



Appropriations Committee

Thursday, November 7, 2013
12:30 PM – 2:30 PM
212 Knott Building

Meeting Packet



The Florida House of Representatives

Appropriations Committee

Will Weatherford
Speaker

Seth McKeel
Chair

AGENDA

Thursday, November 7, 2013

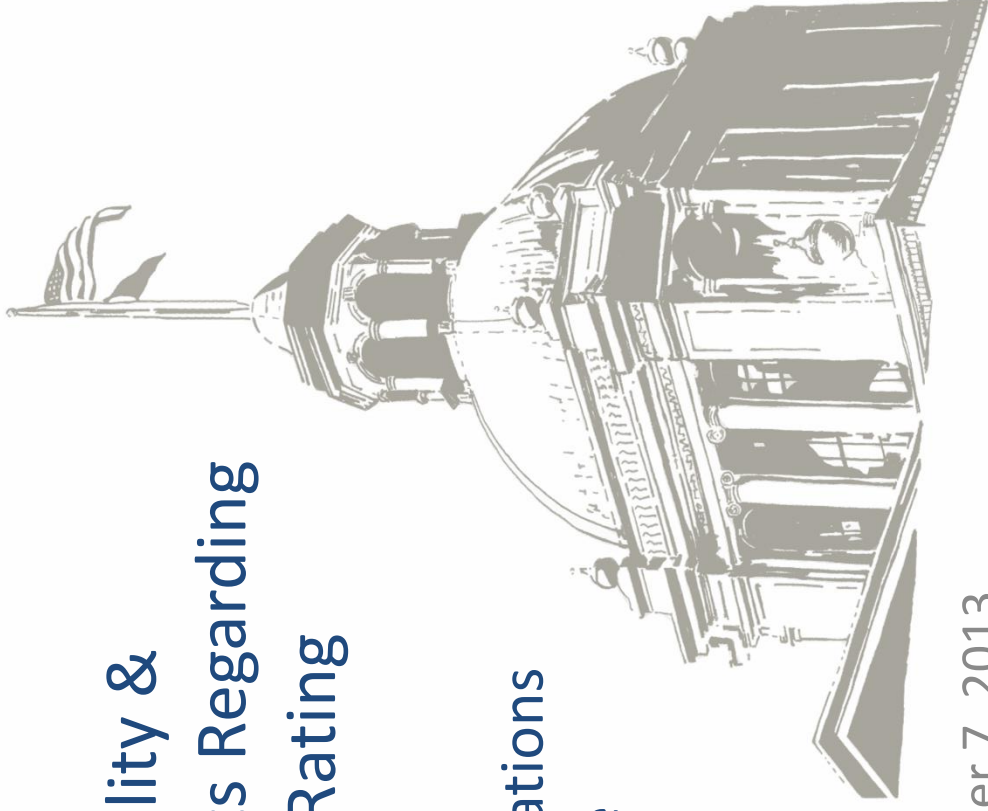
212 Knott Building

12:30 PM – 2:30 PM

- I. Call to Order/Roll Call
- II. Opening Remarks by Chair McKeel
- III. Update on State Debt by Ben Watkins, Director of Division of Bond Finance, State Board of Administration
- IV. Staff Presentation on Information Technology Governance
- V. Closing Remarks and Adjournment

