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May 21, 2013 Joint Committee on Finance Paper #255

Business Processes Modernization and Technology Integration (ETF)

[LFB 2013-15 Budget Summary: Page 143, #2]

CURRENT LAW

The Wisconsin Retirement System (WRS) is administered by ETF under the supervision of a 13-member Employee Trust Funds Board. The WRS covers nearly all public employees in the state except employees of the City of Milwaukee and Milwaukee County, which maintain separate retirement systems. The WRS currently includes 1,501 public employers including state agencies, counties, cities, towns, villages, school districts, technical college districts, cooperative educational service agencies, and special districts. Retirement system data indicates that, as of December 31, 2012, the system covered 590,461 participants: 256,833 active employees, 173,655 annuitants, and 159,973 inactive (past) employees who have maintained their WRS accounts (rather than taking a separation benefit). In addition, the Department administers a number of employee benefit programs, including health insurance plans available to all state employees and to some local governmental employees under the Wisconsin public employers' group health insurance program. The Department's operations are funded from the segregated revenues of the Public Employee Trust Fund.

GOVERNOR

Funding. Provide $3,500,000 SEG in 2013-14 and $4,300,000 SEG in 2014-15 for reorganizing ETF's business processes and upgrading and integrating the agency's information technology systems. The funding would be provided to the Department's automated operating system appropriation.

Required Report. Require ETF to annually, before July 1, submit a report to the Secretary of Administration and the Joint Committee on Finance on the Department’s progress in modernizing its business processes and integrating its information technology systems.

Process for Supplementing Appropriations. Provide that, during the 2013-15 biennium, the Secretary of ETF may request the Governor to supplement any sum certain appropriation from the public employee trust fund for the purpose of modernizing business processes or integrating information technology systems of the Department. Provide that the Governor may approve or modify the request. Require that, if the Governor proposes to approve or modify the request, the Governor must notify the Joint Committee on Finance in writing of his or her proposed action. If, within 14 working days after the date of the Governor's notification, the Co-Chairpersons of the Committee do not notify the Governor that the Committee has scheduled a meeting for the purpose of reviewing the proposed action, the supplements proposed by the Governor would be approved. If the Co-Chairpersons notify the Governor that the Committee has scheduled a meeting for the purpose of reviewing the proposed action, the supplements may be made only upon approval of the Committee.

Process for Supplementing Position Authorization. (a) Provide that, during the 2013−15 biennium, the Secretary of ETF may request the Governor to create or abolish a full-time equivalent position or portion thereof that is funded from revenues deposited in the public employee trust fund, if the employee holding the position would perform duties relating to modernizing business processes or integrating information technology systems of the Department. Provide that the Governor may approve or modify the request. If the Governor proposes to approve or modify the request, the Governor must notify the Joint Committee on Finance in writing of his or her proposed action. If, within 14 working days after the date of the Governor's notification, the Co-Chairpersons of the Committee do not notify the Governor that the Committee has scheduled a meeting for the purpose of reviewing the proposed action, the position changes may be made as proposed by the Governor. If the Co-Chairpersons notify the Governor that the committee has scheduled a meeting for the purpose of reviewing the proposed action, the position changes may be made only upon approval of the Committee. Provide that, if a full-time equivalent position or portion thereof is created under this procedure, the appropriation that is used to pay salary and fringe benefit costs for the position would be supplemented to cover the salary and fringe benefit costs for the position.

DISCUSSION POINTS

1. The Department's operations are funded from the segregated revenues of the Public Employee Trust Funds. The Department has a primary appropriation account for administration from which most operations and all departmental positions are funded. In addition, a continuing appropriation account is provided to ETF to fund the design and implementation of the automated operating systems of the Department. The Governor's provision would provide funding to this automated operating system appropriation.

2. The Department requested $3,500,000 in 2013-14 and $8,500,000 in 2014-15 for the business processes modernization and technology integration initiative in its 2013-15 biennial budget request. While the Governor's provision fully funds the requested $3.5 million in 2013-14, the second year provision ($4.3 million) is approximately 50% of the amount requested ($8.5 million). Administration officials indicate that DOA and ETF concluded that using a master lease for the projected acquisitions would reduce costs in the 2013-15 biennial budget, as well as in future

budgets. The master lease approach is discussed below.

