence of technology presents a constant budgeting challenge when it comes to predicting service utilization. Per section 282.702(15), Florida Statutes, SUNCOM captures expenditures associated with the telecommunications services it provides. Each quarter, SUNCOM staff and the Telecommunication Director review a report to ensure the established service rates are appropriate. Two methods are used to address any inequity identified upon review of these quarterly figures: rate reductions and customer credits.

Rate Reductions

A reduction in the rates associated with SUNCOM's telecommunications services results in recurring savings for existing customers and cost avoidance for future customers. The fiscal impact of a rate reduction requires adequate consideration of both existing and future market conditions associated with the SUNCOM service.

The stability of SUNCOM's Voice Services and Usage Based Network Service resulted in shifting more administrative support cost away from those services into new services. As a result, SUNCOM reduced SUNCOM's Voice Services and Usage Based Network Service rates for customers during fiscal year 2022-2023.

Customer Credits

A customer credit is a one-time liquidation of excess revenue without any associated rate reduction. Customer credits are issued when a service achieves unanticipated excess revenue over expenses. Through customer credits, SUNCOM can ensure equitable billings without risking its ability to sustain a service over the long-term. Credits give agencies the ability to use or purchase additional services without added budget.

Support of the Florida Government Enterprise

Statutory language requires SUNCOM to provide support for several ongoing enterprise-wide services for which costs have been recovered by distributing them over other billable services.

State Directory Information

Section 282.703(4), Florida Statutes, requires DMS to maintain a directory of information and services, including the names, phone numbers, and email addresses of employees, agencies, and network devices served by the SUNCOM network.

Starting in 1986, SUNCOM published lists of state telephone numbers and staffed an information line (866-693-6748 toll-free or 850-488-1234) to help callers contact state offices and employees. SUNCOM was the source of Florida government listings to all local telephone book publishers throughout the state. The printed SUNCOM telephone book was replaced in 1996 by a website (https://411.myflorida.com/apps/411/tel411.public_411).

SUNCOM personnel continue to answer questions and provide local phone number listings in accordance with statutory requirements. The personnel also work as lobby receptionists in Building 4030 and Building 4050 in the Capitol Circle Office Complex in Tallahassee. The costs associated with these activities comprise contracted services, rent, supplies, and the salaries associated with administration and oversight. The total cost is approximately \$290,000 per fiscal year.

State Emergency Services Telecommunications

Section 282.702(7), Florida Statutes, directs DMS to cooperate with any federal, state, or local emergency management agency in providing emergency telecommunications services. This assigns the Division of Telecommunications responsibility for supporting Florida's emergency telecommunications services, which are the Emergency Support Function-2 (ESF-2) in the Division of Emergency Management's Comprehensive Emergency Plan. Division of Telecommunications staff, services, and assets are available to help during a disaster, and the division must sustain disaster preparedness, including planning, preparing, and coordinating with other entities.