Debt Affordability &
Recent Developments Regarding
Florida's Bond Rating

House Appropriations
Committee

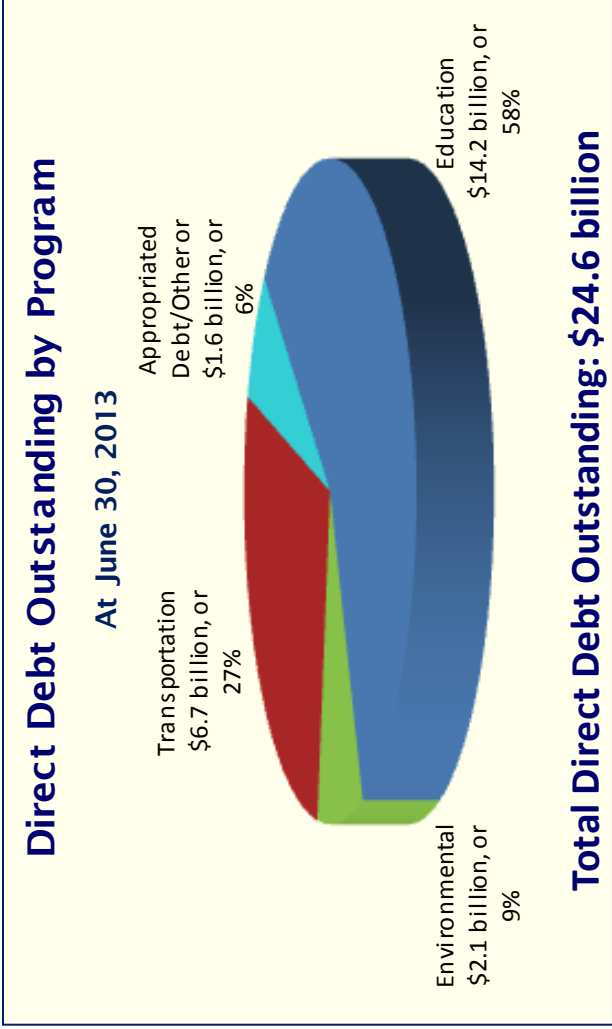


November 7, 2013

Introduction to the Debt Affordability Analysis

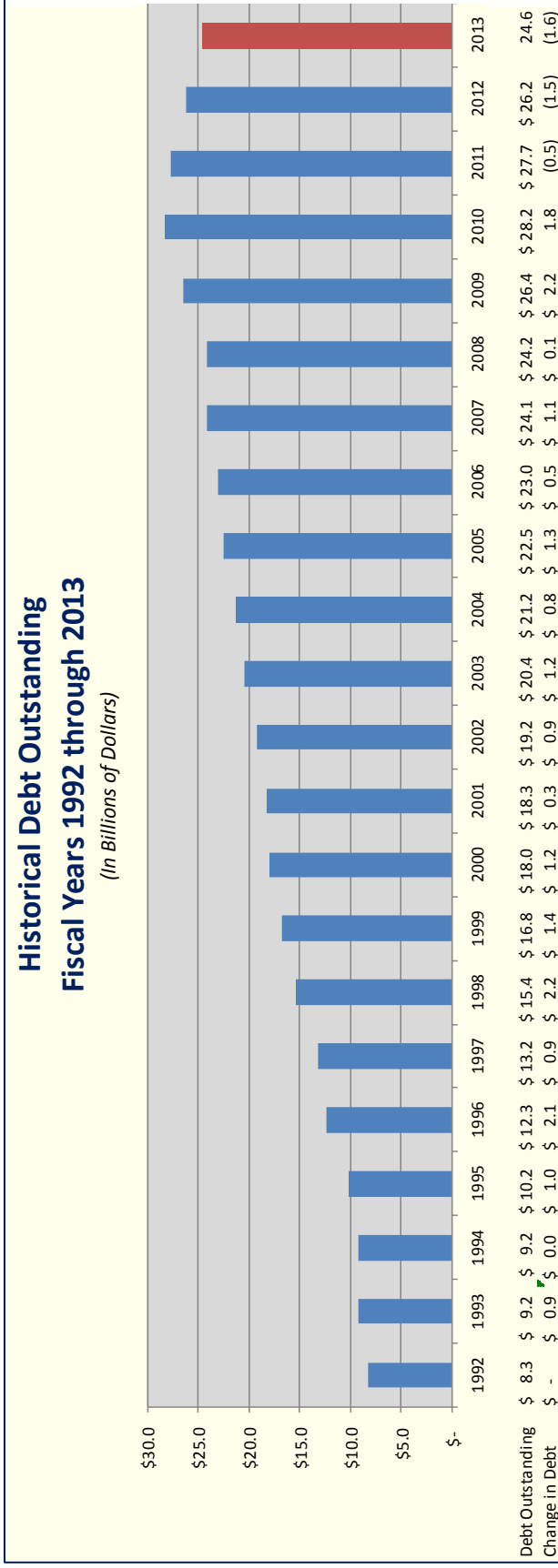
- Purpose of debt affordability analysis is to provide a framework for measuring, monitoring and managing the State's debt
- Provides information to assist Legislature in formulating capital spending plans
- Analytical approach to evaluating the State's debt position
- Financial model used to evaluate debt burden – the “benchmark debt ratio” – based on two variables:
 - 1) Annual debt service requirements
 - 2) State revenues available to pay debt service
- Designated benchmark debt ratio – 6% target, 7% cap
- Model provides framework for evaluating long-term impact of bonding
- Requirements for Report:
 - Calculate total State direct debt outstanding
 - Evaluate growth in debt and annual debt service requirements over last 10 years
 - Update projections for expected future debt issuance compared to revised revenue estimates
 - Calculate benchmark debt ratio based on expected future debt issuance and projected revenue collections
 - Evaluate level of reserves
 - Review credit ratings