3. The funding provided under the bill is significant both in magnitude and intent. The amounts that would be provided ($3.5 million in 2013-14 and $4.3 million in 2014-15) represent increases of 9.8% in 2013-14 and 12.0% in 2014-15 to the agency's base funding from the employee trust funds. The purpose of the funding is to continue, in 2013-15, a reorganization of ETF's business processes and the design and implementation of a new informational technology platform. In total, this work will require approximately five years to complete (in 2017-18, if the initiative is completed as planned).

4. The context for the Governor's provision is threefold. First, the Department serves approximately 600,000 participants, including active and inactive public employees and WRS annuitants. The administration of the WRS and other benefit programs for these participants is administratively and legally complex. It is also critical work in that it is financially important to each participant and their family; the administration of each benefit must be performed with complete accuracy and must conform to strict timelines. Second, significant portions of benefit administration by the agency currently rely on legacy computer/software systems that are at the end of their life-cycle; this is discussed below. Third, the modifications of the system required under 2011 Acts 10 and 32, highlighted the inadequacies of the Department's systems and the need for ETF to develop a comprehensive redesign of the Department's business processes and information technology.

5. *History to Date*. The current initiative was begun in 2009, when ETF created a strategic plan that was initially focused on improving customer service through the development of self-service online tools for members and retirees.

In 2010, ETF completed a business risk-assessment process that highlighted the need to implement a new financial system for the Department and to replace most of the legacy computer systems that ETF still operates. [Legacy systems are old, mainframe computers and programing applications that are difficult to maintain or update.] The Department also began to reorganize certain operations in anticipation of the future projects that would be required to support the strategic plan and address the issues raised in the risk assessment.

In 2011, decisions were made to address key issues through a new benefits administration system (BAS) based on a custom "off-the-shelf" software package specifically designed for complex retirement and employee benefit administration. In conjunction with the development of the BAS, the need for an associated financial management system was determined to be a high priority. The financial management system would provide for the comprehensive recording of transactions pertaining to the Department's functions, and would have the capacity to summarize and report these transactions, and integrate this information with other departmental and state systems.

Further, in 2011, the Department was significantly affected by the passage of 2011 Wisconsin Act 10, which required major modifications to the retirement system to be made mid-year. Making these modifications proved to be extremely difficult in the context of the Department's legacy computer systems. This experience reinforced the Department's perceived need for an overall redesign of business processes based on a fully integrated informational technology system.

The Department continued to reorganize its operations in 2012 to prepare for eventual implementation of the new BAS and financial management system. Key developments included the creation of an Office of Enterprise Initiatives (OEI) to oversee the implementation of these initiatives, and contracting with a "strategic partner" (a consulting firm specializing in the identification and evaluation of business requirements relating to the procurement of new benefits administration software). The process of identifying internal data sources, verifying and validating the integrity and accuracy of the data, and devising processes to convert ETF data into the format required by the new benefit software system was also begun with the assistance of the strategic partner.

While these developments were taking place, the Department of Administration (DOA) and its Division of Enterprise Technology (DET) were, in 2012, deciding to move forward with an enterprise resource planning (ERP) system. This system is generally intended to fulfill the purposes of an earlier, now abandoned, integrated business information system (IBIS); these purposes include, for all executive branch agencies: (a) financial services (accounting and auditing of payroll); (b) procurement; (c) human resources; and (d) other administrative duties. According to DOA, the ERP system will utilize the already purchased PeopleSoft program.

Early in 2013, ETF, DOA, and DET agreed that ETF would adopt PeopleSoft software for its new financial management system. Under this approach, ETF would be the first state agency to move into the ERP system. Further, ETF is also continuing work on its data integrity improvements, internal organization, securing budget resources, and procuring and implementing the BAS described above.

6. Funding has also been provided by the Legislature to support this initiative in recent years. Under 2011 Wisconsin Act 32, the 2011-13 biennial budget act, $2,861,400 SEG in 2011-12 and $3,674,700 SEG in 2012-13 of public employee trust funds was placed in the Committee's appropriation account for segregated funds general program supplementation to address additional ETF needs in the 2011-13 biennium.

