



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #410

Benefits Payment System Redesign (ETF)

[LFB 2001-03 Budget Summary: Page 275, #2]

CURRENT LAW

The Department of Employee Trust Funds (ETF) has base level supplies and services funding of \$1,552,400 SEG annually to support the on-going IT-related maintenance, data entry, contract programming, software and user charge costs of the agency. In a separate appropriation that supports the development of automated operating systems, the Department has additional base level funding of \$272,000 SEG annually.

GOVERNOR

Provide \$5,461,600 SEG in 2001-02 and \$887,600 SEG in 2002-03 and 1.0 SEG permanent and 2.5 SEG two-year project positions annually to enable the agency to continue the redesign of its current Wisconsin Retirement System (WRS) annuity payment system. Of the amounts provided, \$5,364,500 SEG in 2001-02 and \$790,500 SEG in 2002-03 would be budgeted in unallotted reserve for release by DOA, once ETF has developed and submitted a detailed implementation plan for the project. Included in the amounts placed in unallotted reserve is funding for the 1.0 new permanent position (\$58,300 in 2001-02 and \$79,500 in 2002-03). The remaining \$97,100 SEG annually and 2.5 SEG two-year project positions would extend expiring project positions associated with the current benefits payment redesign effort. Funding for these continuing project positions would not be placed in unallotted reserve. To recognize expected efficiencies due to the new system, delete position authority for 1.0 undesignated permanent position on June 30, 2003. The budget erroneously deletes the position authority for 1.0 permanent position for the entire 2002-03 fiscal year.

DISCUSSION POINTS

1. The 1999-01 biennial budget provided ETF with \$319,900 SEG in 1999-00 and \$375,400 SEG in 2000-01 and 2.5 SEG financial specialist two-year project positions to begin the planning and redesign efforts associated with the agency's payment system redesign effort. The purpose of the annuity system redesign effort is to: (a) integrate annuity payment activities into ETF's single database management system (WEBS) that supports all participant account information; (b) improve data maintenance, integration and updating capabilities; and (c) provide on-line viewing and accessing of annuity data by ETF staff with the associated integration of these annuity payment functions into both the agency's electronic image and workflow system and its interactive voice response (IVR) system and call center functions.

2. The Department's initial project plan called for the planning and design activities to begin by September 15, 1999, with design and testing completed by June 30, 2001, and implementation by the spring of 2002. A budget request for the remaining conversion and implementation aspects of the project was anticipated for the 2001-03 biennium.

3. The project was not able to begin on the schedule envisioned by the Department because of delays in the enactment of the 1999-01 state budget and the need to redeploy agency staff to deal with Y2K compliance concerns. Contract programmers and related resources were not finally contracted until January, 2000, with the result that nearly \$97,400 SEG of the amounts originally budgeted for the project for 1999-00 ultimately lapsed.

4. Shortly after the initial design phase of the project began, the Department determined that "the effort required to complete the project had been significantly underestimated when the project plan and budget were developed." It also became apparent that given the complexities of the proposed system, the database architectures of the proposed system would also have to be modified to increase system security, flexibility and integration capabilities.

5. Then, in July, 2000, ETF contracted with Complete Business Solutions, Inc. (now known as Covansys), at a cost of \$55,700 SEG to review the proposed system redesign and prepare estimates of the effort required to complete its design and development. The contractor, who had annuity payment system design experience with six other public employer retirement systems, estimated that ETF's total project would require at least 58,500 hours to complete, including approximately 49,200 hours of IT developer services and approximately 9,300 hours of ETF staff user involvement.

6. The consultant developed and costed three separate implementation alternatives:

- *Scenario 1.* Current ETF resources would be used to undertake the project. While this alternative appeared to be the least costly to ETF (total project costs were initially estimated at \$4,124,100), it would have required the longest amount of time to complete. The consultant estimated that the project would not be completed under this scenario before December, 2004.

- *Scenario 2.* ETF would enter into a partnership with an external consultant for a

two-year project. The consultant initially estimated that the project could be completed by *September, 2003*, at a total cost of \$8,334,300.

- *Scenario 3.* ETF would enter into a partnership with an external consultant, but the consultant would provide only about 60% of the actual development resources with the remaining 40% contracted "off-shore" using foreign programmers. The consultant initially estimated that the project could be completed by September, 2003, at a total cost of \$6,588,600.

