Public Employees Retirement System

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Oregon
Tina Kotek, Governor

September 13, 2024

Senator Aaron Woods, Co-Chair
Representative Nancy Nathanson, Co-Chair
Joint Committee on Information Management and Technology

900 Court St NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

SUBJECT: HB 5033 (2023) Modernization Program Budget Note Report

The Joint Committee on Ways and Means approved House Bill 5033 (2023) with a budget note requiring PERS to report to the Joint Committee on Information Management and Technology (JCIMT) during the 2024 legislative session with updates to the business case; foundational program and project management documentation; system design artifacts; integrated implementation time frames, including all component projects, and program budget, spending plans; and anticipated total costs. After the JCIMT committee held a work session on February 21, 2024, the committee adopted an additional recommendation to have PERS report back to the Legislature prior to November 1, 2024, following the same outlined content.

BACKGROUND

The PERS Modernization Program (the "Program") is a multi-biennia initiative comprised of a variety of projects focused on transforming the core pension administration and supporting systems and eliminating the current need for and reliance on off-line tools and workarounds. Through this transformation, opportunities to improve business processes will be realized, and PERS will be in a better position to deliver the agency's mission to "pay the right person, the right benefit, at the right time." Modernization is a key part of the agency's current Strategic Plan (2023-28) and IT Strategic Plan (2023-28). Currently, the program is anticipated to include approximately 18 projects or component investments and is expected to conclude in 2031.

PERS received $800,000 for pre-planning the Program in the agency's 2021-23 LAB. PERS received an additional Other Funds expenditure limitation of $3,797,797 through June 30, 2023. These allocations enabled PERS to conduct pre-planning work and hire key program staff in support of preparing a request to begin the first phase of the Program in the 2023–25 biennium. PERS Policy Option Package (POP) 103 in HB 5033 provided approximately $9.6 million for 2023–25 modernization activities.

This memorandum provides a general update on the status of the Program as per the requirements of the POP 103 budget note (See also Attachment 1: September Status Report).

PERS MODERNIZATION PROGRAM 2023–25 BIENNIUM ACTIVITIES

The PERS Modernization Program continues to make progress toward key foundational milestones necessary for program success:

- **iQMS contracting and initial risk assessment:** PERS entered into a work order contract for independent Quality Management Services (iQMS) with Gartner. Gartner has delivered its Initial Risk Assessment, Quality Management Plan, Quality Management Services Plan as well as the Quality Standards Work Plan. PERS received its first *Quarterly Assurance Status and Improvement Report* for the period ending May 30, 2024 (Attachment 2: Executive Summary). PERS is working to address the key risks identified within the report.
- **Hiring positions funded by POP 103:** POP 103 included funding for 10 new limited-duration positions and the continuation of six limited-duration positions provided by the 2022 June eBoard. Of these 16 positions, PERS has filled nine positions and is in the hiring process for two positions (expected to conclude in February 2024). The remaining positions are in approval processes with PERS Human Resources and the DAS Chief Human Resources Office, and PERS anticipates beginning recruitment in early 2024. PERS expects to have all positions filled by the end of FY24. Of note, our previous Program Director took a similar role with the Employment Department at the end of May. PERS reviewed the position description to ensure it meets our long-term needs with respect to its classification and is planning on initiating the recruitment soon.
- **Establishing key program governance structures:** PERS established and chartered an Executive Steering Committee in August 2023, which meets every other month and brings together PERS Modernization Program leadership, PERS executive leadership, and key stakeholders from other parts of state government. This body advises the PERS Modernization Program Executive Sponsor (PERS Director Kevin Olineck) and PERS Modernization Program Director. PERS is also in the process of redefining our enterprise program and project governance structures based on our new Enterprise Portfolio Management methodologies to ensure clarity in the process by which initiatives are considered as part of modernization activities as opposed to ongoing maintenance and enhancement activities.
- **Initiating the Telephony Modernization Project:** PERS conducted future-state-visioning activities and identified requirements for the Telephony Modernization Project. The project has gone through the initiation and prioritization process within PERS and received Stage Gate 1 endorsement from EIS. PERS staff are currently engaged with EIS staff and state telephony service providers to determine "fit" of current options. PERS hopes to procure a new telephony system by end of CY 2024.
- **Establishing program workstreams:** PERS has established five workstreams to coordinate non-project program work. These workstreams are expected to be functional for the duration of the Program and provide critical touchpoints for agency operational teams and the PERS Modernization team. Key activities for each workstream in the 2023–25 biennium to date include:
  - **Enterprise architecture (EA) and business process management (BPM):** Established standards for mapping current-state processes in BPMN (Business Process Mapping Notation); refinement of current-state EA artifacts; contracted to upgrade the agency's EA repository to a cloud version that enabled further

