Fiscal Year 2022-23 Information Technology Request

Personnel and Administration
CORE Upgrade and Continuous Improvement

SHORT PROJECT DESCRIPTION

The Colorado Department of Personnel and Administration (DPA) is requesting authorization to enter into a Certificate of Participation (COP) for the purpose of upgrading and continuously improving the Colorado Operations Resource Engine (CORE) system. The requested COP will be paid over nine years and is estimated to cost $10,782,827 in principal and interest payments.

PRIORITY NUMBERS   2023036

Prioritized By	Priority	
OSPB	4 of 6	Recommended for funding.

PRIOR APPROPRIATION AND REQUEST INFORMATION

Fund Source	Prior Approp.	FY 2022-23	FY 2023-24	Future Requests	Total Cost
CF	$0	$10,782,827	$0	$0	$10,782,827
Total	$0	$10,782,827	$0	$0	$10,782,827

PROJECT STATUS

This is a new, never-before-requested project.

PROJECT DESCRIPTION

DPA is requesting authorization to enter into a new, nine-year COP for the purpose of upgrading and continuously improving the CORE system. The CORE system is used by state agencies as the state's Enterprise Resource Planning (ERP) system for accounting, procurement, and budgeting functions. This COP would allow DPA to extend and restructure the current contract to upgrade CORE, as well as the purchase of two new modules, a debt management module and a travel and expense module, to enhance system functionality for agencies. The collateral for the new COP will be the CORE software license.

The department will need legislation to authorize the COP issuance and secure financing for this upgrade, which the department has asked the Joint Budget Committee to sponsor.

The first part of the request includes an upgrade for CORE from CGI Advantage 3.9 to Advantage 4, which will include regular update releases and improve the user experience. The Advantage 4 upgrade includes additional functionality for financial, vendor self-service module, performance budget module, and infoAdvantage. This upgrade will also move the state from Tier 2 into Tier 1 support for CORE, which is the highest level of support and allows the state to receive security updates, regulatory updates, tax updates, rolling browser certifications to the current supported versions, and third party certification compatibility releases.

The second part of the request includes the purchase of two new modules. The debt management module will improve the accuracy and efficiency of reporting leases, loans, and bonds. The travel and expense management module will simplify data entry for employees for a more efficient travel expense process, provide integration with CORE financial modules and other services, include a mobile solution, and provide analytics.

PROJECT JUSTIFICATION

The CORE system was originally implemented in 2014 as a replacement to the legacy mainframe Colorado Financial Reporting System (COFRS) for approximately $35 million. The current contract with the vendor, CGI, for CORE support expires on June 30, 2024. According to the department, if the state does not upgrade before this date, the CORE system will move into an unsupported version and be exposed to security risks and performance degradation. By authorizing DPA to enter into another

COP for this work, as was also used for the original COFRS Modernization project, it will alleviate the need for a large, lump sum capital request to implement needed upgrades to the CORE system. Additionally, renegotiating an extension agreement before the contract ends will ensure that the system remains secure, that CORE services are not interrupted, and that state agencies and vendor partners do not have to learn a new financial system. At the same time, the upgraded system will address a variety of existing user issues and pain points.

The upgrade will provide a variety of enhancements for end-users, including the ability for near real time integration of interface data through Application Programming Interfaces (APIs), rather than relying on overnight batch processes, and opportunities to utilize CORE applications via a secure mobile-friendly platform. According to the department, the ability for state agency staff to update their financial, contracting, and other business transactions faster, potentially within the same day, and to complete this work in CORE from any location on any device is a critical improvement with the increase in remote work.

Additionally, in order to be in compliance with Governmental Accounting Standards Board (GASB) 87, starting in FY 2021-22, the state will need to establish the present value of 1,250 leases, calculate interest and principal, establish short and long-term payables and receivables, follow debt accounting, and include monthly financial reporting within the state's Comprehensive Annual Financial Report (CAFR). The state currently does not have an integrated solution to comply with these GASB 87 requirements and will need to use a manual, Excel-based process if they are not able to implement the new debt management module, which will allow the department to more efficiently meet these requirements.

COST-BENEFIT ANALYSIS

According to the department, the savings to upgrade the CORE system over having to purchase a new financial system is approximately $28.5 million, based on an estimated cost of $39.3 million for the purchase of a new system. The original CORE system purchase cost approximately $35 million to purchase over the lifetime of the original COP and 21 months to implement. An additional $3.0 million was spent on initial training and $200,000 per year on annual training. By extending the contract with CORE and implementing the additional modules, the state will be able to build on the CORE knowledgebase that already exists within the state.

