1997-98 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- *Appointments ... Appt*
- **
- *Clearinghouse Rules ... CRule*
- **
- *Committee Hearings ... CH*
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- *Committee Reports ... CR*
- **
- *Executive Sessions ... ES*
- **
- *Hearing Records ... HR*
- **
- *Miscellaneous ... Misc*
- *97hrJC-Fi_Misc_pt73_LFB*
- *Record of Comm. Proceedings ... RCP*
- **

Information Technology Investment Fund

(LFB Budget Summary Document: Page 340)

LFB Summary Item for Which an Issue Paper Has Been Prepared

Item #	Title
1,2,3	Information Technology Investment Fund Operations (Paper #500)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Information Technology Investment Fund Operations (Information Technology Investment Fund)

[LFB Summary: Page 340, #1 and #2 and Page 341, #3]

CURRENT LAW

The information technology investment fund (ITIF) is a segregated fund from which grants are provided to state agencies for information technology projects and upgrades. Revenue for the fund is generated from the bidders list registration fee which was established under 1995 Act 351 as the funding mechanism for ITIF grants and administrative costs. Base funding for the grants program is $5,000,000 SEG annually.

GOVERNOR

Transfer $2,000,000 GPR in 1997-98 and 1998-99 from the general fund to the ITIF. The 1997-98 transfer would occur on the effective date of the bill and the 1998-99 transfer would occur on July 1, 1998. Further, reduce base level funding for grants from the ITIF by $1,900,000 SEG in 1997-98 and $2,500,000 SEG in 1998-99.

Create nonstatutory language allowing DOA, notwithstanding current law, to award additional grants from the ITIF in 1997-98, based on applications received by the Secretary of DOA by March 1, 1997, or a later date as specified by the Secretary. Subsequent to the awarding of any such grants, the Secretary would be required to notify the Co-chairs of the Joint Committee on Finance, under a 14-day passive review process, of any proposed supplementation of agency appropriations required to allow expenditure of these subsequent grant awards.

DISCUSSION POINTS

1. The information technology investment fund (ITIF) was created in the 1995-97 biennial budget to provide grants to state agencies for information technology purchases related to improving state agencies' IT capabilities. Under the ITIF program, DOA annually awards grants to state agencies by May 15, for the following fiscal year. Following the award of grants, DOA is required to notify the Committee under s. 16.515, of any proposed supplementation of agency appropriations necessary to allow expenditure of the grant funds.

2. Revenue for the ITIF is provided from a voluntary $125 per year bidder's list registration fee charged to individuals who wish to automatically be notified of state bids in particular commodity areas and to have on-line access to bid specifications and vendor information. The fee for minority vendors and sheltered work centers is $65 annually. Vendors not wishing to register with the state may still bid on contracts, but are not automatically notified of bid announcements.

3. Table 1 below presents the estimated fund condition statement for the ITIF based only on the current expenditure commitments of the fund and using revenues from the bidders list registration fee at the collection levels currently estimated by DOA.

TABLE 1

Information Technology Investment Fund
Estimated Condition Statement Under Current Law

	1996-97	1997-98	1998-99
Revenues			
Opening Balance	$0	-$3,760,300	-$4,296,400
Bidders List Registration Fees	200,000	500,000	750,000
Total Available	$200,000	-$3,260,300	-$3,546,400
Expenditures			
Administration	$121,300	$121,300	$121,300
ITIF Grants	1,080,700	0	0
ITIF Master Lease Payments	1,308,400	914,800	914,800
VendorNet	552,100	0	0
Infrastructure Support Services	897,800	0	0
Total Expenditures	$3,960,300	$1,036,100	$1,036,100
Ending Balance	-$3,760,300	-$4,296,400	-$4,582,500

3. For 1997-98 and 1998-99, the estimated condition statement includes only those expenditures required to provide for administrative costs of the ITIF (bidders list registration fee mailings, fee collection and VendorNet assistance) so that fees can continue to be collected and

for the second and third years of 1996-97 grant commitments that were funded over three years through the state's master lease program. Further, these 1997-99 funding commitments have been adjusted to reflect the Governor's budget recommendation that 1996-97 grant commitments previously made to the Department of Revenue ($104,800 annually), the Department of Corrections ($177,500 annually) and several smaller agencies be converted to non-ITIF funding sources.

4. Under the Governor's budget recommendations, $2,000,000 GPR annually would be transferred from the general fund to the ITIF. Under this recommendation, the above estimated condition statement would then be recalculated as indicated in Table 2.