coordination and integration between EA and BPM, as well as access to appropriate process/architecture information outside of these teams. The PERS Enterprise Architecture Team has adopted a tailored TOGAF architectural framework that will form the basis for all future architectural work. PERS has also hired a lead enterprise architect to oversee this work.

- o **Data and Analytics:** Contracted for vendor support for an agency-wide data clean-up effort. This work required significant coordination with staff resources and was initiated as the Data Cleaning Implementation Project component of the Modernization Program. The contractor has delivered a Data Cleaning Plan and Schedule. Cleaning activities are scheduled to start in September. PERS also conducted a Data Strategy Workshop in July, with the agency's data strategy undergoing formulation based on the workshop findings.
- o **DevOps:** Initiated planning activities for introduction of tooling and associated processes to support DevOps pipeline creation has been completed. PERS is in initial procurement activities to assist in these efforts.
- o **Security:** Established a roadmap for modernization-supported and modernization-led security activities, primarily for establishing/refining policies and procedures ahead of upcoming projects.
- o **Organizational Change Management (OCM) and Communications:** OCM training provided to all managers and modernization supporting staff. Initial OCM assessments conducted with PERS executives to drive effective change management in early stages of the Program. The annual *Prosci* change assessment will be conducted in September to measure growth and identify areas for remediation.

The Program has supported activities in 2023–25 by creating plans, conducting procurements, and otherwise preparing PERS staff to participate in activities. Activities, which occurred or are expected to occur before the end of the 2023-25 biennium, include:

- **Consulting work for key program processes and decisions:** PERS is engaged in several procurement activities that will bring consultant expertise and agency resources together to make or structure key program decisions; PERS expects to execute resulting contracts before the end of FY24. These include consultant support to determine a strategy for the agency's CRM planning process and contracted support for continuing enterprise architecture work.
- **Third-party assessment of the viability of jClarety to sustain a modernization effort:** PERS engaged with a third-party consultant with a deep background in pension modernization to assess whether there was a viable means of re-architecting jClarety, PERS' base pension administration system. The consultant recommended that PERS enhance our instance of jClarety rather than replace it with a separate, newer Commercial Off the Shelf solution by using encapsulation, composable design principles, and Azure Cloud capabilities. This recommendation aligns PERS to their peers who have successfully enhanced jClarety to meet the needs of their organization by developing thoughtful customizations, lowering technical debt, and upgrading/adding on components as needed. PERS is also reviewing other alternatives to this modernization approach to confirm that PERS has suitably assessed all potential alternatives.

- ***Revisions to Program and Workstream Roadmaps:*** Each workstream will have an established roadmap with milestones that will direct work and touchpoints with the Program on an ongoing basis; these roadmaps will feed into the overall program roadmap to ensure the Program's roadmap is reflective of all initiatives necessary for successful benefits delivery. These roadmaps will be informed by agency resources, market research, and consultant expertise (including the work described in the previous bullet point).
- ***Initiation of the Hybrid Integration Platform (HIP) Project:*** PERS is starting initiation activities for the HIP Project in September 2024. The full breadth of HIP-integration capabilities provides PERS the ability to implement industry best practices for integration technology that is in line with member expectations for the maintenance of their valuable data. The Modernization Steering Committee recently approved the business case so that PERS can move forward exploring different vendor's packaged solutions and initiating the procurement process.
- ***Planning for Client Relationship Management (CRM) initiative in 2025–27:*** The Program is exploring opportunities to identify a vendor with expertise in introducing a CRM capability to work with the Modernization Program team to structure pre-initiation activities. This engagement is expected to occur before the end of the year and will inform agency future-state-visioning work on CRM in the 2023–25 biennium.
- ***Finalization of modernization continuous improvement processes:*** The Program is drafting, testing, and refining program processes through its first forays into certain types of activities. Taking an iterative approach and incorporating lessons learned early in the program will enable better processes at the outset of later program phases.