PROJECT COST INFORMATION

The department provided the following cost estimates for this project:

CORE Upgrade to Advantage 4 Purchase: $6,344,000
Debt Management Module Purchase: $362,000
Travel & Expense Module Purchase: $484,000
OIT Program Management: $324,000
Additional Vendor Support Hours: $667,000
Independent Verification and Validation (IV&V): $906,000
Contingency: $700,000
COP Interest Payments: $995,827

The last payment for the original debt service for the CORE system purchase occurs in FY 2021-22. Due to the implementation terms and the structure of the financing agreement proposed in this request, there will be no debt service obligation in FY 2022-23. With this last COP payment, the financing agreement terminates, which will allow the department to fund the CORE upgrade and additional modules by continuing the CORE Lease Purchase Payments appropriation, which is currently $3,844,996 annually, but at a reduced level starting in FY 2023-24. Additional annual expenses for the CORE system include payments for CORE and support modules, which was $6,671,656 in FY 2021-22 and is requested to be $6,471,519 for FY 2022-23.

Additional project cost tables are provided in Appendix A.

CASH FUNDS

DPA bills users of the CORE system through the common policy. Revenue from this billing is deposited into the Statewide Financial Information Technology Systems Cash Fund, created in Section 24-30-209, C.R.S., which is then annually appropriated to the DPA for the costs of maintenance and upgrades and for the direct and indirect costs of the department in connection with the CORE system.

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PROJECT RESEARCH

According to the department, the requests for an initial payroll system replacement and CORE upgrade were formulated over the Spring and Summer of 2021. Based on a Rough Order of Magnitude study that was completed by Gartner in July, and in recognition of the unique opportunity presented in addressing the two system in tandem, the department conducted an additional market scan to determine the feasibility and cost-benefit of combining the two requests. Based on this information, the department estimates that the entire replacement of a combined payroll and financial system would cost approximately $37 million more than procuring a payroll system individually, which is why the department has submitted individual requests for the payroll modernization project and the CORE upgrade project.

ADDITIONAL PROJECT INFORMATION

The department plans to use an agile framework for the change management and overall implementation strategy on the project. The department has also implemented a CORE Governance Committee, which has provided stakeholder engagement throughout the development of this request and will continue to do so throughout the upgrade process.

Common policy. All state agencies pay for CORE through the CORE common policy allocation process. According to the department, the COP structure allows the state to recover implementation costs from all funding sources (federal funds, cash funds, and General Fund) because of the common policy. The department expects common policy billings to be adjusted to accommodate expenses for this project.

Other states. According to the department, 10 other states are in the process of upgrading to CGI Advantage 4.

Budget amendment criteria. Statute requires new or amended IT budget requests submitted by a state agency for the upcoming fiscal year by December 10 to be due to circumstances unknown to, and not reasonably foreseeable by, the state agency. According to the department, this request is based on new information made available from a market scan that was finalized in December 2021.

PROJECT SCHEDULE

	Start Date	Completion Date
Planning	July 2022	December 2022
Implementation	July 2022	June 2024
Testing	January 2023	June 2024
Closing	June 2024	June 2024

QUESTIONS

1. Page 8 of the request document lists Colorado Digital Service as one of the groups involved in this decision making process. Please expand on the CDS involvement and whether the department plans to engage with CDS throughout the upgrade and new module implementation.

Colorado Digital Service was involved in CORE stakeholder engagement conducted in spring of 2020 and is also a part of Payroll and Financial governance structures. The department plans to continue to leverage CDS throughout the procurement, upgrade and new module implementation, and in an advisory capacity through governance structure participation.

Table 1. CORE Long Bill Line Items

CORE Long Bill Line Item	FY 2021-22 Appropriation	FY 2022-23 Request	FY 2023-24 Proposed	FY 2024-25 Proposed	FY 2025-26 Proposed	FY 2026-27 Proposed
Payments for CORE and Support Modules	$6,671,656	$6,471,519	$6,044,519	$6,987,742	$6,959,742	$6,959,742
CORE Lease Purchase Payments	$3,844,996	$0	$1,359,034	$1,248,386	$1,228,269	$1,208,151
Total	**$10,516,652**	**$6,471,519**	**$7,403,553**	**$8,236,128**	**$8,188,011**	**$8,167,893**

Table 2. CORE COP Annual Payments

	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Annual Principal Payments	$0	$1,087,444	$1,087,444	$1,087,444	$1,087,444	$1,087,444
Annual Estimated Interest Payments	$0	$271,589	$160,942	$140,824	$120,706	$100,589
Total	**$0**	**$1,359,034**	**$1,248,386**	**$1,228,269**	**$1,208,151**	**$1,188,033**

	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	Total
Annual Principal Payments	$1,087,444	$1,087,444	$1,087,444	$1,087,444	$9,787,000
Annual Estimated Interest Payments	$80,471	$60,353	$40,235	$20,118	$995,827
Total	**$1,167,915**	**$1,147,798**	**$1,127,680**	**$1,107,562**	**$10,782,827**