Direct Debt Outstanding



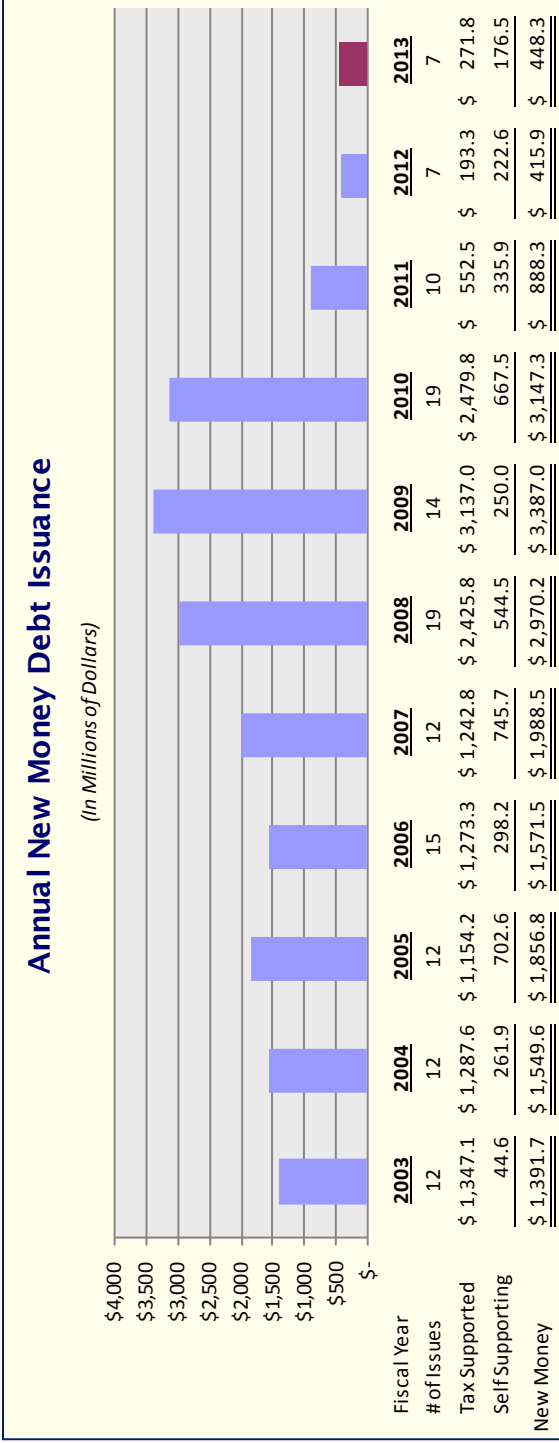
- Total outstanding direct debt at June 30, 2013 was \$24.6 billion (net tax-supported debt was \$20.3 billion and self-supporting debt was \$4.3 billion)
- Largest infrastructure investment for school construction of \$14.2 billion (58%)
- Next largest for transportation debt (primarily toll facilities and long term P3 obligations) of \$6.7 billion (27%)
- Third largest for acquiring land for conservation of \$2.1 billion (9%)

Historical Debt Outstanding



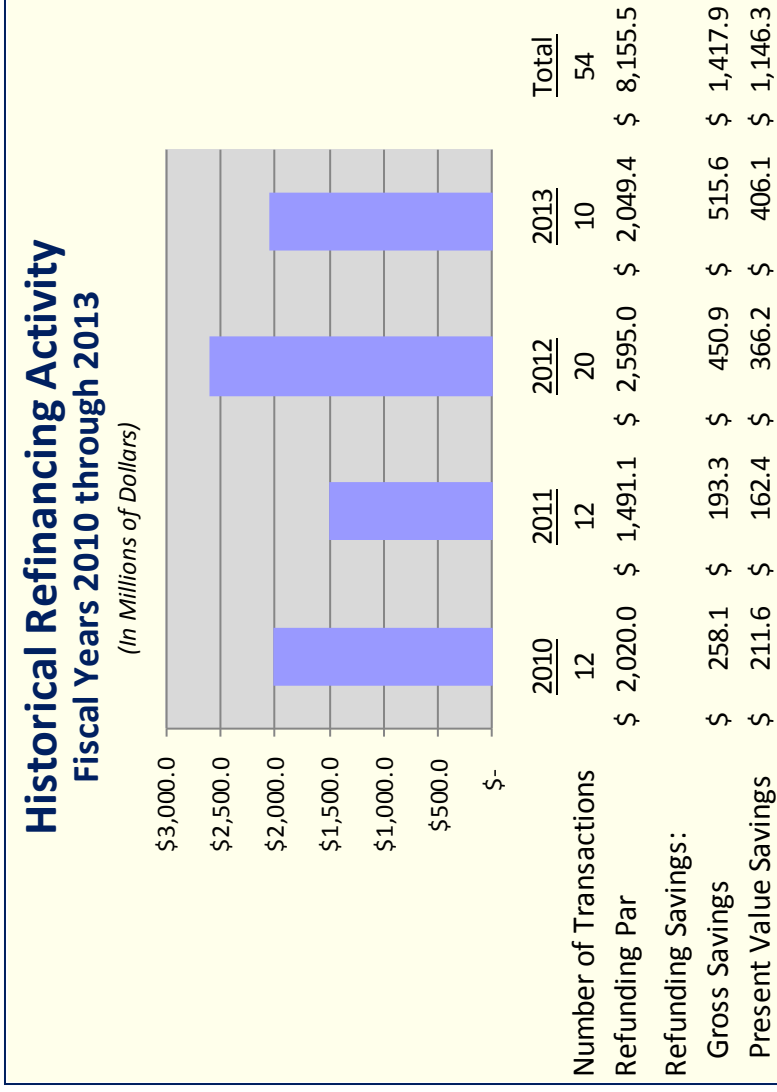
- State debt outstanding increased annually and more than tripled from 1992 through 2010 before decreasing in each of the past three fiscal years
- Total direct debt outstanding has decreased by \$3.6 billion over the last three fiscal years: \$500 million in 2011, \$1.5 billion in 2012, and \$1.6 billion in 2013
- Reduction over three-year period primarily resulted from principal amortizations on existing debt exceeding new debt issuance
- Decreases in the last three fiscal years reverses a long-term trend of increasing State debt