TABLE 2

Information Technology Investment Fund
Estimated Condition Statement with General Fund Transfer

	1996-97	1997-98	1998-99
Revenue			
Opening Balance	$0	-$3,760,300	-$2,296,400
Bidders List Registration Fees	200,000	500,000	750,000
General Fund Transfer	0	2,000,000	2,000,000
Total Available	$200,000	-$1,260,300	$453,600
Expenditures			
Administration	$121,300	$121,300	$121,300
ITIF Grants	1,080,700	0	0
ITIF Master Lease Payments	1,308,400	914,800	914,800
VendorNet	552,100	0	0
Infrastructure Support Services	897,800	0	0
Total Expenditures	$3,960,300	$1,036,100	$1,036,100
Ending Balance	-$3,760,300	-$2,296,400	-$582,500

5. Because of the current negative cash balance in the fund, DOA has made in 1996-97 an interfund transfer of $3,957,700 from its telecommunications appropriation to the ITIF to provide adequate operating cash balances until the revenues to the ITIF increase.

6. The following questions may be raised regarding the condition of the ITIF, projection of future revenues and the appropriate level of expenditures to be set for the ITIF for the 1997-99 biennium:

- What is the likely amount of revenues to be generated from the fees established to support grants from the ITIF?

• What is the purpose of the Governor's transfer of the $2 million GPR in each year of the next biennium to the ITIF? and

• Since the level of grants and other releases made from the ITIF in 1996-97 have already created funding commitments far in excess of the current and projected level of revenue collections to the fund, should any additional grant funding be made until sufficient revenues have been collected to place the fund in a positive situation?

The above questions are examined in the following discussion points.

Future Level of Revenues

7. The source of revenue for the ITIF is the bidders list registration fee. DOA currently estimates that the fee will generate a total of $200,000 in 1996-97, $500,000 in 1997-98 and $750,000 in 1998-99. Through May 9, 1997, the fee had generated $124,120. Service charges from the investment pool reduce the total available to the fund to $119,082. Given the fund's current pattern of revenue collection this year, it appears unlikely that $200,000 will be generated in 1996-97. Based on year-to-date trends, total revenues of approximately $160,000 would be estimated for 1996-97. If current collection trends are projected forward, estimated total fee collections of $240,000 annually would be projected for 1997-98 and 1998-99.

8. The Department's revenue estimates for the 1997-99 biennium are premised on the use of a "more aggressive marketing strategy" for the bidder's list registration. DOA intends to make vendors more aware of the benefits of registering (electronic notification of bids, access to the state's internet procurement system (VendorNet), the ability to download bid documents, e-mail service to state purchasing managers and the ability to register only once to do business with all state agencies). Through this marketing strategy, DOA expects to increase the number of bidders paying the registration fee and therefore the amount of revenue to the ITIF.

9. Information technology investment fund grants for 1996-97 were made based estimated revenues ($4.3 million) that have not materialized. The lower revenues may be explained to some degree by the fact that collection of the bidder's list registration fee did not begin until November, 1996. More fundamentally, however, the lower revenues are simply the result of participation being significantly less (996 registered vendors through April, 1997) than the level anticipated (35,000 registered vendors during the year).

10. While the fee has only been collected for six months, participation to date is dramatically less than anticipated. Therefore, a more cautious approach to estimated revenues could be taken. Further, the impact of DOA's "marketing strategy" on the amount of revenue raised is unknown. As a result, the Committee could consider using revenue estimates for the next biennium based on current trends ($240,000 per year). This would mean that under the estimated condition statement portrayed in Table 1 above, the projected negative June 30, 1999, ending balance of the fund would be about $770,000 larger than shown in that table.

Governor's Proposed General Fund Transfer

11. As noted, the fund condition statements shown in Tables 1 and 2 above do not reflect the fiscal effect of any new ITIF grants being made in 1997-98 or 1998-99. The bill provides total expenditure authority from the ITIF of $3,100,000 SEG in 1997-98 and $2,500,000 SEG in 1998-99. Given the already committed expenditures from the fund (ITIF administration costs and master lease payments totalling $1,036,100 SEG annually), only $2,063,900 SEG in 1997-98 and $1,463,900 SEG in 1998-99 in expenditure authority would be available for additional ITIF grants.

12. DOA indicates that in order to support these costs, the Governor has recommended transferring $2,000,000 annually from the general fund to the ITIF. It is argued that the transfer represents a "reasonable" investment that will allow existing master lease costs to be funded and some agency information technology needs to be addressed through additional grants. But even using the higher level of revenue collections estimated by DOA for 1997-99 and the $2 million GPR per year transfer to the ITIF recommended by the Governor, the balance in the fund would not be sufficient to support this level of grant expenditures since the fund would still have a negative balance of $582,500 without any additional expenditure for new grant awards.

