

# **Financial and Cash Management Task Force**

**Recommended Funding Options**

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Recommended Funding Options**



**Table of Contents**

1 Recommended Funding Options..... 3

1.1 Funding Background for State of Florida (State) Accounting Infrastructure ..... 3

1.1.1 Funding for FLAIR..... 3

1.1.2 Funding for CMS ..... 4

1.1.3 Funding for Project Aspire..... 4

1.2 Funding Options..... 5

1.2.1 Funding Option #1 - General Revenue ..... 5

1.2.2 Funding Option #2 – Internal Service Trust Fund..... 6

1.3 Other Considerations ..... 7

1.3.1 Statewide Cost Allocation Plan ..... 7

1.3.2 Federal Grant Funds..... 8

1.3.3 Agency Business System Remediation..... 8

1.4 Task Force Funding Recommendation ..... 8

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## **1 Recommended Funding Options**

The Financial and Cash Management Task Force (Task Force) must evaluate funding approaches to equitably distribute common accounting infrastructure costs across all participating users in the Strategic Plan, pursuant to Section 17.0315, Florida Statutes. The Task Force will outline approaches for funding both the implementation and on-going maintenance of a new financial and cash management system. However, there is no intent to provide estimated costs associated with a new system. It is the Task Force's intent that the enterprise governance structure be established with the focus on standardizing enterprise business processes before making decisions on the appropriate funding option for the replacement of the financial and cash management system.

### **1.1 Funding Background for State of Florida (State) Accounting Infrastructure**

The State's accounting infrastructure is currently comprised of the Florida Accounting Information Resource (FLAIR) and the Cash Management Subsystem (CMS). The State operates several central services through these systems that benefit many state agencies. The FLAIR system supports the accounting and financial management functions for the State's Chief Financial Officer which includes budget posting, receipt and disbursement of funds, payroll processing, and the accounting information for the State's Comprehensive Annual Financial Report. The CMS supports the functions of the State Treasury, which includes the receipt of state funds, payment of state disbursements, and the investment of available funds. CMS is comprised of 16 applications that facilitate the Treasury's functions, some of which interface with FLAIR. The critical functions for state operations are centralized to provide efficient and consistent statewide policies and services.

#### **1.1.1 Funding for FLAIR**

The cost components for the FLAIR system include hardware, software, maintenance, and personnel for information technology support. FLAIR is currently funded by the General Revenue Fund, which accounts for a large portion of the central services provided for the State. The cost for funding the FLAIR system is \$12,062,802 for fiscal year 2008-2009.

Revenue for the General Revenue Fund is derived from taxes, charges and miscellaneous income obtained from the state and local level. State revenues are deposited into the General Revenue Fund unless they are required by statute or constitutional provision to be deposited in another specifically named fund. Approximately 42% of all taxes, licenses, fees, and other operating receipts are deposited into the General Revenue Fund.



### **1.1.2 Funding for CMS**

The cost components for CMS include hardware, software, maintenance, and personnel for information technology support. CMS is currently funded by the Treasury Administrative and Investment Trust Fund. The cost for funding CMS is \$452,361 for fiscal year 2008 – 2009.

Revenues for this trust fund are generated from the administrative fees charged to investment participants in the Treasury Investment Pool. The Chief Financial Officer is allowed to use the monies in the Treasury Administrative and Investment Trust Fund to defray the expense of his or her office in the discharge of administrative and investment powers and duties prescribed in this section and chapter of the statutes, pursuant to Section 17.61(4) Florida Statutes.

### **1.1.3 Funding for Project Aspire**

A business case study was prepared by KPMG in 2000 for modernizing the State's Florida Financial Management Information Systems (FFMIS). KPMG recommended the State use a best of breed approach for the replacement of financial, human resource, and purchasing systems with an estimated cost totaling \$389,267,800<sup>1</sup> for a five year implementation plan. In 2001, KPMG performed a second study for the replacement of FLAIR and CMS only. The 2001 KPMG study provided an estimated cost totaling \$74,191,000<sup>2</sup> for a two year implementation plan.