History of Annual Debt Issuance



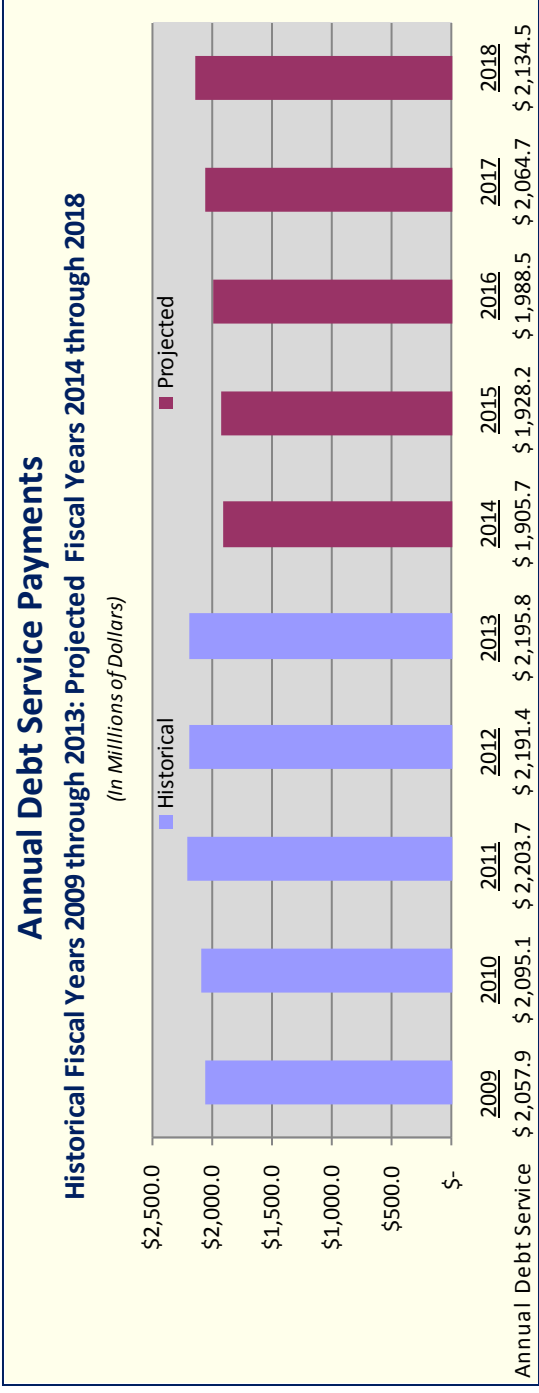
- From Fiscal Year 2003 through 2009, new money debt issuance averaged \$2.1 billion per year over the seven year period
- Significant decline in new money bond issuance in each of the last three fiscal years
- Only \$448 million in new money issuance in Fiscal Year 2013, significantly less than average annual issuance of \$2.1 billion between Fiscal Years 2003 and 2009

Refinancing Activity



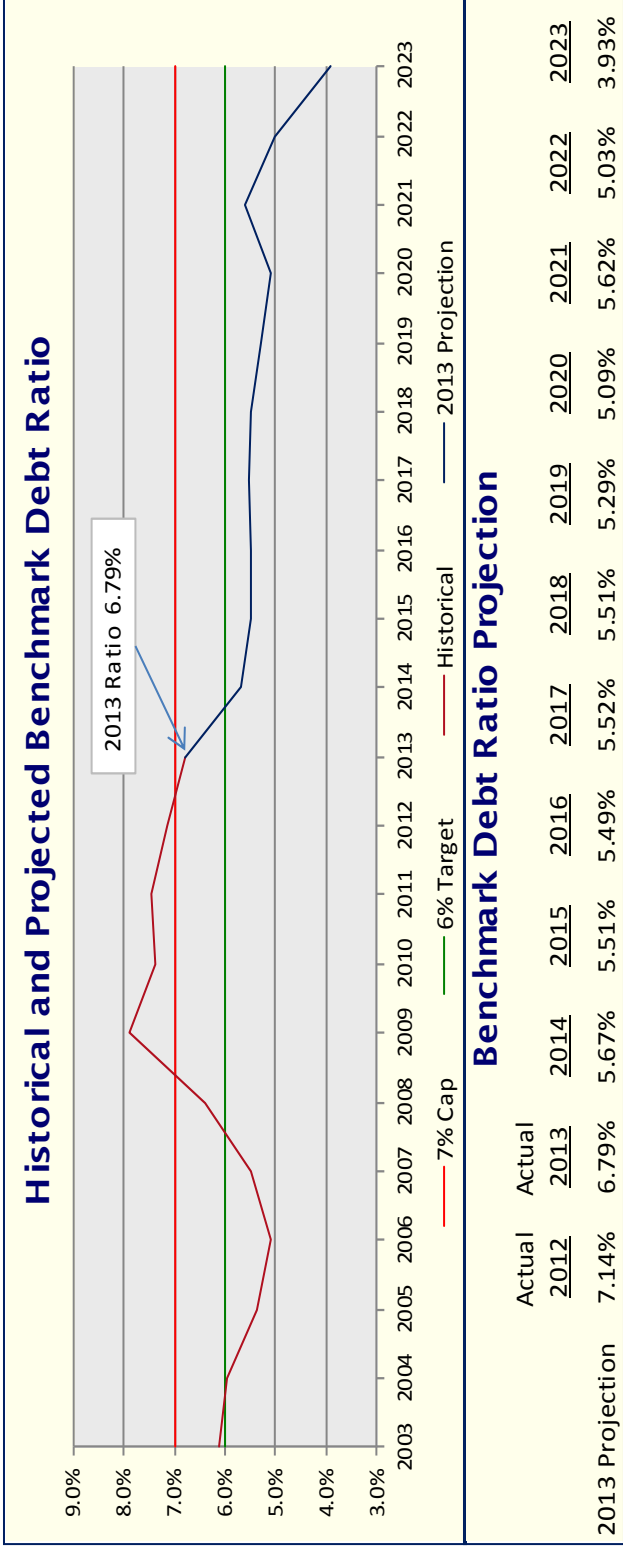
- Significant amount of refundings to take advantage of historically low interest rates
- Amount of refundings over last four years nearly \$8.2 billion
- Refundings have generated gross debt service savings of approximately \$1.4 billion or \$1.1 billion present value basis