Continued Operation of the ITIF

13. The ITIF was created to provide funding to state agencies for information technology projects that address legislatively-identified priorities based on a review and approval of grant applications by DOA. In particular, it was aimed at providing a source of revenue for smaller agencies, particular GPR-funded agencies who had limited resources, to finance IT improvement in the face of the increasingly limited availability of additional GPR funding for such agencies. It was hoped that the creation of a separate fund, with its own source of revenue, would be able to assist these agencies in upgrading their IT infrastructure. In 1996-97, 27 different agency received ITIF grants for information technology projects including basic technology infrastructure, interactive voice response systems, scheduling and distance education.

14. However, concerns about the ITIF's solvency can be raised. Without additional supplemental support in the 1997-99 biennium, the fund will continue to be in deficit relative to collected revenues. Given that master lease costs are contractual arrangements and that ITIF administration provides services to vendors who pay the bidder's list registration fee, the $1,036,100 annually for these items identified in the condition statement is necessary. However, the use of GPR funds to support a fund whose whole concept was to have an independent funding stream seems contradictory to the purpose of having the separate fund. The question may be raised that if some of the $4 million GPR is to be expended on new IT projects, why not appropriate those funds directly to the requesting agencies?

15. On March 6, 1997, the Secretary of DOA notified state agencies that nonstatutory language had been included in the budget bill that would allow DOA, notwithstanding current

law, to award ITIF grants in 1997-98, based on applications received by the Secretary of DOA by March 1, 1997, or a later date as specified by the Secretary. Under the bill, subsequent to the awarding of any such grants, the Secretary would be required to notify the Co-chairs of the Joint Committee on Finance, under a 14-day passive review process, of any proposed supplementation of agency appropriations associated with the awarded grants. In his March 6 letter, the Secretary indicated that, in accordance with the budget bill provision, DOA would therefore not begin the grant application process for 1997-98 until after passage of the budget bill. According to the letter, the provision was included to have the grant cycle for 1997-98 be aligned with the passage of the budget.

16. The experience to date regarding revenues raised from the bidder list registration fee indicates that the initial revenue estimates were substantially overstated and consequently expenditure commitments already made have created a negative balance in the fund. With more experience and DOA's planned enhancement of its marketing efforts, it is possible that, over time, the number of bidders participating may increase substantially. At this point, however, the fund has a substantial debt that needs to be repaid from fee revenues.

17. The Committee could adopt the following alternative approach for ITIF operation for the 1997-99 biennium:

- Do not provide for the transfer of $2,000,000 GPR per year from the general fund to the ITIF.

- Assume revenue collections of $160,000 in 1996-97 and $240,000 in 1997-98 and in 1998-99.

- Reduce expenditure authority for the ITIF by a total of $3,963,900 SEG in 1997-98 and in 1998-99.

- Do not include the session law language allowing DOA to make supplemental grants from the ITIF.

- Create session law language providing that, notwithstanding the ITIF statutory grant provisions, no new grants under the ITIF may be made after May 1, 1997, until the revenues to the fund from bidder's list registration fees have restored the fund to a positive balance and are sufficient to support a new round of grants. Provide that DOA may request approval from the Joint Committee on Finance under a 14-day passive review process to initiate a new round of grants under the statutory requirements when it can demonstrate to the Committee's satisfaction that fund revenues are sufficient to meet these requirements.

18. The following condition statement for the ITIF would be projected under this alternative approach:

TABLE 3

Information Technology Investment Fund
Estimated Condition Statement Under Alternative

	1996-97	1997-98	1998-99
Revenues			
Opening Balance	$0	-$3,800,300	-$4,596,400
Bidders List Registration Fees	160,000	240,000	240,000
Total Available	$160,000	-$3,560,300	-$4,356,400
Expenditures			
Administration	$121,300	$121,300	$121,300
ITIF Grants	1,080,700	0	0
ITIF Master Lease Payments	1,308,400	914,800	914,800
VendorNet	552,100	0	0
Infrastructure Support Services	897,800	0	0
Total Expenditures	$3,960,300	$1,036,100	$1,036,100
Ending Balance	-$3,800,300	-$4,596,400	-$5,392,500

19. The above table is based on the following: (a) revenues in 1997-99 at the current annualized level of collections ($240,000); (b) grant expenditures in 1997-98 and 1998-99 only for: (1) the cost of administering the ITIF ($121,300 SEG per year) and (2) the second and third year payments of the master lease commitments ($914,800 SEG per year) made as a part of the ITIF grants awarded in 1996-97. Grant expenditure authority from the fund would be set at $1,036,100 SEG per year.

20. The argument for this approach would be that no future grant awards should be made until sufficient revenues have been collected to cover the past funding commitments (the projected negative balance in the table above) and to cover another round of grants. Exactly how long the grant suspension would remain in effect would depend on the revenue collection experience. However, in the event that higher revenue collections do not develop in the next biennium, the continued operation of the ITIF might have to be further examined in the succeeding biennial budget. Under this alternative, DOA would be required to address any difference between revenues collected and expenditures using additional interfund transfers.