The Department of Financial Services (Department) submitted a legislative budget request in September 2002 requesting funding totaling \$72.2 million for the FLAIR and CMS replacement project. The request included a seven year financing plan to support the appropriation. The Department also provided a recommendation to amend the definition of commodity in s. 287.012 (4), F.S., so the State could use the deferred commodity leasing program for the project financing. Subsequent to the January 2003 release of the Office of the Governor's recommended budget for Fiscal Year 2003-2004, the Department submitted a revised seven year financing plan based on vendor information provided in the Department's Invitation to Negotiate (ITN). The new plan assumed a total of \$80,000,000 would be financed for the project. Contract deliverables and other implementation costs represented approximately \$48 million of the overall funding for the project. The remaining \$32 million would be used to cover software, hardware, and overhead costs.

<sup>1</sup> Modernization of State Government Financial Management Business Practices Study for the State of Florida, Final Report February 15, 2000, Appendix D, page D16-D17, prepared by KPMG

<sup>2</sup> Florida Department of Banking and Finance, FLAIR Replacement Report – Final March 8, 2001, page 18, prepared by KPMG

## Financial and Cash Management Task Force Recommended Funding Options



A master equipment financing agreement was executed in October 2003. The project requested a total of seven draws between October 2003 and June 2006 totaling \$71,219,824. The loan payments were paid through the appropriations received from either the General Revenue Fund or the Insurance Regulatory Trust Fund.

### **1.2 Funding Options**

It is important to examine funding options that will support both the implementation of a new system and the on-going maintenance/support for the system. Funding options related to implementation costs are the bigger challenge due to high dollars estimated to be spent in the first few years, typically \$80 to \$100 million. Establishing a reliable funding source for implementation is critical to the project's success. Implementation costs include, but are not limited to, initial hardware and software purchases, contractual service costs, state personnel to support the project, as well as travel and training during the go-live phase. Operational costs can be defined as the day to day costs incurred in running the replacement system, such as personnel costs and annual hardware and software licensing. The funding options provided below will look at alternative approaches for cost sharing by state agencies for both implementation and operational costs.

#### **1.2.1 Funding Option #1 - General Revenue**

Agencies are currently being assessed a service charge on certain income and certain trust funds in order to share the cost of general government, pursuant to Section 215.20, Florida Statutes. The funds collected from the general revenue service charge (GRSC) are being deposited into the General Revenue Fund. This funding option considers the GRSC as the revenue source for raising additional revenue to cover the costs of a replacement system.

A service charge of 7, 3 and/or .3 percent is charged on all income of a revenue nature deposited in all trust funds unless specifically exempted within Section 215.22, Florida Statutes. The assessed percentage would need to be higher in order to cover the initial implementation costs for the replacement system.

In order to utilize this funding option, the State would need to acquire the cash to cover implementation costs upfront. This could be accomplished through the establishment of a credit line with a financial institution or through a lease-purchase arrangement with the vendor, which supports the recovery of these costs. Once the cash flow is sufficient in the General Revenue Fund based on the GRSC increase, the credit line or lease-purchase arrangement could be satisfied.

**Financial and Cash Management Task Force  
Recommended Funding Options**



|                             |                           |
|-----------------------------|---------------------------|
| <b>Implementation Costs</b> |                           |
| Fund Type                   | General Revenue Fund      |
| Revenue Source              | GRSC Increase Temporarily |
| <b>Operational Costs</b>    |                           |
| Fund Type                   | General Revenue Fund      |
| Revenue Source              | GRSC Increase Permanently |

There are some concerns with this funding option:

- many of the trust funds have been exempted from the service charge resulting in an inequitable structure for cost sharing
- state agencies that are funded primarily through the General Revenue Fund would not share in the costs
- a law change is required to increase the fee
- need to evaluate the trust funds ability to support the fee increase

This funding option takes advantage of an assessment already established for general government services. However, it is not currently an equitable cost sharing approach due to the number of trust fund exemptions that have been granted and lack of any assessment on the General Revenue Fund.

**1.2.2 Funding Option #2 – Internal Service Trust Fund**

Generally accepted accounting principles define an internal service fund as a state trust fund established to finance and account for services and supplies provided exclusively to other governmental units, typically on a cost-reimbursement basis. This funding option considers cost sharing by the state agencies to cover centralized services that will be provided by the replacement system. The internal service trust fund would be used to administer the receipt and disbursement of fees collected from agencies.

