



DEPARTMENT OF JUSTICE

February 11, 2016

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Peter Buckley, Co-Chair
Interim Joint Committee on Ways & Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

*RE: REVISED Request from the Department of Justice
Child Support System Project Funding*

Dear Co-Chairpersons:

Please accept this letter as an agency request for Ways & Means action; this request has been updated since the original December 7, 2015, request.

Nature of the Request

The Department of Justice Child Support Division is replacing the existing Child Support Enforcement Automated System, which is the main system for managing child support payments and cases. The 2015 Legislative Session provided bond authority, expenditure limitation, and General Fund debt service for the project for the 2015-17 biennium in SB 5507. Due to more refined projections of the cost of the project since the 2015 Session, the expenditure limitation (equal to bond authority), General Fund debt service, and limitation for the cost of issuance authorized in Chapter 837 (2015 Oregon Laws), Sections 10-13 (enrolled Senate Bill 5507-A) are no longer adequate to cover the scheduled expenses for the Child Support System Project during the 2015-17 biennium.

Based on the initial expense estimates, which were estimated prior to the current Project budget and directly tied to the original Feasibility Study from 2012, the Project originally requested the issuance and sale of \$15,209,670 in capital bonds (project share only, scheduled for sales in October 2015, May 2016, and March 2017) to fund the state's share (34%) of the estimated 2015-17 costs of building a new child support system.

This project also originally required \$45,207,661 Other (OF) and Federal Funds (FF) expenditure limitation for the estimated 2015-17 project costs and a General Fund (GF) appropriation of \$2,407,587 for the debt service.

The Project has continued to baseline the project budget, and current figures vary from the estimates provided in both the 2015 legislative session and the December 2015 request. Because a number of large procurements were still in process, the Department could not begin budget baselining activities prior to, or during, the 2015 legislative session. Since enrollment of the 2015 Senate Bill 5507-A, the Department has finalized these procurements, on-boarded the Project's Implementation Contractor, begun development of the Project schedule, and started construction of a baselined project budget. While there have been continued updates to the schedule and budget, no change in project scope has occurred.

This complex project spans three biennia for a current total projected cost of \$120,987,273 and total 2015-17 expenses of \$57,684,058 (\$19,613,221 Other Funds and \$38,070,837 Federal Funds).

Although the Project schedule is still in development, as was anticipated during the 2015 legislative session, it is evident that the overall projected expenses for the biennium differ from the initial estimates.

As displayed in the table below, the difference between the initially forecasted budget and the baselined project budget vary in each category. However, the majority of budget fluctuation results primarily from personal services and system hosting costs.

| Comparison of Feasibility Study to Baseline Budget* | | | | |
|---|--|---------------------------|---------------------|--|
| DCS IT System Project | Original Estimate (Feasibility Study) | Baseline Current Estimate | Difference | Notes |
| PERSONAL SERVICES | | | | |
| Wages / Other Personal Exp / Benefits | \$5,824,035 | \$16,848,127 | \$11,024,092 | |
| Mass Transit | | \$23,388 | \$23,388 | |
| Total Personal Services | \$5,824,035 | \$16,871,515 | \$11,047,480 | |
| SERVICE AND SUPPLY | | | | |
| Travel | \$189,000 | \$51,313 | -\$137,687 | |
| Training | \$0 | \$35,224 | \$35,224 | |
| Office Expenses | \$0 | \$0 | \$0 | Paid by IM Contractor |
| Communications | \$0 | \$17,608 | \$17,608 | |
| Data Processing | \$0 | \$461,406 | \$461,406 | |
| Contractors | \$0 | \$0 | \$0 | |
| Professional Services | \$96,740,112 | \$93,801,552 | -\$2,938,561 | |
| Rent/Utilities | | \$0 | \$0 | Included in IM Contract |
| Expendable Properties | \$4,547,392 | \$223,202 | -\$4,324,190 | Offset to Capital Outlay |
| Other | \$0 | \$5,822 | \$5,822 | |
| Capital Outlay | \$0 | \$3,882,335 | \$3,882,335 | Offset to Expendable Properties |
| DOJ Intraagency Charge | \$712,861 | \$2,042,174 | \$1,329,313 | Directly related to increase in PS |
| System Hosting | \$1,393,509 | \$3,595,122 | \$2,201,613 | Inc. due to lack of data for generation of estimate. |
| Total Service and Supply | \$103,582,875 | \$104,115,758 | \$532,883 | |
| Total | \$109,406,910 | \$120,987,273 | \$11,580,363 | |

*\$1.674 million in preparatory Project costs are not included in projections as they resulted from the feasibility study and other pre-project planning activities.