7. The Department has chosen to pursue Scenario 3 to enter into an arrangement with a consulting partner, who would, in turn, use some significant amounts of "off-shore" contract programming and some local consulting services for the project. Under the proposed budget developed by Complete Business Solutions, the following costs were projected:

Consultant’s Proposed Budget for WRS Benefits Payment System

<u>Cost Component</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>Three-Year Total</u>
Local Contract Programmers	\$128,500	\$171,400	\$42,800	\$342,700
Consulting Partner	1,298,000	1,730,600	435,100	3,463,700
"Off-Shore" Programmers	296,700	395,600	98,900	791,200
IT Resources	168,500	224,700	56,200	449,400
ETF Resources	121,400	164,200	45,900	331,500
ETF Project Manager	<u>66,300</u>	<u>88,400</u>	<u>22,100</u>	<u>176,800</u>
TOTAL	\$2,079,400	\$2,774,900	\$701,000	\$5,555,300

8. To this total project budget of \$5,555,300, the consultant applied a 15% contingency factor of \$833,300 and estimated an additional \$200,000 for infrastructure costs to bring the total cost of the initiative to \$6,588,600.

9. The Governor’s funding recommendations for the WRS benefits payment system were developed utilizing many of the cost factors presented above. The most noticeable changes recommended by the Governor are to provide the following funding amounts in the first year of the project: (a) all of the consulting partner estimated costs (\$3,463,700 for the entire three years); (b) the entire 15% project contingency funding amounts (\$833,300); and (c) revised data architecture funding and training amounts (\$536,000). The Governor’s recommended funding for the project’s cost components are presented below:

**Governor's Recommended New Funding for WRS Benefits Payment System
(SEG Funds)**

<u>Cost Component</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>Three-Year Total</u>
Local Contract Programmers	\$128,500	\$171,400	\$42,800	\$342,700
Consulting Partner	3,463,700	-0-	-0-	3,463,700
"Off-Shore" Programmers	296,700	395,600	98,900	791,200
DOA IT Charges	48,000	144,000	12,000	204,000
ETF Resources	-0-	-0-	-0-	-0-
ETF Project Manager	58,300	79,500	-0-	137,800
Contingency Funding	833,300	-0-	-0-	833,300
Database Architecture Modifications/Training	<u>536,000</u>	<u>-0-</u>	<u>-0-</u>	<u>536,000</u>
TOTAL	\$5,364,500*	\$790,500*	\$153,700	\$6,308,700

*Budgeted in the bill in unallotted reserve.

10. Amounts previously identified by the consultant as "IT Resources" and "ETF Resources" (totaling \$289,900 SEG in 2001-02 and \$388,900 SEG in 2002-03) would be provided to the project, under the Governor's recommendations, from the agency's current base level resources.

11. In reviewing the recommended funding for the benefits payment system, the Committee may wish to consider the following:

- The Department anticipates circulating a request for proposals for a consulting partner during the spring and early summer. ETF has advised that they expect four or five qualified vendors (all with retirement system experience) to be potential bidders. The agency believes that a "very competitive procurement" is likely. Consequently, it is likely that many of the above cost components on which the Governor's recommendations were made will change.

- A question can be raised whether all of the funding for the consulting partner should be budgeted at the outset of the project. Under the Governor's recommendation, the funding would be provided under ETF's automated operating system continuing appropriation. Funds provided in 2001-02 in such a continuing appropriation would remain available until expended. ETF has indicated that it would prefer the certainty of having all of the major consulting funding provided "up front" for maximum flexibility and to minimize the need to return to the Legislature periodically for additional resources.

- A question may be raised concerning the amount of contingency funding budgeted for the project. The contingency funding appropriated in the first year is based on all three years of the project. Arguably, some of these costs, if needed, should be budgeted in the 2003-05 biennium. Further, the recommended amount of contingency funding is based, in part, on \$780,900 SEG of funding over three years for IT and ETF resources. These items are now being funded from the

agency's base (\$289,900 SEG during 2001-02 and \$388,900 SEG during 2002-03, with the remainder expected to be funded in this manner during the 2003-04 fiscal year). Additionally, the contingency amount is based, in part, on \$176,800 originally budgeted over three years for an ETF project manager. Under the Governor's recommendation these amounts have been reduced to \$58,300 SEG in 2001-02 and \$79,500 SEG in 2002-03. Further, with respect to these IT and ETF resource items and the project manager position, it can be questioned whether these types of cost categories should be used to base a project's contingency budget needs.