Annual Debt Service Payments



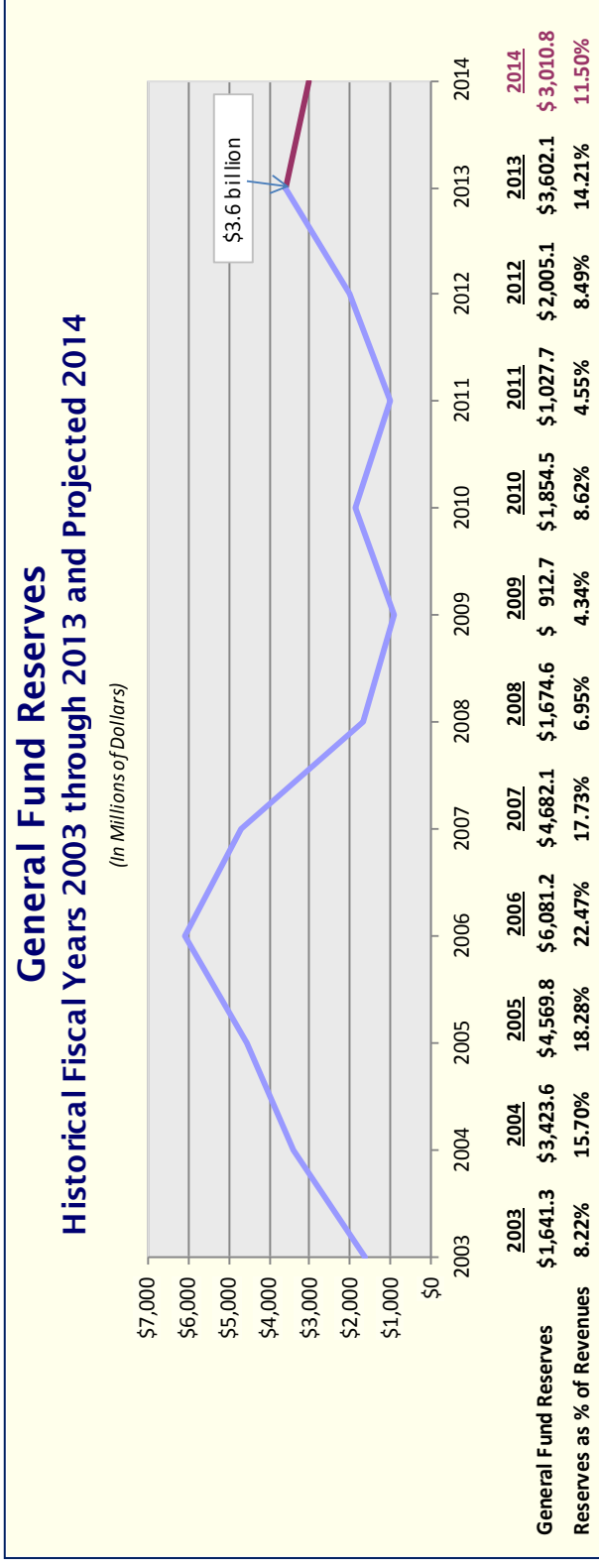
- Fiscal Year 2013 debt service payments were approximately \$2.2 billion, unchanged from the prior year
- Debt service declines by nearly \$300 million to \$1.9 billion in Fiscal Year 2014 due to retirement of Preservation 2000 bonds and refinancing activity
- Payments remain at approximately \$1.9 billion in Fiscal Year 2015 before increasing moderately as required payments begin under Department of Transportation public-private-partnership (P3) contracts

Benchmark Debt Ratio



- Benchmark debt ratio is debt service as percentage of available revenues
- Significant increase in benchmark debt ratio from 2006 – 2009 due to dramatic revenue declines
- Benchmark debt ratio improved to 6.79% for Fiscal Year 2013 falling under the 7% cap for the first time since Fiscal Year 2009
- Benchmark debt ratio is projected to improve in Fiscal Year 2014 falling under the 6% target
- Improvement in benchmark debt ratio expected in Fiscal Year 2014 due combined effect of lower annual debt service requirements and increasing revenues

