



ONE WASHINGTON

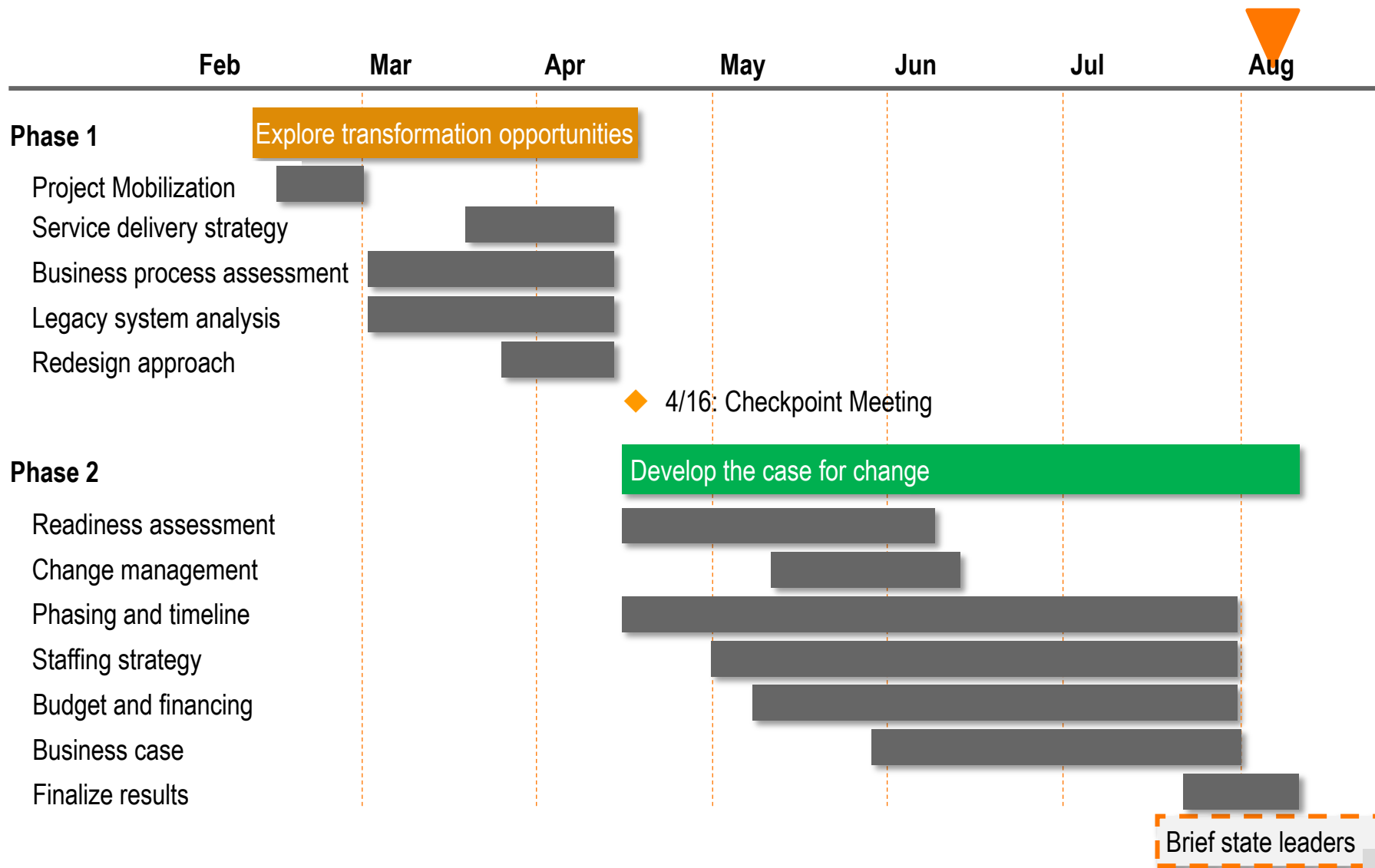
Executive Steering Committee

August 6, 2014

Agenda

- » Welcome
- » Project Status
- » The Business Case
 - › Hard Dollar Costs & Benefits
 - › Mission Impacts
 - › Discussion
- » Administrative Items

