



Project: Core Banking Business System Renewal (BSR) Project **Date:** January 14, 2022

Program: Cash Management Program

Division(s): Finance, Information Technology, Investment

Primary Business Owner / Sponsor: Cora Parker, Finance Division Director

Primary Business Contact: Brady Coy, CMIRP Program Manager

Primary IT Contact: Joe Archer, Application Development Manager

Current Stage Gate Comparability: Origination / Initiation Prep

Estimated Scope / Project Description:

The State Treasurer is responsible for receiving, paying out, and having charge of all moneys paid into the Oregon State Treasury. Importantly, the State Treasurer is designated the sole banking and cash management officer for the State of Oregon. All payments to and from state agencies and their customers, clients, vendors, and business and government partners flow through Treasury on a daily basis. These include, among others, tax collections and refunds, public benefit payments, insurance collections and disbursements, child support collections and payments, PERS benefit payments and related employer collections, federal funds' disbursements and receipts, bonded debt payments and principal disbursements, state agency and most public university payrolls, vendor payments, and many other sources and uses of funds. Importantly, Treasury maintains detailed customer account balance and transaction information and communicates that information to stakeholders, partners, and customers for use in their own reporting and reconciliation activities.

Treasury's business model as the central cash management provider for the State of Oregon necessitates a demand deposit account (DDA) system or similar tool ("Core Banking") providing an account structure for transaction posting, balance and transaction reporting, interest and fee calculation and reporting, and general ledger accounting and reporting for all funds in the Oregon Short Term Fund (OSTF). Treasury's current Core Banking system, Phoenix International, was procured in the late 1990s. This system is the banking "book of record" for all transactions and balance activity for all agency or contracted public university bank accounts at Treasury. The Core Banking system is part of a larger Core Banking infrastructure that includes several internally developed middleware applications and processes that supplement Phoenix International's functionality. Importantly, this Core Banking infrastructure does not





generate/facilitate payment transactions. When transactions are created via other systems, the Core Banking system intakes related file data that updates accounts at Treasury. For example, when transactions occur with Treasury's new Electronic Funds Transfer (EFT) service provider, KeyBank, a file is created by the bank and sent to Treasury where it is uploaded to the Core Banking system, updating relevant agency or public university accounts. It is important to note that agency and public university customers do not directly interact with the Core Banking system. Rather, Treasury generates customer statements and other reports/files for customer use.

A comprehensive business case for the Core Banking infrastructure will primarily focus on two Phoenix-centric choices for modernization:

- upgrade/enhance the current Phoenix International system, or
- transition to a new Phoenix Fusion solution.

Additional options, including those outlined below, will be at least minimally addressed in a business case. However, informed by ongoing internal dialogue about security, stability, and strategy alternatives, as well as initial information received during a Request for Information (RFI) process run in September 2020, Treasury believes that the scope of this effort will likely be best accomplished with a Phoenix product remaining at the heart of the Core Banking infrastructure.

- replace with a new industry purchased package,
- replace with a new internally built package, or
- outsource with a software-as-a-service (SaaS) or similar model.

As the EFT BSR project progresses and Treasury moves to formally charter the Core Banking project, this Phoenix-centric approach and other alternatives will be more formally considered, including with ongoing risk mitigation activities and outcomes of other in-progress modernization projects in mind.

While a more extensive analysis of the alternatives must be completed before a final determination of project scope, cost, and timing is made, Treasury believes that we will reach Stage 2 near the end of the 2021-23 biennium, with most other efforts likely to occur during the 2023-25 biennium.

Strategic Alignment:

The mission of Treasury's Cash Management program is to improve Oregon governments' and citizens' financial capabilities through protecting public funds and delivering customer-focused cash management solutions. Through the program, Treasury provides banking and short-term investment services to all state agencies and most public universities, as well as a narrower set of related services to local governments. These cash management operations are "no fail" operations for Treasury and its customers and partners. Recognizing this "no fail" criticality along with the growing need to modernize several systems and processes within the cash management infrastructure, Treasury established its Cash Management Improvement and



Renewal Program (CMIRP) in 2013 as a continuous renewal program aimed at the renewal, replacement, and refinement of processes and technology supporting Treasury's cash management program.

The Core Banking BSR project aligns directly with one of Treasury's three agency-wide strategic initiatives (ongoing support of CMIRP projects), as well as the strategic goals for the 2020-2023 period for the Cash Management program including:

- Continue to modernize and improve the resiliency of Treasury's cash management operations.
- Modernize Treasury's core cash management infrastructure.

Estimated Schedule / Timeline:

Treasury's timeline for the Core Banking BSR project as outlined in July 2020 included the below, with recognition that the then-evolving COVID-19 environment and other Treasury and stakeholder activities may impact the timing:

- State Gate 1 endorsement ideally by the end of 2021Q2,
- Stage Gate 2 endorsement no earlier than 2022Q2,
- Stage Gate 3 endorsement no sooner than 2022Q3 (and potentially as late as 2023Q2), and
- Stage Gate 4 endorsement to be determined based on the alternative selected and outcomes of Stage Gates 1-3.