Personal Services

Personal Services was initially estimated at \$5,842,035 based on the Feasibility Study. As with all other estimates generated at that stage of the process, current staffing costs and staffing estimates based on system projects completed in comparable states were used to calculate the initial figures. Since each state or contractor approaches projects differently to some degree, those staffing estimates were averaged to generate Oregon's estimated need.

As the Project has progressed, the Department has continued to adjust the anticipated staffing levels and update project estimations. Additionally, initial estimates used averages of step 2 salary rates (which are often lower than the salary level of the qualified staff needed within the project) and estimates could not capture unknown COLA increases and other contractual impacts.

Initially, the Department intended to staff the Project through assignment of selected FTE and the part-time rotation of key positions. The Department anticipated covering the resulting staffing level needs through management efforts and the creation of limited duration positions.

This plan and position management flexibility changed when the 2015-17 project funding authorized in Chapter 837 (2015 Oregon Laws) included the establishment of 22 permanent full-time positions (21.13 FTE). The new positions budgeted for the Project were established as permanent fulltime positions with the accompanying conditional note: (a) the positions will be abolished on or before the completion of the Project; (b) the positions are to remain in the Project (i.e., CSEAS summary cross reference) and may not be transferred to any other program or used for any other purpose other than the development to the Child Support System Project; and (c) the positions may not be included in any permanent finance plan action.

Project schedule and baselining efforts continued after the establishment of these 22 positions and as the project's actual needs were defined, the Department identified the need for personal services adjustments. Specifically the Department has identified the need for the reclassification on some positions and additional positions. As shown in the table below, the currently budgeted personal services levels vary from both the initial estimations and the 2015-17 LAB figures.

| Position Estimate Comparison | 1st Biennia | | 2nd Biennia | | 3rd Biennia | |
|------------------------------|-------------|-----------|-------------|-----------|-------------|-----------|
| | FTE | Positions | FTE | Positions | FTE | Positions |
| Initial Estimate | 10.13 | 32 | 16.14 | 37 | 3.02 | 37 |
| LAB | 21.13 | 22 | 22.00 | 22 | 22.00 | 22 |
| Current Estimates | 22.44 | 32 | 23.31 | 32 | 23.31 | 32 |
| | 1.31 | 10 | 1.31 | 10 | 1.31 | 10 |

System Hosting

When the initial estimate was completed, the information available for forecasting expenses for the required development hosting environments was limited. Through conversations with Enterprise Technology Services (ETS), the Department determined that using the current hosting costs would be the most appropriate measure. Current costs were projected together with usage estimates derived from system projects completed in comparable states. The calculation resulted in estimated development hosting costs of \$1,393,509.

Once the implementation contractor was selected and the Department received more detailed information on the hosting environment requirements, the Department approached ETS for cost estimates and provided a potential timeline to begin work. Based on the needed environments and the timeline, ETS indicated that it was unable to meet DOJ's needs and therefore directed another avenue. Through a cooperative effort among ETS, the OSCIO, and DOJ, the Department sought outside hosting services through ETS' existing contracts with four providers using a special procurement process.

The hosting procurement for the computing and network environments required for the design, development, and testing of the new child support system has been awarded to Atmosera through the Special Procurement process. The initial purchase orders with Atmosera total \$918,552 and final figures (still in the last stages of negotiation) are set to total \$3,595,122.40.

The initial estimate of hosting costs was based on assumptions that turned out to be incorrect, such as the assumption that ETS could host the project and the assumption that use of past ETS

hosting costs was the best method for estimating ETS' project hosting costs. Although ETS is unable to provide the required services, ETS provided a cost estimate so that DOJ could compare the Atmosera service costs to the actual ETS costs for the same services. If ETS had been able to provide the needed services, it estimates cost of its services to total \$2,990,092 for the same time period, a difference of \$605,030 or 17%.