Some additional program activities for 2023–25 are also included in the sections responding to the specific requests of the budget note that follow.

PROGRAM BUDGET

To date, the PERS Modernization Program has received $14,170,870. Total budget of $4,597,797 was allocated in the 2021–23 biennial budgeting process and through the June 2022 Emergency Board; PERS underspent this allocation by $2,659,064 due to procurement delays that prevented planned spending on deliverables, and through vacancy savings. To date, PERS has spent $2,920,418 of the 2023–25 LAB allocation for Modernization. The Program's total expenditures to date are $4,859,151.

Biennium	Allocation Totals	Expenditures to Date
2021-23	$4,597,797	$1,938,733
2023-25	$9,573,073	$3,227,174
Total:	**$14,170,870**	**$5,165,907**

The 2023–25 LAB for the Program separated the $9,573,073 budget into eight specific allocations. PERS submitted a reallocation request to the 2024 Joint Committee on Ways and Means to reflect the agency's current understanding of expected work in the 2023–25 biennium.

Adjustments were required due to the re-baselining of the Senate Bill 1049 Program schedule to extend into 2025, inability to complete critical foundational consulting engagements and purchases in the 2021–23 biennium due to procurement delays, and completion of initiation work that resulted in budget estimate refinements for both the Telephony Modernization Project and the Hybrid Integration Platform Project. This reallocation request did not ask for additional appropriations, but rather a rebalance of the already allocated $9,573,073 within the 2023–25 budget. The requested adjustments, which were approved per SB 5701(2024) are detailed as follows:

Title	Bill	Legislatively Adopted	Limitation	Requested LAB
ORION Modernization Project: Client Relationship Management	HB5033 Section 1 (6)(b)(B)	1,255,000	(855,000)	400,000
ORION Modernization Project: Data and Analytics	HB5033 Section 1 (6)(b)(C)	1,300,000	(300,000)	1,000,000
ORION Modernization Project: Development and Operations	HB5033 Section 1 (6)(b)(D)	1,1,02,000	(542,000)	560,000
ORION Modernization Project: Architecture	HB5033 Section 1 (6)(b)(E)	950,000	1,050,000	2,000,000
ORION Modernization Project: Independent Quality Management Services	HB5033 Section 1 (6)(b)(F)	950,000	250,000	1,200,000
ORION Modernization Project: Hybrid Integration Platform	HB5033 Section 1 (6)(b)(G)	400,000	50,000	450,000
ORION Modernization Project: Telephony	HB5033 Section 1 (6)(b)(H)	210,000	347,000	557,000

The following is the updated program budget reporting for the current biennium, which reflects actual and expected expenditures against the new allocations.

BUDGET					
Expenses	**Budget**	**Actual to Date**	**Projections**	**Total**	**Variance**
Program Staff	$ 3,406,073	$ 1,207,904	$ 1,989,317	$ 3,197,221	$ 208,852
Client Relationship management	$ 400,000	$ -	$ 400,000	$ 400,000	$ -
Data and Analytics	$ 1,000,000	$ 228,067	$ 614,599	$ 842,666	$ 157,334
Development and Operations	$ 560,000		$ -	$ -	$ 560,000
Architecture	$ 2,000,000	$ 1,600,204	$ 597,514	$ 2,197,718	$ (197,718)
Ind Quality Management Srvs	$ 1,200,000	$ 191,000	$ 937,500	$ 1,128,500	$ 71,500
Hybrid Integration Platform	$ 450,000		$ 450,000	$ 450,000	$ -
Telephony	$ 557,000		$ 557,000	$ 557,000	$ -
Project Total	$ 9,573,073	$ 3,227,174	$ 5,545,931	$ 8,773,105	$ 799,968
Average Monthly Spend (Burn Rate)	$ 398,878	$ 134,466	$ 23,208	$ 23,208	

The estimated budget for the entire Program remains at $150 million. This estimate is informed by preliminary work completed with Accenture in 2022 that provides estimates for known bodies of work within the Program. PERS is developing refined estimates for each body of work on an iterative, biennium-by-biennium basis, to reflect increasing certainty of scope and allow for market changes and best-practice updates over time. This also aligns with the Program's strategy of pursuing best-in-class solutions for business capabilities, rather than one monolithic platform or solution. This strategy necessitates the continual review of budget estimations as different decision-making processes provide increasing levels of certainty on disparate timelines.