21. Another alternative approach the Committee could consider would be to suspend further grant activities, directly fund with GPR the required ITIF expenditures in the 1997-99 biennium and allow the ITIF to continue to accrue future revenues to offset its current negative balance. Under this alternative, a separate GPR appropriation would be created, for 1997-98 and 1998-99 only, for 1997-99 ITIF required expenditures and $1,036,100 GPR annually would be provided. Further, DOA would be directed to suspend further grant activities from the ITIF until the negative balance in the fund has been eliminated and the Committee approves the restoration

of ITIF grant activities. As a result, commitments of the fund in 1997-99 for previously-made grant commitments and for ITIF administrative costs in 1997-99 could be addressed and yet not increase the fund deficit, while the future solvency of the fund would depend on DOA's actions to generate additional revenues.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to transfer $2,000,000 GPR in 1997-98 and 1998-99 from the general fund to the information technology investment fund on the effective date of the bill and on July 1, 1998. Further, reduce base level funding for ITIF grants from the fund by $1,900,000 SEG in 1997-98 and $2,500,000 SEG in 1998-99. Also, create nonstatutory language allowing DOA, notwithstanding current law, to award additional grants from the ITIF in 1997-98, based on applications received by the Secretary of DOA by March 1, 1997, or a later date as specified by the Secretary. Specify that subsequent to the awarding of any such grants, the Secretary would be required to notify the Co-chairs of the Joint Committee on Finance, under a 14-day passive review process, of any proposed supplementation of agency appropriations associated with the awarded grants.

2. Modify the Governor's recommendation by: (a) deleting the proposed transfer of $2,000,000 GPR per year from the general fund to the ITIF; (b) estimating SEG revenue collections of $240,000 in 1997-98 and 1998-99; (c) further reducing base level expenditure authority for the ITIF by $2,063,900 SEG in 1997-98 and $1,463,900 SEG in 1998-99; (d) deleting the session law provision allowing DOA to make supplemental grants in 1997-98 from the ITIF; (e) including session law language to provide that, notwithstanding the ITIF statutory grant provisions, no grant awards from the ITIF may be made after May 1, 1997, except for continuation of commitments made in awarding 1996-97 ITIF grants and awards for the continued cost of administering the ITIF; and (f) specifying in the session law provision that new grants may be awarded under the ITIF only after DOA has received approval from the Joint Committee on Finance under a 14-day passive review process to initiate a new round of grants and that such approval by the Committee shall be conditioned on DOA demonstrating to the Committee's satisfaction that sufficient revenues from bidders list registration fees have been collected to restore the fund to a positive balance and will be sufficient to support a new round of grants.

Alternative 2	GPR	SEG	TOTAL
1997-99 REVENUE (Change to Bill)	$4,000,000	- $770,000	$3,230,000
1997-99 FUNDING (Change to Bill)	$0	- $3,527,800	- $3,527,800

3. Modify the Governor's recommendation by: (a) deleting the proposed transfer of $2,000,000 GPR per year from the general fund to the ITIF; (b) creating a GPR appropriation,

for the 1997-99 biennium only, to fund current previously-made 1997-99 grant commitments of the fund and for fund administrative costs, and provide $1,036,100 GPR annually in the new appropriation; (c) further reducing base SEG expenditure authority for the ITIF by $3,100,000 SEG in 1997-98 and by $2,500,000 SEG in 1998-99; (d) estimating SEG revenue collections of $240,000 in 1997-98 and 1998-99; (e) deleting the session law provision allowing DOA to make supplemental grants in 1997-98 from the ITIF; (f) including session law language to provide that, notwithstanding the ITIF statutory grant provisions, no grant awards from the ITIF may be made after May 1, 1997; and (g) specifying in the session law provision that new grants may be awarded under the ITIF only after DOA has received approval from the Joint Committee on Finance under a 14-day passive review process to initiate a new round of grants and that such approval by the Committee shall be conditioned on DOA demonstrating to the Committee's satisfaction that sufficient revenues from bidders list registration fees have been collected to restore the fund to a positive balance and will be sufficient to support a new round of grants.

Alternative 3	GPR	SEG	TOTAL
1997-99 REVENUE (Change to Bill)	$4,000,000	- $770,000	$3,230,000
1997-99 FUNDING (Change to Bill)	$2,072,200	- $5,600,000	- $3,527,800

MO# Alt 3

2 BURKE	Y	N	A
DECKER	Y	N	A
GEORGE	Y	N	A
/ JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A
JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

AYE 15 NO 0 ABS 1

INFORMATION TECHNOLOGY INVESTMENT FUND

LFB Summary Item for Introduction as Separate Legislation

Item #	Title
4	Grant Criteria and Administrative Rules