One Washington Assessment Approach



One Washington Business Case | Overview

The business case is comprised of the following key elements for each of the three scenarios:

Hard Dollar Costs & Benefits

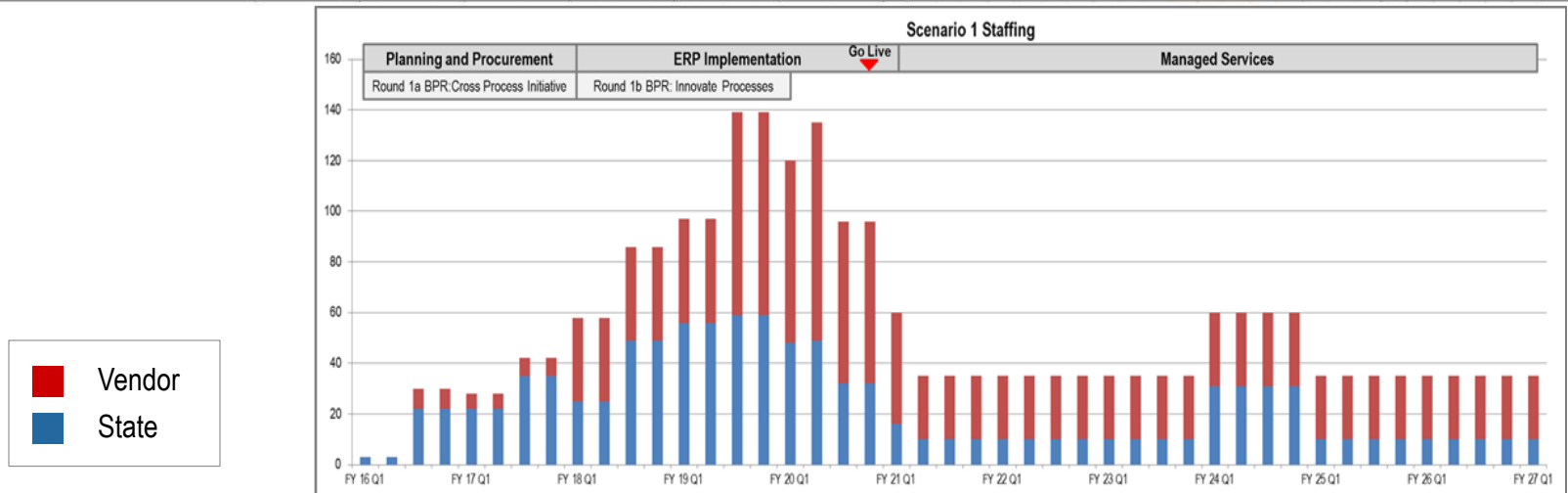
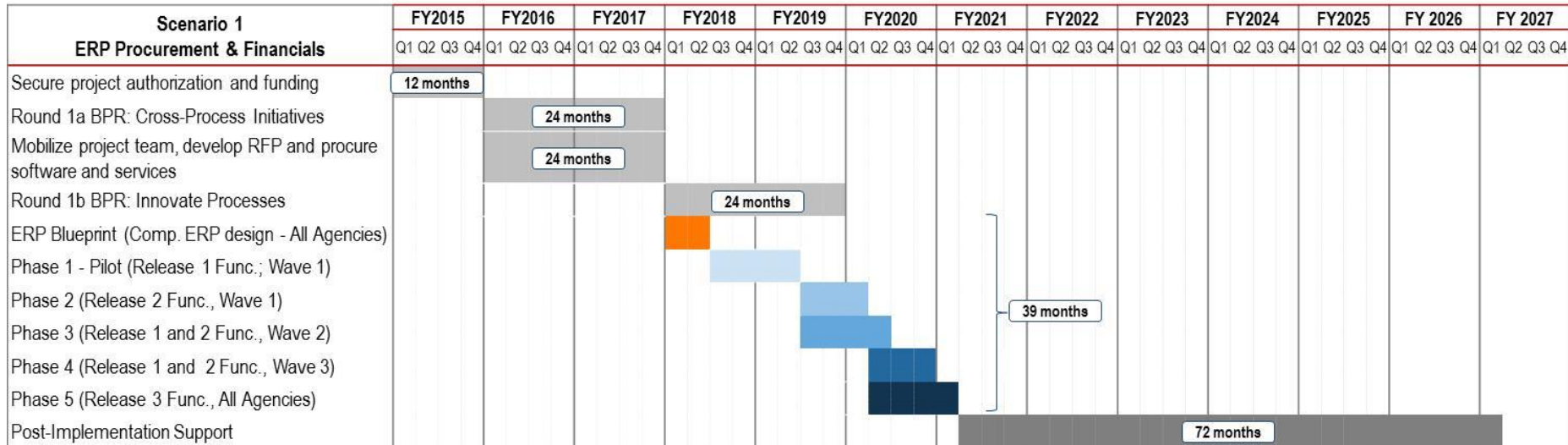
- *Costs:* Out of pocket costs for the 12 year Total Cost of Ownership, e.g., State labor, professional services, software, hardware, etc.
- *Benefits:* Tangible sources of hard dollar cost reductions or revenue increases created by the project