With that in mind, PERS has submitted a 2025–27 biennial budget request for planning funds for the Customer Relationship Management Project, and Core Pension Administration System Modernization. The 2025–27 biennial budget request submitted for the Program is $34 million.

INTEGRATED IMPLEMENTATION TIME FRAMES

The Program Roadmap has remained relatively stable since the version presented in support of the program's 2023-25 budget request.
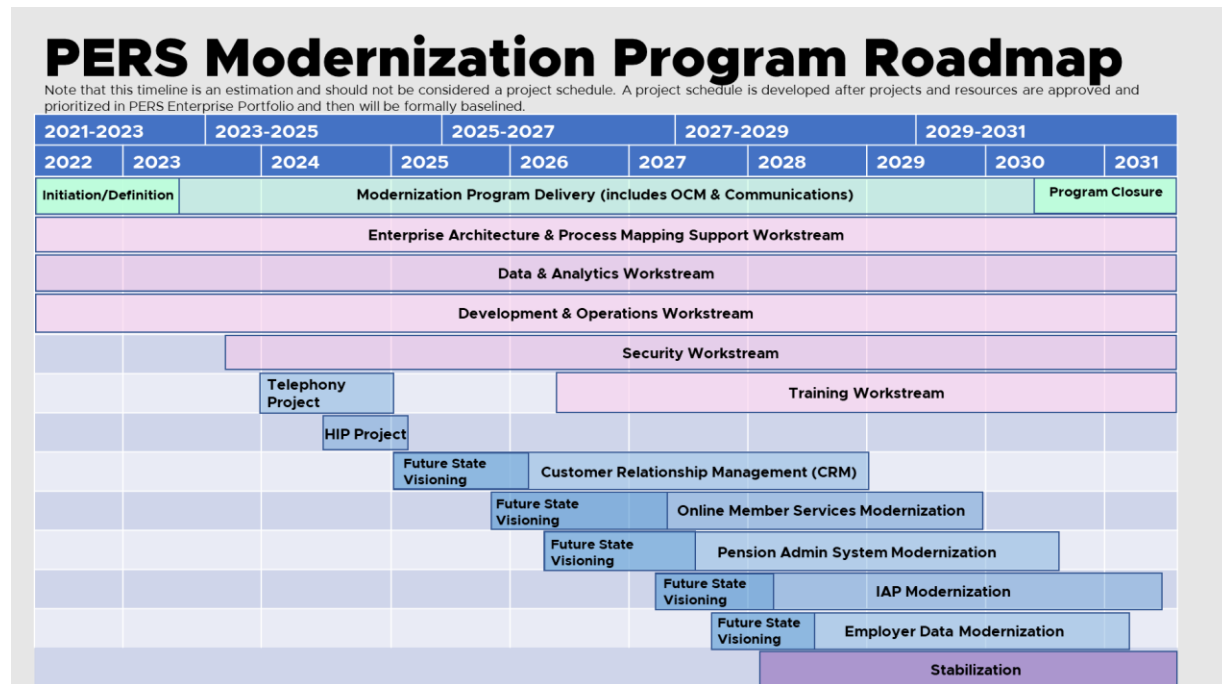
The Program roadmap continues to reflect the "outside-in" approach to modernization that PERS has previously described, in which the agency will focus on modernizing business capabilities that will deliver value to members and beneficiaries first (e.g., through Telephony, Customer Relationship Management, and Online Member Services initiatives) before back-end modernization of core systems. This approach is unchanged from early Program plans and documentation. As planned, PERS is on track to implement and close the Telephony Modernization Project and the Hybrid Integration Platform Project in the 2023-25 biennium. PERS is also planning to begin pre-initiation and visioning activities for the CRM initiative; these activities will help scope the implementation effort and determine how many applications or projects will be included in this initiative.

