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The Financial Information System for California

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 4

On State Administration

Hon. Warren Furutani, Chair





Background on FI\$Cal



What Is FI\$Cal?

- The Financial Information System for California (FI\$Cal) would provide the state with an integrated financial information system replacing disparate financial systems currently used statewide. This includes such functions as budgeting, accounting, procurement, cash management, and financial management and reporting.



Governor's 2010-11 Budget Proposal

- Proposal includes \$38.4 million for continuing the FI\$Cal project.
 - \$30.7 million from the General Fund (including \$14.8 million carried over from a previous \$38 million General Fund loan the Legislature authorized in 2008-09).
 - \$7.7 million from special funds.



Finance Letter

- Proposal includes an increase of \$4.2 million to reflect an acceleration in project schedule that moves expenditures into 2010-11.



Project Updates



Request for Proposal

- Project Request for proposal (RFP) was released at the end of April 2010.



Multi-Stage Procurement Modifications

- Stage one will include a “bake-off” competition between three vendors (instead of two) who will build a pilot/prototype of the Fi\$Cal system.
- The bake-off will commence July 1, 2010 rather than September 13, 2010.
- The duration of the bake-off has been reduced from nine months to seven months.
- Each vendor will be paid \$1.4 million instead of \$3.5 million for additional work during the bake-off.
- The administration plans to issue a notice of intent to award to the winning vendor in August 2011 instead of December 2011.



Considering FI\$Cal's Future



The Legislature Is at a Key Decision Point

- Until now, efforts have gone toward planning and preparing for system development. Once the bake-off is complete, the state would be ready to contract with a prime vendor to begin designing and building the system which will lead to significant costs for several years. Given the state's current fiscal condition, the Legislature is at a key decision point and must decide how it wishes to proceed with FI\$Cal development.



Option 1: Halt or Delay Project for Now

■ Advantages:

- The immediate and greatest advantage of this option is short-term savings, about \$42 million in the budget year and significantly more over the next few years when development would otherwise be under way.
- The RFP for a prime vendor is complete. In theory, the RFP could be shelved, updated, and revisited when the state is better prepared to pay for the cost of system development. (However, the value of the RFP would diminish over time as the state's priorities change and technology advances.)

■ Disadvantages:

- On the downside, the state would continue to depend on existing financial systems that are aging and would eventually need to be replaced.
- The nearly \$40 million invested in the FI\$Cal project would have yielded little tangible benefit.
- Any future restart effort would likely cost more in the long-term, as knowledgeable staff would have moved on and new staff would need to be hired and trained.



Considering FI\$Cal's Future

(Continued)



Option 2: Continue Funding Through Bake-Off Stage

■ Advantages:

- The bake-off would produce several tangible documents (one from each vendor) with greater value than an RFP alone.
- The Legislature would have more accurate information about what the project would actually cost at the end of the bake-off. That information, along with considerations of the economic climate at the time, could guide the Legislature in deciding whether it was feasible to continue with the project.

■ Disadvantages:

- There are costs to continued development. The state would spend an additional \$42 million through the end of the bake-off.



Considering FI\$Cal's Future

(Continued)



Option 3: Restructure Bake-off to Develop Scaled-Down Options

- This approach is similar to option 2. However, the Legislature would direct project managers to require vendors to develop a scaled-back plan with less functionality in addition to the current plan to develop a fully functioning system. (We note that since the RFP has already been released, this option would require an addendum to the RFP.)
- **Advantages:**
 - This approach would provide more tangible products.
 - This would give the Legislature additional options to consider, including the option to develop a less costly version of FI\$Cal.
- **Disadvantages:**
 - There would be substantial up-front costs for this option—\$42 million.



Analyst's Recommendation

- Although this remains a close call, we believe the risks of halting FI\$Cal development outweigh the risks of continuing. We favor option 3, which would provide the Legislature with additional, potentially lower-cost alternatives for system development for replacing the state's aging financial infrastructure.



Revisiting the Legislative “Pause” in the Project

Current Law Requires Project to Pause Pending Legislative Approval for Further Development

- A requirement in current law that the project pause after the first wave of deployment to departments was based on the original implementation approach that created a discreet point in development for legislative review of what is supposed to be a fully functioning system.
- The pause was originally intended to allow the Legislature sufficient time to review significant system development *before* a majority of project costs were incurred. The Legislature would then have the opportunity to approve or reject deployment to remaining state entities.
- Changes in the implementation approach now necessitate a change to the pause as there is no longer a discreet point in time to review a fully functioning system.

Recommendation: Expand the Legislative Review after the Bake-off

- Current law directs project managers to provide a written report to the Joint Legislative Budget Committee (JLBC) describing the results of the bake-off no less than 30 days prior to executing a contract with the vendor.
- The JLBC 30-day review period could expand to 60 days. The JLBC would have three options: (1) concurring with the proposed contract, (2) not concurring, or (3) deferring consideration of FI\$Cal project continuance to the regular budget process.
- Expanding the review time to 60 days would give the JLBC sufficient time to schedule a hearing if necessary to consider the merits of the bake-off proposals. Additionally, if there were major concerns, the JLBC would have the option to defer approval of the proposed plans for system development to the regular budget review process.



Project Funding



The Original Funding Plan

- The initial funding plan relied heavily on bond financing for the early years of development.
- In addition, the project would be funded with a General Fund loan (\$38 million), an annual General Fund appropriation (\$2 million), and an unspecified additional amount of special funds to pay for the project.



Changes to Funding Plan

- Due to potential difficulties in issuing bonds, the administration proposes to use vendor financing in lieu of bond proceeds and tap into special funds earlier than anticipated.



Issues for Consideration

- Should the project not be completed or be delayed indefinitely, there may be an obligation to repay these funds via the General Fund to make them whole.