The Department's first request for supplementation was approved by the Committee on September 14, 2011, providing a $2,261,200 SEG in 2011-12 and $1,572,400 SEG in 2012-13 and 10.5 SEG positions annually, as follows: (a) $1,011,200 SEG in 2011-12 and $872,400 SEG in 2012-13 and 10.5 positions annually to the administration appropriation account for general program operations; and (b) $1,250,000 SEG in 2011-12 and $700,000 SEG in 2012-13 to the automated operating system appropriation account. The requested funding and positions were provided for: (a) ETF call center services; (b) implementation of 2011 Wisconsin Acts 10 and 32; (c) participant retirement services; (d) implementation of additional online self-service options for WRS participants; and (e) general operations costs.

On August 10, 2012, the Committee approved an ETF request for $2,702,500 SEG in 2012-13 to the automated operating system appropriation for three components: (a) contracting for the strategic partner, discussed above; (b) initiating the data integrity and migration process, described above; and (c) other IT equipment and services. In addition, ETF is required to provide an informational report on or before June 30, 2013, that includes: (a) the actual costs of contracts and procurement in 2012-13 for these three components; and (b) a discussion of projected costs and goals in the three project areas in the 2013-15 biennium.

7. *Plans for 2014-2018.* The Department projects the planned enterprise implementation to be largely completed by 2018. In 2014, the new PeopleSoft financial management informational system is expected to be integrated with other departmental systems, including legacy applications. In addition, work on data integrity will continue, and the BAS implementation will begin under a three phase approach, beginning in 2013.

8. In 2014 and 2015, the first phase of the BAS implementation continues and the conversion of data for use in the BAS will begin. The second phase of the BAS implementation is scheduled for 2016, including initial interfacing of the PeopleSoft financial management system with the BAS. The third and final phase for the BAS implementation and post-implementation work on the system is expected in 2017, along with completion of the data integrity efforts and interfacing with the new state ERP system. Following this work (projected to be completed in 2018), ETF, DOA, and DET will evaluate any further migration by ETF to other ERP components.

9. For the first phase of the BAS implementation, the Department will be contracting with a vendor to supply the customized off-the-shelf BAS software (and related configuration, customization, and implementation services), as well as the necessary supporting equipment to complete the implementation. This would include providing all necessary hardware and software components that conform to the networking requirements of the primary hosting location (likely at DET). The vendor will also be responsible for supplying any necessary peripheral components, including printers, cabling, connectors, equipment racks, backup devices, and power-supply equipment.

10. The request for proposals (RFP) is currently being prepared for BAS implementation, but has not yet been released. At this point, ETF reports that the RFP is more than 700 pages long, with extensive additional material attached. The length of the RFP and associated materials reflect the size and complexity of the initiative. It is possible an additional RFP for other aspects of the project may be prepared as the initiative moves forward.

11. As noted above, it has been determined that the purchase and maintenance costs for equipment and software associated with the initiative will be paid through a state master lease. Under s. 16.76 (4) of the statutes, DOA operates the state's master lease program. This program allows state agencies to finance the costs of equipment and other intangible services associated with the equipment (maintenance agreements, for example) over a predetermined period of time. Subsequent to approval of the master lease by DOA's Capital Finance Office, agencies purchase the financed items and repay the master lease costs from operating budget appropriations.

It was determined by ETF and DOA that the master lease approach was financially advantageous compared to ETF's original plan to pay annual actual and necessary costs on a pay-as-you-go basis. The master lease is projected to be paid over a 12-year period, 2013-14 to 2024-25. The total cost for the BAS over the entire master lease period is projected to be $39.2 million, including $3.2 million in interest (a 3% interest rate is assumed in these calculations).

The $3.5 million that would be provided under the bill in 2013-14 would be used for the initial upfront cash payment for the BAS. The $4.3 million provided in 2014-15 would be used for a various components of the initiative and establishes the base funding necessary to support the master lease payments through the entire 12-year period.

12. In its 2013-15 budget request, ETF also proposed 14-day passive review processes for supplemental funding and position authority to address departmental needs. With respect to funding, the Department indicates that projects of this magnitude are difficult to precisely budget for and additional modifications to the funding may be necessary at future points in time. Officials at ETF believe the 14-day passive review process would be an efficient mechanism to use for funding supplements to address the Department's diverse needs.