General Fund Reserves



- General Fund reserves include unspent general revenues and funds held in the Budget Stabilization Fund
- General Fund reserves accumulated from 2003 through 2006 to an unprecedented high of \$6.1 billion or 22.5% of general revenues
- In 2007, 2008, and 2009, reserves were used to help balance the budget
- Fiscal Year 2013 ended with General Fund reserves of \$3.6 billion or 14.2% of general revenues, exceeding the 10% considered adequate by rating agency guidelines
- General Fund reserves are projected to decrease to \$3.0 billion or 11.5% of projected general revenues at the end of Fiscal Year 2014
- Adequate reserves are critical to maintaining the State's credit rating and providing financial flexibility to respond to financial contingencies

Florida's Credit Ratings

State of Florida General Obligation Credit Ratings		
	<u>Ratings</u>	<u>Outlook</u>
Standard & Poor's	AAA	Stable
Fitch Ratings	AAA	Stable
Moody's Investors Service	Aa1	Stable

- Credit ratings are integral in the municipal bond market and are one factor that affects the interest rate on State debt offerings
- Factors analyzed in assigning State's credit ratings:
 - Governance Framework
 - Financial Management
 - Budgetary Performance
 - Debt/Liability Profile
 - Economy
- Florida's credit ratings remained unchanged during Fiscal Year 2013. Positively, Fitch changed the rating "outlook" from Negative to Stable
- Following slides detail State's credit strengths supporting strong ratings

Moody's Special Comment

“Florida Back on Track” – published June 2013

- Summary of Key Points in Moody's Special Comment:
 - “Current financial and economic strengths underscore Florida's resilience and **sound fiscal management**”
 - “**Reserves are being rebuilt** to provide cushion against future downturns”
 - “**Revenues are growing and the economy is improving**, although recovery in the housing sector is still very slow”
 - “Florida remains exposed to revenue volatility as well as hurricane risk”

Fitch Rating “Outlook” Revised to Stable

- On August 23, 2013, Fitch revised the “Outlook” on Florida’s bond rating from Negative to Stable
- Drivers for returning “Outlook” to Stable include:
 - “*Stabilization of Florida’s economy* and related *improved financial flexibility*”
 - “*Reserves remain satisfactory and have increased over the last two years*” after being drawn down from their peak during the recession
 - “*Strong financial management practices*” including prompt legislative action to address negative revenue estimates to maintain budget balance and adequate reserves
 - “*Fully funding the pension contribution in FY 2014*, in contrast to FY 2013”

Conclusion

- Debt Affordability Analysis provides a comprehensive look at the State's debt outstanding and projected debt issuance
- At June 30, 2013, State direct debt of \$24.6 billion, \$3.6 billion less than Fiscal Year 2010
- Reduction in debt continues as principal amortizations exceed new-money issuance since Fiscal Year 2010
- Debt service payments were \$2.2 billion in Fiscal Year 2013 and decline by approximately \$300 million in Fiscal Year 2014 to \$1.9 billion
- Benchmark debt ratio of 6.79% has improved and should continue downward trend
- General Fund reserves at June 30, 2013 of \$3.6 billion are up from 2012 and projected to decrease to \$3.0 billion at June 30, 2014
- State credit ratings are very strong (AAA, AAA, Aa1) as highlighted by Moody's special comment and Fitch's decision to change the outlook from Negative to Stable. However, ratings remain vulnerable to budgetary challenges, continued improvement in the State's economy, and unexpected fiscal developments causing a material reduction in recently improved reserves
- Management and funding of the pension system have become an important part of evaluating the State's credit rating

Information Technology Governance

**House Appropriations Committee
November 7, 2013**

Impact on Government

- Citizens & businesses expect to access governmental services & information through the use of technology.
- Center for Digital Government biennially conducts study examining progress made by state governments in their use of digital technologies to better serve their constituents.
 - 2012 survey results show Florida has slipped in its ranking compared to the 2010 survey results.

Florida's Biggest Challenge in Addressing State IT Issues

- No sustainable IT governance structure
 - Past 17 years, Florida has had 6 different IT governance structures

Time Period	Structure	Overall Responsibility
1997-2000	State Technology Council (Governor, Cabinet, agency heads, & private sector representatives)	Develop statewide vision & policies for IT and resource management
1997-2000	State Technology Office (original version)	Provide support to State Technology Council
2000-2005	State Technology Office (expanded scope version)	Manage consolidation of IT resources for executive branch agencies
2005-2006	State Technology Office (reduced scope version)	Provide strategic planning & policy recommendations
2005-2006	Department of Management Services (DMS)	Transferred certain IT operational responsibilities to DMS
2007- 2012 (Not funded since FY 2011-12)	Agency for Enterprise Information Technology (AEIT)	Oversees policies for the design, planning, project management & implementation of enterprise IT services