The funds required to cover the implementation costs could be obtained by one or both of the following actions:

- increase the GRSC and transfer the additional funds from the available funds within the agencies
- assess a flat fee to state agencies

To cover the ongoing operational costs, state agencies would be assessed a fee based on their usage of the system. This assessment could be based on the transactions initiated by each agency or by a percentage of the disbursements processed for each agency through the replacement system.

**Financial and Cash Management Task Force  
Recommended Funding Options**



|                             |  |
|-----------------------------|--|
| <b>Implementation Costs</b> |  |
| Fund Type                   | Internal Service Trust Fund                                    |
| Revenue Source – Option #1  | Transfer from General Revenue Fund (requires increase to GRSC) |
| Revenue Source – Option #2  | Flat assessment to all agencies                                |
| <b>Operational Costs</b>    |  |
| Fund Type                   | Internal Service Trust Fund                                    |
| Revenue Source              | Usage fee assessed to all agencies                             |

There are some concerns with this funding option:

- a clear methodology has not been established for cost sharing, which is critical
- state agencies would need an appropriation for the transfer of funds to the internal service trust fund
- a law has not been enacted to enforce the cost sharing for state agencies

This funding option would require more effort to develop a methodology and institute law changes to support the cost sharing approach. However, this methodology can provide a more equitable approach than funding option 1.

Following are some cost sharing methodologies that could be implemented in assessing a usage fee to all agencies:

- number of transactions processed within the financial system
- number of payments issued by the CFO's office
- number of FTEs by Agency

**1.3 Other Considerations**

It is the intent of the Task Force that the enterprise governance structure be established with the focus on standardizing enterprise business processes before making decisions on the appropriate funding option for the replacement of the financial and cash management system. There are additional considerations that should be included in the decision to select a funding option for the replacement system.

**1.3.1 Statewide Cost Allocation Plan**

The Statewide Cost Allocation Plan (SWCAP) is the mechanism by which the State identifies, summarizes, and allocates indirect costs in a logical and systematic manner. The SWCAP includes financial and billing rate information for central services directly charged to agencies or programs, in addition to other indirect costs incurred by agencies. A SWCAP is required for the State to obtain reimbursement from the federal

## Financial and Cash Management Task Force Recommended Funding Options



government, when allowed under the terms of an award, for the costs of central support services provided to operating departments.

The State would experience an impact to the SWCAP if a funding approach is chosen that assesses a user fee to state agencies for the replacement system. Ultimately, state agencies would seek to recover these fees through charging the federal government and thus impact the reimbursement the State currently receives for the administration of centralized services. A detailed analysis would need to be conducted to ensure that the funding approach that is to be selected would not result in a considerable reduction to the federal reimbursement received by the State for SWCAP.

### 1.3.2 Federal Grant Funds

Another point of consideration would be the possibility of obtaining federal grant funds to cover some of the implementation costs of a replacement system. The federal government offers many grants in the public sector to promote efficiency in the area of technology. A new financial management system could streamline business processes and enhance financial reporting. This would better position the Enterprise to produce more detailed reports to the federal government for grants already awarded to the State, as well as other state or federal mandated programs.

The Department of Homeland Security, Social Security Administration, and Department of Justice are some of the federal agencies that currently provide grants that support improvements to information technology in their applicable program areas.

### 1.3.3 Agency Business System Remediation

There are approximately 400 agency business systems that send or receive FLAIR data. These business systems would need to be evaluated and decisions would need to be made on how to proceed with remediation or elimination of these systems when implementing a replacement financial system. Agencies that can not support these changes within their existing funds would need to request additional funding from the Legislature. The State would be required to accommodate these requests at the same time it is providing additional funds for the implementation of the replacement system. The challenge has always been the inability to assess the impacts to agency business systems until the later stages of the implementation of the replacement system.

During Project Aspire, the State appropriated funds for agency business system remediation and established procedures for the State's Chief Information Officers Council to review and recommend approval of funding requests submitted by Agencies. A similar process could be established when proceeding with the implementation of a replacement financial and cash management systems.



### **1.4 Task Force Funding Recommendation**

The Task Force recommends funding option 2, the Internal Service Trust Fund, as the most viable funding structure for the replacement system. It was important for all options to be discussed and considered among the members in order to evaluate which option would meet the needs of the State. Funding option 2 appears to be the most equitable funding option since all agencies share in the cost of the replacement system.

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