13. With respect to staffing, the Department indicates that throughout the current, multi-year initiative, ETF staff will be involved in the design of infrastructure, including support, configuration, customization, and other critical design planning. Departmental staff will also be responsible for both system- and application-level administration of security roles, data sharing between and across agencies, and various management information and performance reporting systems. It is expected, then, that the implementation of the project will place heavy demands on current staff. Accordingly, the Department argues that it is important to have the flexibility to seek additional staff under a 14-day passive review process.

14. Under current law, supplementation requests for segregated funds and position authority may be made under s. 13.101 of the statutes and are addressed by the Committee under s. 13.10. The Committee may supplement, from the appropriations under s. 20.865 (4), the appropriation of any department, board, commission or agency, which is insufficient because of unforeseen emergencies or insufficient to accomplish the purpose for which made, if the committee finds that: (a) an emergency exists; (b) no funds are available for such purposes; and (c) the purposes for which a supplemental appropriation is requested have been authorized or directed by the Legislature.

15. As noted above, under 2011 Act 32, $2,861,400 SEG in 2011-12 and $3,674,700 SEG in 2012-13 of public employee trust funds was placed in the Committee's appropriation account for segregated funds to address additional ETF needs in the 2011-13 biennium, and supplements were approved under s. 13.10 actions. However, in the absence of specific funding being set aside with the Committee for such requests, an ETF request under s. 13.10 must establish that an emergency exists and document more extensively why current resources are inadequate. In addition, quarterly Committee meetings may be delayed or postponed. As a result, the s. 13.10 process may not always provide timely responsiveness in addressing ETF needs during its restructuring period.

16. The Department had sought, in their budget request, a more streamlined means of addressing these needs. A request under a 14-day review can be handled more quickly, if the Governor passes the request along to the Committee in a timely manner and no objections to the request are made that would require the Committee to meet. On the other hand, if the Governor

delays the transmission of the request to the Committee, no action may be taken on the request. [An s. 13.10 request is not submitted to the Governor first, but is made directly to the Committee.] Also, if an objection to a request under the 14-day process is made, action on the request must await the scheduling of an s. 13.10 meeting of the Committee.

17. The Department requested the 14-day passive review processes (for both funding and positions) on a permanent basis and to address any agency needs. The Governor approved these processes, but limited their application to the 2013-15 biennium only, and limited the grounds of any request to the purpose of modernizing business processes or integrating information technology systems of the Department.

18. Arguably, a 14-day passive review process is more efficient from the agency's point of view. In the current context, ETF is undergoing significant changes in both internal organization and information technology applications that are expected to be largely completed by 2018. Typically, major technology projects are difficult to budget for and the 14-day passive review processes may provide the Department with a better means to receive additional funding or positions should the need arise. In addition, given the multi-year aspect of the ETF initiative and the long-term challenges facing the Department, the Committee could consider providing the 14-day passive review processes through 2018-19 for the purpose of modernizing business processes or integrating information technology systems of the Department. [Alternative 2] The 2019 Legislature could then determine whether to extend, or make permanent, the 14-day passive review processes for the Department.

19. On the other hand, the Committee may conclude that the s. 13.10 process under current law should be maintained to address ETF's needs. This approach would maintain consistency with how funding supplements are provided for segregated fund appropriations of other agencies. Under this alternative, the Governor's recommendations would be approved with the exception of the 14-day passive review processes. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendations, as follows:

Funding. Provide $3,500,000 SEG in 2013-14 and $4,300,000 SEG in 2014-15 for reorganizing ETF's business processes and upgrading and integrating the agency's information technology systems. The funding would be provided to the Department's automated operating system appropriation.

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2. Modify the Governor's recommendations to provide that the 14-day passive review processes for funding and positions would be established through 2018-19, for the purpose of modernizing business processes or integrating information technology systems of the Department. Repeal the provision effective July 1, 2019. [Requests would not be limited to the 2013-15 biennium.]

3. Modify the Governor's recommendations by deleting the 14-day passive review provisions under the bill. [Current law, with respect to supplemental funding and position requests, would be maintained.]

4. Delete the provisions.

ALT 4	**Change to Bill** Funding
SEG	- $7,800,000

Prepared by: Art Zimmerman