Prior Legislative Efforts

- To address outstanding operational issues with AEIT & governance issues of state's primary data centers:
 - 2012 Legislature passed HB 5011; the bill:
 - Established successor agency
 - Assigned duties that were not as broad as AEIT's duties
 - Funded successor agency (*utilized funds previously appropriated to AEIT*)
 - Governor vetoed HB 5011; resulted in AEIT being unfunded
 - 2013 Session, House passed HB 5009
 - Similar to the 2012 legislation
 - No conference report issued primarily due to differences in the scope of authority & proposed duties between House & Senate bills

Technology Funding in State Government

- Technology funded in all sections of Florida’s \$62.7 billion (does not include FCO) FY 2013-14 budget.
 - **\$733 million – \$152.7 million is General Revenue**
- Does not include all IT-related expenditures from other agency program areas.
- Major IT projects funded:

Agency	IT Project	FY12-13	FY13-14	Total Cost
DEO	Reemployment Assistance System Modernization (Project Connect)	\$20.2M	\$1.2M	\$63M
DCF	FLORIDA Eligibility System Remediation	\$32.5M (\$8.1M expended)	\$30.1M	\$39M
DOE-OEL	Early Learning Information System (ELIS) Contract terminated 7/2013	\$5.9M	Re-appropriation	\$28.4M
DOH	Women, Infants & Children Data System (WIC)	\$3.93M	\$6.62	\$13.1M

Core IT Issues

1. Project management & oversight standards not consistently aligned with the project's complexity which is necessary to ensure that large-scale IT projects are completed on-time & within budget & scope.
2. Identification of agency business functions & operations that are standard or could be standardized across multiple agencies not addressed prior to selecting a statewide IT solution.
3. Ineffective governance & management structure of the state's primary data centers.
4. State agencies independently procure IT services & commodities which limits the opportunity to consolidate purchases to achieve cost savings for the state.

Project Management Standards & Oversight

10 Year View

- Florida has spent **\$134 million** on failed/terminated large-scale IT projects*

Project	Agency	Original Total Cost	Revised Total Cost	Original Completion Date	Termination/Suspension Date	Total Expenditures
Integrated Management System	DEP	\$6.4M	\$24.4M	FY 2003-04	2006	\$9.9M
Project ASPIRE	DFS	\$74.4M cash \$90.0M financed	\$275M	Feb 2005	2007	\$90M
Statewide E-mail Service	SSRC	\$91.4M	Unclear	June 2012	July 2012	\$5.7M
Early Learning Information System	OEL	\$14.9M	\$39.3M	FY 2006-07	June 2013	\$28.4M
TOTAL						\$134M

* Large-scale IT projects means multi-year projects that had total project costs of \$10M or more.

Project Management Standards & Oversight

10 Year View

- **\$193.5 million more** spent than originally projected on large-scale IT projects that were restarted (and renamed) due to significant problems:

Project	Agency	Original Total Cost	Revised Total Cost	Difference	Original Completion Date	Revised Completion Date
Florida Safe Families Network (SACWIS & HomeSafeNet)	DCF	\$27M	\$192M	\$165M	1994 - Unclear due to restarts	2010
Integrated Criminal History System (ICHS/FALCON)	FDLE	\$17M	\$51M	\$34M	2004	2009
Florida Law Enforcement Exchange/Regional Law Enforcement Exchange (FLEX/R-LEX)	FDLE	\$18.1M	\$12.6M Scope reduced	(\$5.5M)	FY 2009-10	Dec 2011
TOTAL		\$62.1M	\$255.6M	\$193.5M		

Project Management Standards & Oversight

10 Year View

- **\$112.9 million more spent** than originally projected on large-scale IT projects that were completed but experienced completion delays and/or scope changes:

Project	Agency	Original Total Cost	Revised Total Cost	Difference	Comment
One-Stop Management Information System	AWI	\$6.6M	\$26.8M	\$20.2M	Contract amended to reduce scope
MyFloridaMarketPlace	DMS	\$92M	\$114M	\$22M	Contract amended/extended & change orders increased contract amount
PeopleFirst	DMS	\$278.9M	\$354M	\$75.1	Contract amended to extend scope and term; some components delayed by over 2 years
CAMS Phase II	DOR	\$161.3M	\$156.9M	(\$4.4M)	Completed 9 months behind original schedule
TOTAL				\$112.9M	

Project Management Standards & Oversight

- Projects Funded in FY 2013-14 GAA
 - One-Stop Business Registration Portal (DOR)
 - \$2.5 million - NR/GR (\$712,408 new GR & \$1.8 million reappropriation of the unexpended balance of the \$3 million appropriated in FY 2012-13); total contract with amendments exceed current appropriation
 - Revised schedule projects 16 months delay in completion; with significantly reduced project scope (*inconsistent with law*)
 - Statewide Longitudinal Data Systems (DOE)
 - \$3.1 million - R/GR; total project cost of \$15.6 million
 - Completion date unknown; unclear how project scope has changed
- CAMS Phase I (DOR) only large-scale IT project that completed on time & within budget and scope.