Timing of Expenses

Although the total expenses for the primary contractors are less than the initial estimates, the expenses occur in different biennia than initially anticipated and the expenses scheduled in this biennium exceed original estimates. The chart below details the difference between the Project's 2015-17 LAB and the Project's current 2015-17 budgeted expenses.

| 2015-17 DCS IT - System Project PROJECTED EXPENSES | LAB 15-17 | Baselined Budget | Difference* |
|--|---------------------|---------------------|---------------------|
| Personal Services** | \$3,578,473 | \$4,491,432 | \$912,959 |
| Total Personal Services | \$3,578,473 | \$4,491,432 | \$912,959 |
| SERVICE AND SUPPLY | | | |
| Travel | \$6,745 | \$42,285 | \$35,540 |
| Training | \$3,177 | \$32,029 | \$28,852 |
| Office Expenses | \$53,047 | \$0 | -\$53,047 |
| Communications | \$24,621 | \$5,050 | -\$19,571 |
| Data Processing | \$3,684,679 | \$412,983 | -\$3,271,696 |
| Contractors | \$0 | \$0 | \$0 |
| Professional Services | \$35,300,676 | \$47,143,154 | \$11,842,478 |
| Rent/Utilities | \$138,256 | \$0 | -\$138,256 |
| Expendable Properties | \$801,392 | \$220,127 | -\$581,265 |
| Other | \$494,536 | \$4,352 | -\$490,184 |
| Capital Outlay | \$0 | \$3,882,334 | \$3,882,334 |
| DOJ Intraagency Charge | \$429,059 | \$536,326 | \$107,267 |
| DAS Comp Usage/ Hosting Services | \$693,000 | \$913,987 | \$220,987 |
| Total Service and Supply | \$41,629,188 | \$53,192,626 | \$11,563,438 |
| Federal Share | \$29,997,991 | \$38,070,837 | \$8,072,846 |
| State Share | \$15,209,670 | \$19,613,221 | \$4,403,551 |
| Total | \$45,207,661 | \$57,684,058 | \$12,476,397 |

* LFO/CIO adjusted original request to include COI, OF was reduced from original request

** New positions are all in LAB at a step 2; current incumbents are at steps significantly higher than step 2.

The initial project timeline was developed using the estimated schedule created during the Feasibility Study and was later updated for the 2015 session based on the information available at that time. The Department has finalized the four primary procurements and developed a baselined project schedule and budget since the session concluded. The current schedule varies significantly from previous estimates and moves a larger burden of the Project expenses to this biennium than the Department originally anticipated.

When the initial estimate was completed, the information available for forecasting the Project's schedule was limited. Project deliverables and major components were identified through review of the federal requirements and from analysis of multiple child support system projects conducted in other states. Through this analysis, the Department was able to identify the required high-level components and to estimate the timeline phase in which they might likely occur. The Department lacked the knowledge to determine the number of independent deliverables or the actual distribution of these deliverables throughout the project timeline. The expenses for each component instead were simply averaged over the period of the anticipated schedule to develop the Feasibility Study and initial budget estimates.

Since finalizing the contract with the Project's Implementation Contractor, System Integrator (Deloitte Consulting LLP), the Department has identified the individual deliverables and expenses associated with each development component. The contract with Deloitte was signed August 26, 2015, and Deloitte began work October 5. The current schedule contains many more individual deliverables than the high-level components originally identified.

Deloitte's experience developing state child support systems, and the large number of trained and dedicated staff it is investing in the Project, has enabled the Project to aggressively schedule deliverables and clearly identify the associated timing of expenses. Deloitte's experience shows that a larger number of individual deliverables will be completed early in the development process, increasing expenses realized in this biennium but reducing expenses in future biennia.

The finalized baseline schedule results in the project's need for an additional \$3,086,760 in Article XI-Q capital bond revenue during the 2015-17 biennium.

Agency Action

Throughout this project to date, the Department has made every effort to maintain realistic and well-conceived fiscal estimates. This process began with the development of the comprehensive Feasibility Study, which was performed from November 2010 to October 2012 by an independent industry-experienced vendor. The vendor objectively and exhaustively evaluated the current child support system and a range of system replacement alternatives. The federal Office of Child Support Enforcement approved the Department's Feasibility Study only after it completed a comprehensive Independent Verification and Validation (IV&V) review to verify the methodology, accuracy, measurability, and reasonability and to validate the viability of the selected solution.

Despite the detailed nature of the Feasibility Study, the Department was aware that as procurements were concluded and actual expenses were identified, the Project's budget needs would vary from the original estimates.