HB 4045 passed in the 2024 legislative session. This bill reduces the Oregon Public Service Retirement Plan (OPSRP) Police and Fire (P&F) normal retirement age from 60 to 55 effective January 1, 2025. (Service retirement age remains unchanged at 53 with 25 years of service.) This bill also creates, effective January 1, 2030, a new member classification: Hazardous Position, in addition to General Service and Police and Fire, for OPSRP members.

The first part of HB 4045 puts short-term resource pressures on PERS resources, initially reserved for modernization efforts, to automate the change to the P&F normal retirement age, with this work beginning in 2025 due to the need to complete SB 1049 implementation activities.

The addition of a Hazardous Position classification has triggered an impact on our overall timing and approach to modernization. We have estimated that we will have to begin implementation

efforts on this new classification on or around January 1, 2028, to fully implement the required changes. This has caused us to reconsider the best approach to re-architecting/modernizing our base system, jClarety, to ensure it is completed within this constricted time frame.

PERS still expects to conclude the program at the end of the 2029–31 biennium, or after four biennia of implementation activities.

The Program has adopted a future-state-visioning approach to initiation and planning activities that is equally focused on establishing project scope and engaging stakeholders early in project processes. Future-state visioning brings together representatives of Enterprise Architecture, Business Process Management, and Organizational Change Management with a Product Owner as lead facilitator to devise appropriate engagement strategies and data-gathering techniques to help impacted stakeholder groups share their ideas and priorities regarding the future of PERS in the context of a specific initiative. This process will result in quantitative and qualitative data that informs the initiation documentation for one or more projects and further refines the stakeholder register and engagement management plan for the program. As shown on the roadmap, the Program will begin each identified initiative with a future-state-visioning process that predates the initiation of the corresponding project(s).

The PERS Modernization team has also developed a process for creating and maintaining workstream-specific roadmaps. This process is supported by contracted consultants that provide assessments, gap analysis, best-practice recommendations, and proposed roadmaps for each workstream for the duration of the program. These assessments from experts, combined with identified agency operational interdependencies outside of the Program, are used to develop roadmaps for each workstream. Once established, roadmaps will be collaboratively updated each biennium and reviewed regularly to ensure that the knowledge, skills, tools, and abilities to support modernization components will be ready when they are needed. All workstream roadmaps will be integrated into the overarching Modernization Program Roadmap, including components and high-level milestones to give a holistic view of the overall trajectory of the Program. To date, Data and Analytics and an Enterprise Architecture consulting engagement have been completed, the Business Process Mapping engagement is underway, and a DevOps engagement is expected to begin in the last quarter of 2024.

Publication of workstream roadmaps and a refined program roadmap was produced at the conclusion of these engagements. The Modernization Steering Committee validated the 2023–2025 Modernization Program Roadmap, which was officially adopted on May 14, 2024. Changes to the adopted Modernization Program Roadmap will be managed through the Modernization Program's Change Control process.

Future updates to the overarching Modernization Program Roadmap are anticipated to be identified in budget-planning cycles after final budgets have been approved, and in the Program's annual Program Artifact Review process.

FOUNDATIONAL MANAGEMENT ARTIFACTS STATUS

The PERS Modernization Program team has produced drafts of many foundational program management artifacts that describe the processes and procedures the program intends to follow. These artifacts are informed by the Project Management Institute's *Guide to the Project Management Body of Knowledge,* 7th Edition *(PMBOK)* and *The Standard for Program Management*, 4th Edition, as well as by the EIS stage gate model. PERS has also consulted with leaders of other agencies and modernization efforts to take advantage of any lessons learned regarding planning and documentation activities that proved particularly helpful to program and/or project management. The artifacts PERS intends to produce at the program level are documented in a draft PERS Tailored Program Management Framework. Any artifacts that have not yet been drafted are planned for development in the coming months. The program intends to use drafts of these artifacts to structure early program activities, specifically the Telephony Modernization Project and the Hybrid Integration Platform Project and determine any revisions necessary to improve efficiencies while maintaining program and project management rigor as early as possible.