12. Under the Governor's recommendation, \$5,364,500 SEG in 2001-02 and \$790,500 SEG in 2002-03 would be budgeted in unallotted reserve for release by DOA once ETF had developed and submitted a detailed implementation plan for the project. The remainder of the funding (\$97,100 SEG annually and 2.5 SEG two-year project positions) would extend agency IT staff working on developing the benefits payment project design. The Committee may wish to consider as an alternative, budgeting the project development and implementation funds and the ETF project manager position funding under the Committee's s. 20.865(4)(u) appropriation for possible future release to ETF under s. 13.10 procedures once ETF had developed and submitted a detailed implementation plan for the project.

13. Under this alternative, \$5,364,500 SEG in 2001-02 and \$790,500 SEG in 2002-03 would be deleted under ETF. A total of \$97,100 SEG annually and 2.5 SEG two-year project positions would continue to be provided to ETF as well as 1.0 SEG unfunded project manager position annually. The Governor's budget recommendation proposed the deletion of 1.0 SEG undesignated permanent position in 2002-03 due to the expected efficiencies of the new benefits payment system. The proposed budget erroneously deleted the authority for this position for the entire fiscal year. That position authority would also be restored under this alternative, and the undesignated permanent position deletion would occur on July 1, 2003.

14. The amounts that would be reserved in the Committee's appropriation at this time (\$2,095,200 SEG in 2001-02 and \$2,887,300 SEG in 2002-03) would be the sum of the following: (a) the consultant's identified costs for local contract programmers, the consulting partner, "off-shore" programmers and the Governor's projected DOA IT charges for 2001-02 (\$1,771,200 SEG) and 2002-03 (\$2,441,600 SEG); (b) a 15% allowance for project contingencies based on these amounts (\$265,700 SEG in 2001-02 and \$366,200 SEG in 2002-03); and (c) funding for the project manager (\$58,300 SEG in 2001-02 and \$79,500 SEG in 2002-03). Once the project has been bid, the agency could seek a release of some or all of the reserved funds, including any additional supplementation if warranted on the basis of the accepted bid.

15. If the Committee chooses to adopt the Governor's original recommendation, it should provide position authority for 1.0 permanent position erroneously deleted in 2002-03 and instead delete this permanent position authority on July 1, 2003.

ALTERNATIVES TO BASE

1. Provide \$5,461,600 SEG in 2001-02 and \$887,600 SEG in 2002-03 and 1.0 SEG permanent and 2.5 SEG two-year project positions annually to enable the agency to continue the redesign of its current WRS annuity payment system. Budget \$5,364,500 SEG in 2001-02 and \$790,500 SEG in 2002-03 in unallotted reserve (including \$58,300 in 2001-02 and \$79,500 in 2002-03 for the 1.0 new permanent position) for release by DOA, once ETF has developed and submitted a detailed implementation plan for the project. To recognize expected efficiencies due to the new system, delete position authority for 1.0 undesignated permanent position on July 1, 2003. *[This alternative adopts the Governor's recommendation with a minor correction to authorize a permanent position through the 2002-03 fiscal year. The position would be deleted instead on July 1, 2003.]*

Alternative 1	SEG
2001-03 FUNDING (Change to Base) [Change to Bill]	\$6,349,200 \$0
2002-03 POSITIONS (Change to Base) [Change to Bill]	3.50 1.00

2. Provide ETF with \$97,100 SEG and 2.5 SEG project positions annually associated with the agency's efforts to develop the benefits payment project design and authorize 1.0 SEG unfunded project manager position. Place \$2,095,200 SEG in 2001-02 and \$2,887,300 SEG in 2002-03 in the Joint Committee on Finance s. 20.865(4)(u) appropriation for possible future release to ETF under s. 13.10 procedures once ETF had developed and submitted a detailed implementation plan for the project. To recognize expected efficiencies due to the new system, delete position authority under ETF for 1.0 undesignated permanent position on July 1, 2003.

Alternative 2	SEG
2001-03 FUNDING (Change to Base) [Change to Bill]	\$5,176,700 - \$1,172,500
2002-03 POSITIONS (Change to Base) [Change to Bill]	3.50 1.00

3. Maintain current law.

Alternative 3	SEG
2001-03 FUNDING (Change to Base) [Change to Bill]	\$0 - \$6,349,200
2002-03 POSITIONS (Change to Base) [Change to Bill]	0.00 - 2.50

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