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The Financial Information System for California

LEGISLATIVE ANALYST'S OFFICE

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Budget and Fiscal Review Subcommittee No. 4

On State Administration

Hon. Mark DeSaulnier, 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.



Recap of Key Project Changes



The Implementation Approach

- The original plan was to develop all functionalities at one time in a “big bang” approach. Specifically, accounting, budgeting, and procurement functionalities would be developed at one time and then deployed to waves (or sets) of departments over several years. The first wave consisted of eight departments.
- The current plan limits development to one functionality at a time, beginning with accounting. Deployment to departments continues in waves with some overlap in functionality.



Changes to Procurement Process

- During 2009-10 budget hearings, the administration updated the Legislature on plans to conduct a two-vendor “bake-off” as part of a multi-stage procurement. (In the bake-off, vendors compete against one another to develop a pilot or prototype of the FI\$Cal system. The pilot and a final proposal are submitted to the state to be scored. The vendor with the highest scoring proposal wins the bid to build the entire FI\$Cal system.)
- Current law directs project managers to provide a written report to the Legislature describing the results of the two-vendor bake-off no less than 30 days prior to executing a contract with the vendor.
- Project managers have expanded the bake-off stage to include three vendors, each to be awarded a \$3.5 million contract to participate in the bake-off. This change to the number of vendors in the bake-off would require a change to update the reporting requirement in current law.



Recap of Key Project Changes

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Changes Mitigate Risk

- Multi-stage procurement better ensures the state will receive responsive bids.
- A three vendor bake-off ensures more competition and more tangible proposal options to build the FI\$Cal system.
- Phased development and deployment of functionality increases the project's chances for successful system completion.
- The project managers are learning from the FI\$Cal project's past mistakes as well as from the experiences of other state information technology projects—example: the State Controller's Office's 21st Century project.



Proposed Changes for 2010-11



As Included in Special Project Report (SPR) #3

- Estimated contract award for prime vendor is December 2011 (compared to end of 2009).
- Estimated costs through December 2011 (through the bake-off) are about \$90 million.
- The SPR #3 is being presented as a placeholder or interim report on the status of the project and includes information through the bake-off stage. Further updates to project schedule and cost would be available upon completion of the bake-off and included in SPR #4.



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 \$38 million in the budget year and significantly more over the next few years when development would otherwise be under way.
- The request for proposal (RFP) for a prime vendor would be 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

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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 \$50 million through the end of the bake-off. This includes \$38 million spent in 2010-11 and vendor payments totaling about \$11 million in 2011-12.



Considering FI\$Cal's Future

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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.
- **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—\$38 million spent in 2010-11 and vendor payments totaling about \$11 million in 2011-12.



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 big bang implementation approach that created a discreet point in development for legislative review of what is supposed to be a fully functioning system (albeit in only eight departments).
- 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 at a relatively early point in development.



Revisiting the Legislative “Pause” in the Project

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Pause Alternatives

We present possible pause alternatives below to replace that in current law.

■ **Option 1: Continuous Evaluation of System Deployment and State Staff Adaptation**

- An independent evaluator would review: (1) whether project goals had been achieved; (2) the transition process that occurred for all departments from older financial systems and procedures, including department and FI\$Cal staff readiness at the time of the transition; and (3) staff and public acceptance and ease of use of the FI\$Cal system after deployment.
- The evaluations would be iterative, occurring after FI\$Cal was deployed to each wave of departments. Such evaluations would give the Legislature the opportunity to review the new system and the project’s ability to address and correct major system issues over time.

■ **Option 2: Delete the Legislative Pause Altogether**

- As noted earlier, current state law requires project staff to provide a report to the Legislature describing the results of the bake-off 30 days before executing a vendor contract. This 30-day review at the end of the bake-off creates an opportunity that did not previously exist for the Legislature to view the overall plans for the FI\$Cal system prior to beginning project development. An additional pause may not be necessary.

■ **Option 3: Expand the Legislative Review after the Bake-off**

- Under this option, the Joint Legislative Budget Committee (JLBC) 30-day review period would 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.



Revisiting the Legislative “Pause” in the Project

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Issues for Legislative Consideration

- The Legislature has some time to decide on how it wishes to change the pause. However, it would eventually be necessary to delete the existing statutory language on the legislative pause.
- Although all the above options have merit, we favor option 3. 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.
- Project budget for 2010-11 needs further review.