The Program will align with the PERS PMO's templates for projects while standardizing certain project activities (like risk and benefit management) with program management processes. The Program team will continue to iteratively identify new templates and updates to existing templates as the first projects under the program are initiated and planned in this biennium. This templatized approach also allows for the rightsizing of project management under the program based on project characteristics rather than instituting a one-size-fits-all method of project management. All projects under the program will maintain project management documentation and also progress through the EIS oversight process.

Quality control reviews of several foundational program artifacts are part of the contractual iQMS deliverables, including the tailored program management framework, the program management plan, and templates for component project management plans and schedules. Following the external review of the artifacts, responsive edits will be made, and the Modernization Steering Committee or Modernization Program team (as appropriate) will formally adopt the artifacts. The Modernization Program team is also working with oversight providers to determine whether any additional foundational artifacts are required or recommended that may reduce risk or improve benefit delivery. PERS remains open to recommendations about the creation and use of program and project management processes and artifacts.

SYSTEM DESIGN ARTIFACTS STATUS

A foundational element of the PERS Modernization strategy is using an enterprise architecture framework and business process management to inform strategic and tactical decision-making for the program and its component projects, including:

- Understanding the current state of PERS technologies and processes that support business capabilities of focus in the current program phase.

- Establishing architectural and business requirements for new solutions to be used in solution procurement and/or project planning processes.

- Allowing solutions to be determined through iterative decision-making processes by designing a conceptual future state and ensuring alignment on a case-by-case basis.

To ensure that enterprise architecture and business process management teams are equipped to support this strategy, the Program invested in tools and consulting assistance to mature these functions as part of 2023–-25 biennium activities. This included:
- Continuing a consulting engagement that focuses on establishing the Business Process Management (BPM) team's use of Business Process Mapping Notation (BPMN), including structuring a new repository for business process models and maps and establishing touchpoints and processes to align the use of BPMN with the enterprise architecture framework.
- Completed a consultant engagement in early 2024 to receive expert guidance to tailor an enterprise architecture framework (The Open Group Architecture Framework, or TOGAF) to define the processes and resulting artifacts that are necessary to meet PERS' Modernization and agency objectives. The PERS Enterprise Architecture Team has since adopted the recommended tailored framework produced through this engagement.
- Procured a new cloud repository and modeling tool (OrbusInfinity) which enables better collaboration between the BPM and architecture teams, as well as provides a portal to enable agency-wide use of architecture and process deliverables.

PERS also completed a third-party assessment of the core pension administration system, jClarety. This system has been in place since 2003, and a central part of PERS' planned modernization strategy is to modernize this application rather than replace it. The assessment evaluated the ability of jClarety to sustain a major modernization effort and compared this approach to other potential modernization approaches (including replacing jClarety with a new pension administration system). Confirming the expected role of jClarety in the modernization strategy has critical downstream impacts to most modernization decisions and plans. Following the conclusion of this evaluation in May 2024, PERS is currently in the process of utilizing the output to update the agency's modernization strategy and business case, future state architecture artifacts, and other plans for technology improvements that may be impacted by the role of jClarety in a modernized PERS. These updates will be made in consultation with partners and oversight bodies at DAS, EIS, LFO, and other state agencies.

MODERNIZATION PROGRAM BUSINESS CASE STATUS

PERS previously completed a Modernization Program business case for the purposes of outlining modernization plans and supporting previous budgeting requests and processes. The PERS Modernization Program is intending to update this business case at the conclusion of the third-party assessment of jClarety and following the enterprise architecture analysis currently in process to ensure that the conceptual direction and design of PERS' future state is supported with available analysis. These updates are expected to be complete in fall 2024 to coincide with the planning phase of the Hybrid Integration Platform Project and the 2025–27 biennium budgeting process. Updates to the PERS Modernization Program business case will be

completed by the Program team in consultation with oversight entities and strategy partners, completing all required stage gate and oversight processes and reviews prior to finalization.

Action Requested

Acknowledge receipt of the report.

Legislation Affected

This report reflects Budget Note directives as approved in House Bill 5503 (2023). Please contact Yvette Elledge-Rhodes, Interim Modernization Program Director, at (503) 603-7685 with any questions.

Sincerely,

Yvette Elledge-Rhodes,
Deputy Director and
Interim Modernization Program Director

Attachments/exhibits

Attachment 1: August 2024 Program Status Report