A revised timeline has been informed by RFI inputs, updated projections for the completion of the in-progress EFT BSR project, and ongoing reprioritization of other Treasury and customer and stakeholder activities, including ongoing support of other agencies' modernization activities and pandemic-related transactional volume increases and priority changes. Additional certainty regarding information outlined below will continue to be progressively elaborated over time and reflected in appropriate project documentation.

Origination: Treasury remains in this stage and anticipates remaining in this stage through at least 2022Q4. A decision to purposefully hold off formal charter of the project was made in order to focus on EFT BSR activity and other customer needs during the initial pandemic period. That said, a related RFI was issued in July 2020. Responses have helped narrow the planned approach to the project as briefly described above (and as will be further considered in formal charter and business case development activities).

Stage 1 – Initiation: Treasury anticipates advancing to Stage 1 during 2022Q4 or 2023Q1. This will include an initial project charter informed by the RFI and other materials created and collected during the Origination Phase. As appropriate, Treasury will take actions to formally define stakeholders, high-level objectives, major project risks, and to designate appropriate project management and oversight actors. While funds may be necessary for broad project management, business analysis, or other relevant purposes and roles, Treasury does not anticipate to request any additional



expenditure limitation for this purpose during the 2021-23 biennium. It is likely that Treasury will remain in this stage through the duration of the 2021-23 biennium, ideally reaching Stage Gate 1 endorsement by the end of 2023Q2, but recognizing that the current COVID-19 environment and other Treasury and stakeholder activities may impact that timing.

Stage 2 – Resource & Solution Analysis & Planning: Treasury anticipates advancing to Stage 2 sometime after 2023Q2, and estimates that the relevant work of this stage will potentially be less complex and time consuming if the proposed Phoenix-centric approach is pursued. While the actual duration will be informed by a variety of other inputs as described elsewhere, Stage Gate 2 endorsement may not be impacted as significantly as other stages and may come as soon as 2023Q3. The actual timing will be further informed by dialogue with the two potential Phoenix-centric vendors, which will necessarily be a part of activities in Stage Gate 1 (and 3).

Stage 3 – Implementation Planning: Depending on the timeline for Stage 2, Treasury may advance to Stage 3 as soon as 2023Q3. This is the point when funds authority may become necessary in order to enter into final contract negotiation with a vendor(s) dependent, of course, on which alternative is selected and a variety of yet-to-be-determined factors. Release of any conditional expenditure limitation, as well as related Stage Gate 3 endorsement, will be requested commensurate with the project and funding needs of this stage. As discussed previously, funding requirements are anticipated to be significantly reduced from initial expectations if a Phoenix-centric approach is pursued.

Stage 4 – Execution: This stage will be defined based on the alternative selected and the completion of Stage 3 above, but is unlikely to begin prior to 2023Q3. Based on the potential Phoenix-centric approach, timing for this stage of the project would be least impacted (recognizing that the July 2020 summary had indicated this stage may not be entered until 2023Q2).

Estimated Budget:

While much specificity is yet to be determined, the estimated project costs have been further informed by responses to the RFI as well as the focus on a Phoenix-centric approach. While similar core modernization activities for commercial financial institutions may range from \$9 million to upwards of \$50 million, those costs generally reflect large financial institutions that use core banking modules/functions (such as teller and loan modules) not needed by Treasury. Treasury requested a placeholder package of \$10 million at the Agency Request stage of 2021-23 budget process but acknowledged during the 2021 legislative session that funds were unlikely to be necessary for the 2021-23 biennium.

Focus on a Phoenix-centric approaches means that funding needs are likely to be significantly less than the placeholder package and, depending on the selected alternative, vendor-driven costs may primarily be limited to changes in ongoing maintenance and administrative (subscription/license) costs rather than significant one-time expenses. Additional costs will include those for typical project management and quality assurance/control activities, as well as



assignment of internal Treasury personnel for project planning, implementation, and operational purposes. The funding source for this work will be fees associated with Treasury's authority for banking and cash management activities.

Security Considerations:

Data passing through current systems is time sensitive and has high security demands. Technology standards and tools continue to evolve, and customer needs and security requirements are increasing as industry innovation and the regulatory operating environment have grown significantly complex. Any solution will need to take these broad security considerations and others into account to protect state data against unauthorized access and ensure adequate availability by authorized users. Future-state systems will generally process/store Level 1 and Level 2 data but may include some Level 3 or Level 4 data.

Additional Relationship/Complexity Acknowledgements

Unlike Treasury's in-progress EFT BSR project, agency and public university customers will have limited, if any, direct interface to Core Banking functions. As such, complexity relating to change management, communication, and user training activities will be significantly less than the EFT BSR project. Complexity related to the Core Banking infrastructure is primarily centered around the exchange of data files with customers, banking services providers, and the Statewide Financial Management System administered by the Oregon Department of Administrative Services. While no significant data requirements' changes are anticipated, Treasury will need to consider evolving banking standards and capabilities where appropriate.