

One Washington

Replacement of the State Core Financial Systems

Introduction

The State of Washington is facing an era of enormous fiscal stress. Expectations for service and information are constantly changing as people expect higher quality, faster responses, greater access and better outcomes. Meanwhile, the demand and costs for services typically grow faster than revenues. Meeting these fiscal challenges is the core responsibility of those charged with governing our public institutions. To be successful, these decision makers need good instruments that provide up-to-date information so they can anticipate problems and get the most out of every taxpayer dollar.

In Washington those instruments are aging, are not well integrated with one another, do not readily produce needed information and require heroic efforts by staff to function. In short, we are trying to meet 21st century challenges with 20th century operating strategies, business processes and information systems. These aging capabilities inhibit the state's ability to meet the changing expectations of the people of Washington and to get the most out of every dollar that it spends on their behalf. The state must replace its aging systems sooner or later.

While these systems are not on the brink of failure today, it is critical to plan and prepare for replacement because, similar to a capital project, the work takes years to complete. Additionally, the project requires a substantial investment and involves considerable risk. We are now at a tipping point, the systems must be replaced, and it is a question of when and how.

What is an ERP and why is it important?

The main systems that organizations use to successfully navigate the challenges they face are called Enterprise Resource Planning (ERP) systems. ERP systems pull together data on the organization's main resources – its people, money, information, and assets – and combine it into information that decision makers use to guide and manage.

Organizations produce the results they do by design. That design is captured in the organization's explicit and implicit assumptions about purpose, accountability, incentives, control, and culture. The ERP turns these assumptions into business rules and processes. Together, these constitute the way Washington does business.

What are the project costs and benefits?

In assessing the time and cost of the One Washington Project, three scenarios were analyzed:

- Scenario 1 – Managed Services ERP, where all finance and procurement functions are combined into one integrated ERP system.
- Scenario 2 – Best-of-Breed eProcurement with Managed Services ERP financials. The procurement system is selected and implemented first followed by the financials.

- Scenario 3 – Best of Breed eProcurement with Software-as-a-Service ERP financials. Similar to Scenario 2, the procurement system is selected and implemented first, followed by the financials where the State leases rather than owns the software.

Quantifiable benefits included in the One Washington business case include:

- Strategic sourcing of purchases: range of \$20 – 28 million
- Prompt pay discounts: \$15 – 20 million
- Increased accounts receivable collections: \$8.8 – 11.9 million
- Vendor fees: \$1.7 – 2.3 million
- Printing reduction: \$890,000 – 1.2 million
- Termination of legacy system maintenance costs: \$750,000 – 1 million
- Purchase card rebates: 243,000 – 330,000

The total cost of ownership and benefits over a twelve-year period are:

Scenario 1 -

The break-even point for scenario 1 would occur toward the middle of FY 2023. Over the next six biennia, total benefits exceed total costs by \$120.3 million.

| | FY 15-17 | FY 17-19 | FY 19-21 | FY 21-23 | FY 23-25 | FY 25-27* | Total |
|-----------------|----------|----------|----------|----------|----------|-----------|------------|
| Costs | \$ 13.3 | \$ 91.6 | \$ 64.9 | \$ 24.5 | \$ 33.2 | \$ 15.2 | \$ 242.7 M |
| Benefits | - | 13.0 | 62.1 | 103.4 | 113.5 | 71.0 | \$ 363.0 M |

Scenario 2

The break-even point for scenario 2 occurs towards the middle of FY 2025. Over the next six biennia, total benefits exceed total costs by \$28.4 million.

| | FY 15-17 | FY 17-19 | FY 19-21 | FY 21-23 | FY 23-25 | FY 25-27* | Total |
|-----------------|----------|----------|----------|----------|----------|-----------|------------|
| Costs | \$ 30.4 | \$ 64.1 | \$ 104.4 | \$ 32.9 | \$ 35.1 | \$ 17.5 | \$ 284.4 M |
| Benefits | - | 3.9 | 39.2 | 87.2 | 111.5 | 71.0 | \$ 312.8 M |

Scenario 3

The break-even point for scenario 3 occurs at the end of FY 2024. Over the next six biennia, total benefits exceed total costs by approximately \$60.8 million.

| | FY 15-17 | FY 17-19 | FY 19-21 | FY 21-23 | FY 23-25 | FY 25-27* | Total |
|-----------------|----------|----------|----------|----------|----------|-----------|------------|
| Costs | | | | | | | \$ 267.0 M |
| Benefits | \$ - | \$ 3.9 | \$ 41.0 | \$ 98.4 | \$ 113.5 | \$ 71.0 | \$ 327.8 M |

Although it will take up to 7 years for full implementation, the project is designed to deliver business value incrementally and to respond to changing priorities. The total cost of ownership includes the full cost to plan, prepare, purchase, implement, and maintain the new procurement and finance capabilities.

For each scenario, the benefits exceed costs over a twelve-year period. Implementing the One Washington project is a good business decision, but that alone is not enough.

The real purpose of One Washington is to improve the State's ability to navigate the challenges it faces and to deliver business value more effectively. Both positive and negative potential mission impacts were identified and include positives such as redesigning business processes through Lean, winning the war for talent and converting data to insights for decision making. Examples of negative impacts include the loss of staff productivity during transition, increased vigilance to avoid project and system failure, and a deluge of data. Over time the positive impacts far exceed the negatives.

The investment will produce a significant return by increasing the ability of the State of Washington to serve its people, making it both a good business decision and a good mission decision. Successfully navigating the challenges of changing demands, rising costs and limited resources requires an operating design, business processes, and IT systems designed for this new era.