Original Total Cost	Actual Total Cost	Difference	Original Completion Date	Actual Completion Date
\$52,290,249	\$49,962,411	(\$2,327,838)	Feb/2006	April/2006

Identification of Agency Business Functions & Operations

- Project Aspire – intended to replace the state’s legacy accounting & cash management systems (*known as FLAIR & CMS*).
 - Goals included:
 - Automation & standardization of reporting mechanisms
 - De-commission of agency-level “shadow systems”
 - Four separate entities reviewed & evaluated the project to determine risks to continue:
 - State did not address the standardization & re-engineering of its business processes necessary to utilize a commercial off-the-shelf ERP (*enterprise resource planning*) system; this resulted in numerous, costly customizations.
 - Lack of standardization or incorporation of agency-level accounting functions into Aspire resulted in limited agency shadow systems identified for de-commissioning.

Identification of Agency Business Functions & Operations

- MyFloridaMarketPlace (*MFMP*) – state’s online procurement system
- PeopleFirst – state’s outsourced human resources, payroll administration, & benefit services system
- Both systems built using licensed commercial-off-the-shelf (COTS) software:
 - COTS software is an alternative to custom-developed software & is built on standard/best practices for a particular business or operational function/functions.
 - If state requirements are not aligned with COTS practices/functionality, COTS software will require customizations.
 - This is what happened with MFMP & PeopleFirst; both hugely customized.
- Customizing COTS software often requires additional costs & can provide challenges when software upgrades are released or when agency needs to re-procure.

Primary Data Centers (PDC)

- Law establishes PDCs & requires agency data centers & computing facilities to be consolidated into a PDC by **2019**.
- Boards of trustees govern PDCs; members comprised of customer entities.
 - Board members typically have more IT “technical” than “strategic” experience.
 - More likely to represent agency interests than those interests serving a statewide need.
- Since FY 2010-11, 17 agency data centers have consolidated into a PDC.
 - **(\$13.1 million)** in total cost savings resulting from consolidations.
- No consolidations recommended beyond FY 2013-14 to allow governance & management structure to be addressed.

Ineffective Governance & Management Structure – Southwood Shared Resource Center (SSRC)

- Certified Tier III data center facility.
- High availability floor space *(2 levels of redundancy)*
 - 47% of floor space is unused *(or about 4,350 sq. feet 9,256 available).*
- Fault tolerant floor space *(1 level of redundancy)*
 - 74% of floor space is unused *(or about 2,499 sq. feet 3,344 available).*
- Over 30 different disaster recovery (DR) plans
 - Study authorized in FY 2013-14 GAA to evaluate current DR plans to determine their alignment with each application's level of criticality and to propose any necessary remediation – due 12/1/13.

Ineffective Governance & Management Structure – Northwood Shared Resource Center (NSRC)

- Leased Tier II data center facility.
- DCF is largest customer (*72% of total revenue*)
 - NSRC was DCF data center prior to its establishment as a PDC
- Current **unused** floor space is **71%** or about **48,994 sq. feet** of the **69,005 available**.
 - Equipment footprint (physical data center area) will continue to shrink
 - Study authorized in FY 2013-14 GAA to identify options to address unused data center floor space – due 11/1/13

Consolidating IT Purchases

- Microsoft reports software sales averaging **\$50M** annually across state & local agencies in Florida.
- For FY 2012-13, DMS data shows that IT-related sales to state & local agencies includes:
 - **\$159M** from the top 5 vendors for desktops, laptops & other devices
 - **\$29M** from the top 5 vendors for network infrastructure
- Vendors self-report quarterly sales data to DMS which should include reseller sales data.
 - Due to numerous resellers, DMS is unable to validate total sales by vendor.
 - Sales data may be underreported.
- Since each state agency purchases independently off DMS state contracts, agreements, and price lists, consolidated IT purchasing strategies are limited & additional cost savings not achieved.

Need for IT Governance Structure

- Greater reliance on IT to conduct the business of government; corresponding need to properly manage it through effective governance.
- IT governance means specifying the decision rights & accountability framework to encourage desirable behavior in the use of IT.
 - An IT governance structure ensures effective use of IT in all lines of business & leverages capabilities across government to avoid unnecessary or redundant investments & to enhance appropriate cross agency interoperability.
- National Association of State CIOs annually surveys state CIOs regarding important issues requiring attention:
 - Upgraded IT governance
 - Strengthened central IT organizations
- Florida's lack of an enterprise IT governance structure is a significant factor contributing to the 4 core IT issues previously discussed.

Components of IT Governance Structure

- *Responsibility & Accountability* – Clearly defined authority & duties focused on manageable & sustainable outcomes.
 - Prior structures included duties that were too broad and therefore unachievable.
- *Strategic Planning & Alignment* – Establishing a focused vision & priorities that facilitates a clear understanding of what to do, how to do it & when it should be completed.
 - Prior structures engaged in more daily operational issues which impacted their ability to identify & implement more strategic opportunities.
- *Governance Framework & Process* – Establishing standards & processes to manage priorities.
 - Some prior structures were not required to establish standards & those that were required, did not.
- *Resource Allocation* – Identifying staff resources adequate to complete duties & providing funding.
 - Prior structures have not been adequately resourced and funded.

Questions?