The Department of Justice Division of Child Support articulated throughout the 2015-17 budget process that schedule and budget estimates necessarily would be adjusted once the lengthy procurement phase was completed later in 2015. This included an appearance before the Joint

Ways & Means Subcommittee on Public Safety during the 2015 Regular Session. As soon as the information became available in November, the Department moved forward to request the anticipated adjustments captured in the December request. This revised request comprises the most accurate information available to the Department at this time.

Action Requested

1. The Department is requesting \$3,086,760 in additional project bond authority (plus \$123,240 cost of issuance for a total of \$3,210,000 in bond issuance) as well as a shift in existing sale date amounts to enable the Department to fully fund the Project through the 2015-17 biennium and a few additional months, up to the October 2017 bond sale.

| Bond Authority Without COI | May 2016 Sale | March 2017 Sale | 2015-2017 |
|--|---------------------|--------------------|---------------------|
| 2015-17 LAB Bond Authority | \$15,209,670 | | |
| Additional 15-17 Bond authority requested | \$130,988 | | |
| Additional 15-17 Bond authority requested | | \$1,166,367 | |
| Additional 15-17 Bond authority requested for July 2017 - Oct 2017 | | \$1,789,405 | |
| Total Bond Authority Estimate | \$15,340,658 | \$2,955,772 | \$18,296,430 |

| | |
|---|--------------------|
| <i>Additional COI</i> | <i>\$123,240</i> |
| <i>Additional project bonding authority requested</i> | <i>\$3,086,760</i> |
| <i>Total</i> | <i>\$3,210,000</i> |

2. The Department is requesting an increase of \$12,476,397 (\$4,403,551 OF and \$8,072,846 FF) in limitation to include both the additional bond authority requested to meet 2015-17 Project expenses and the total bond funding carried forward from 2013-15 that resulted from changes in the Project schedule. The additional limitation also will enable the Department to correct an error in the initial federal/state split that resulted from a miscommunication about the accurate accounting of bond issuance fees in the Project request. While not particularly material, the amounts currently scheduled do not enable a split of 34% OF and 66% FF.

Approval of this request will enable the Department to correct the current funding split and provide the required additional limitation to meet the Department's projected needs for the Project.

| Limitation Adjustments - Project Operating Only | | | |
|--|---------------------|-----------------------------|------------------------|
| SCR 161-01-00-00000 | | | |
| | 2015-17 LAB | Adjusted 2015-17 LAB | Req. Adjustment |
| Correct 2015-17 fund split | | | |
| <i>Federal Funds</i> | \$29,997,991 | \$29,997,991 | \$0 |
| <i>Other Funds</i> | \$15,209,670 | \$15,459,568 | \$249,898 |
| Limitation for 2013-15 bond proceeds | | | |
| <i>Federal Funds</i> | | \$5,771,302 | \$5,771,302 |
| <i>Other Funds</i> | | \$2,973,095 | \$2,973,095 |
| Additional 2015-17 expenses for project | | | |
| <i>Federal Funds</i> | | \$2,301,543 | \$2,301,543 |
| <i>Other Funds</i> | | \$1,180,558 | \$1,180,558 |
| Total | \$45,207,661 | \$57,684,058 | \$12,476,397 |
| Federal Funds | | | \$8,072,846 |
| Other Funds | | | \$4,403,551 |
| Total | | | \$12,476,397 |

3. The Department is requesting approval for updated 2015-17 debt service, cost of issuance and loan fee limitation. We are requesting the addition of \$123,240 Other Funds expenditure limitation for cost of bond issuance, \$500 Other Funds expenditure limitation for a Treasury loan fee resulting from the cancellation of the Fall 2015 bond sale, \$34,683 General Fund for interest payment on the Treasury loan, and \$1,161,194 General Fund debt service on the bond authority requested to meet 2015-17 project expenses.

| New Debt Service amounts required - SCR 187-01-00-00000 | | | | |
|--|--|--|------------------------------------|--------------------------|
| Debt Service | LAB 15-17 (15-17 bond sales only) | Plus treasury loan interest and fee | New #'s for 15-17 sales | Amount Needed |
| Principal (Orbits) | \$1,926,070 | | \$2,855,000 | \$928,930 |
| Interest (Orbits) | \$481,517 | \$34,683 | \$713,781 | \$266,947 |
| COI(Orbits) | \$205,330 | | \$328,570 | \$123,240 |
| Loan Fee Treasury | | \$500 | | \$500 |
| Total | \$2,612,917 | \$35,183 | \$3,897,351 | \$1,319,617 |
| General Fund Debt Service | \$2,407,587 | | \$3,568,781 | \$1,161,194 |
| General Fund (treasury Interest) | | \$34,683 | | \$34,683 |
| Other Funds | \$205,330 | \$500 | \$328,570 | \$123,740 |
| Total | \$2,612,917 | \$35,183 | \$3,897,351 | \$1,319,617 |

4. The Department is requesting approval for updated 2015-17 position/FTE authority. An additional 10 positions (1.31 FTE) and 4 reclasses are requested as shown below.

| DOJ / DCS IT Project | | |
|--|------------------|------------|
| DCR 161-00-00-00000- Position/FTE Request | | |
| | Positions | FTE |
| LAB 2015-17 | 22 | 21.13 |
| Additional 2015-17 Request | 10 | 1.31 |
| Total Project Position Authority | 32 | 22.44 |

| DOJ / DCS IT Project | | | | | | |
|--|-----------|-------------|--------------|----------------------------|--------------|-----------------|
| DCR 161-00-00-00000 – Reclass Request | | | | | | |
| | P# | Repr | Class | Description | Range | DCR |
| To | 0107040 | OA | C0108 | Admin Spec 2 | 19 | 161-00-00-00000 |
| From | 0107040 | OA | C0107 | Admin Spec 1 | 17 | 161-00-00-00000 |
| To | 0870006 | OA | C0871 | Ops & Policy Ana 2 | 27 | 161-00-00-00000 |
| From | 0870006 | OA | C0870 | Ops & Policy Ana 1 | 23 | 161-00-00-00000 |
| To | 1487013 | OA | C1484 | Info Systems Spec 4 | 251 | 161-00-00-00000 |
| From | 1487013 | OA | C1487 | Info Systems Spec 7 | 311 | 161-00-00-00000 |
| To | 5129028 | OA | C0864 | Public Affairs Spec 1 | 25 | 161-00-00-00000 |
| From | 5129028 | OA | C5129 | Child Support Case Manager | 21 | 161-00-00-00000 |

Legislation Affected

Increase the Other Funds expenditure limitation established by chapter 837, section 10, Oregon Laws 2015, for the child support enforcement automated system in the child support enforcement automated program within the Department of Justice, by \$4,403,551 for Project expenditures and \$500 for the Treasury loan fee for a total of \$4,404,051 for the 2015-17 biennium.

Appropriation of \$1,161,194 General Fund to supplement the appropriation made by chapter 837, section 11, for the child support enforcement automated system in the debt service and related costs program within the Department of Justice for the 2015-17 biennium.

Appropriation of \$34,683 General Fund for interest incurred on the Treasury loan for the child support enforcement automated system in the debt service and related costs program within the Department of Justice for the 2015-17 biennium.

Increase the Other Funds expenditure limitation established by chapter 837, section 12, Oregon Laws 2015, for capital debt service and related costs for the child support enforcement

February 11, 2016

Page 10

automated system in the debt service and related costs program within the Department of Justice, by \$123,240 for the 2015-17 biennium.

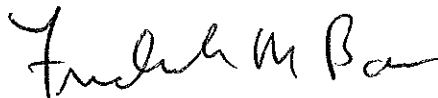
Increase the Federal Funds expenditure limitation established by chapter 837, section 13, Oregon Laws 2015, for the child support enforcement automated system in the child support enforcement automated program within the Department of Justice, by \$8,072,846 for the 2015-17 biennium.

Establish 10 permanent part-time positions (1.31 FTE) for the child support enforcement automated system in the child support enforcement automated program within the Department of Justice.

Reclass four permanent full-time positions established by SB 5507 (2015) for the child support enforcement automated system in the child support enforcement automated program within the Department of Justice.

Increase the General Obligation Bond authority established by chapter 685, section 1(6), Oregon Laws 2015, for the Department of Administrative Services, by \$3,210,000 (\$3,086,760 Project and \$123,240 COI) for the child support enforcement automated system in the child support automated program within the Department of Justice for issuance within the 2015-17 biennium.

Sincerely,



FREDERICK M. BOSS
Deputy Attorney General

c: Kate Cooper Richardson
Art Ayre
Bob Schiewe