Mission Impacts

- *Negative:* Impacts to productivity, opportunity, and risk as State resources are deployed to this initiative rather than other priorities
- *Positive:* Qualitative benefits created by the project as the State redeploys more of its administrative resources to mission accomplishment and service delivery

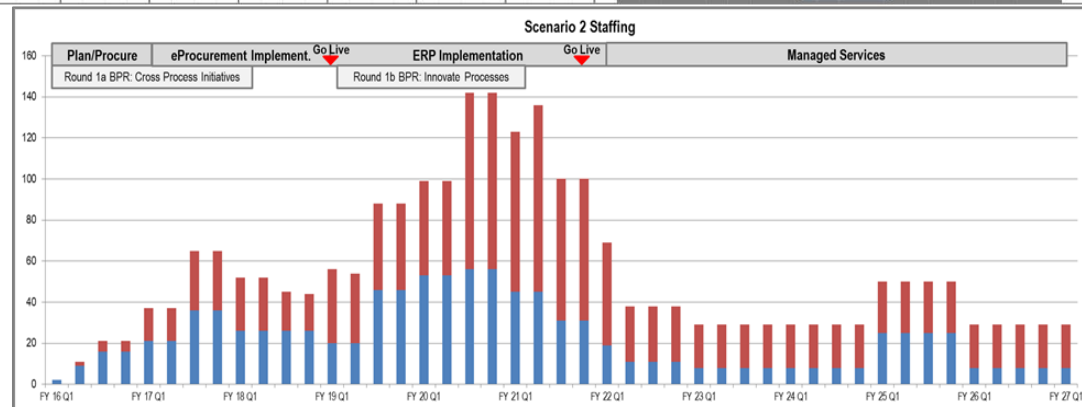
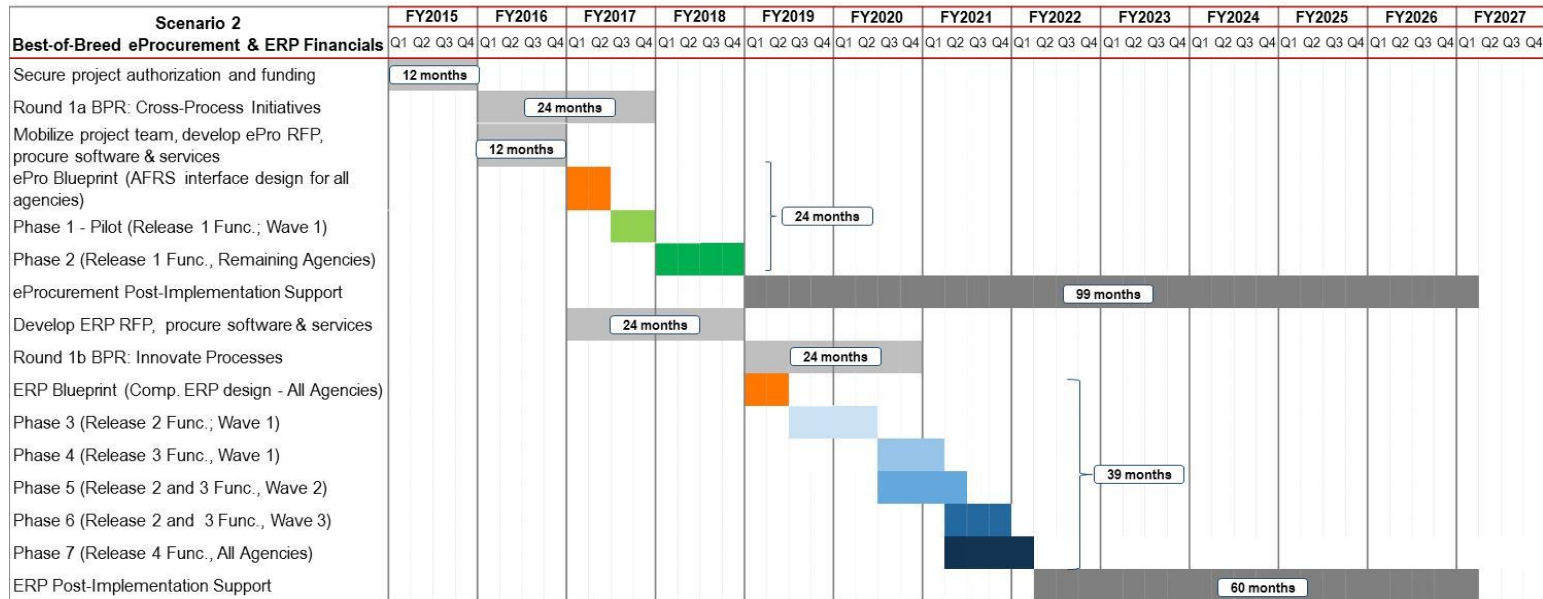
Scenario 1 | Phasing, Timeline & Staffing

Managed Services ERP: All finance and procurement functionality will be provided from a single Managed Services ERP system. The total cost for Scenario 1 is \$217.4 million.












Scenario 2 | Phasing, Timeline & Staffing

Best-of-Breed eProcurement with Managed Services ERP Financials: Procurement functionality will be provided from a Best-of-Breed eProcurement solution, with Financials functionality being supported by a Managed Services ERP. The total cost for Scenario 2 is \$249 million.



Scenario 3 | Phasing, Timeline & Staffing

Best-of-Breed eProcurement with Software-as-a-Service (SaaS) ERP Financials: Procurement functionality will be provided from a Best-of-Breed eProcurement solution, with Financials functionality being supported by a Software-as-a-Service (SaaS) ERP. The total cost for Scenario 3 is \$235 million.

| Component | Pre-Implementation & BPR | Implementation | Post-Implementation |
|---|--|---|---|
| Phasing & Timelines: Similar to Scenario 2, but with some key differences and considerations. | Slight Difference in Approach  Difference in timelines | Decrease in Number of Phases 39 mos. → 33-36 mos. 3 → 2 functional releases 3 → 2 waves of agencies | Increase in Timeline 1 additional year of support |
| Staffing: Similar to Scenario 2 with the following differences. | Slight Increase in Staffing  Staffing for SaaS procurement process | Net Decrease in Staffing ERP implementation assumes:  Project Management  Functional Team  Change Management  Training  Technical Team  Work completed off-site | Net Decrease in Staffing  Vendor maintenance and operations |

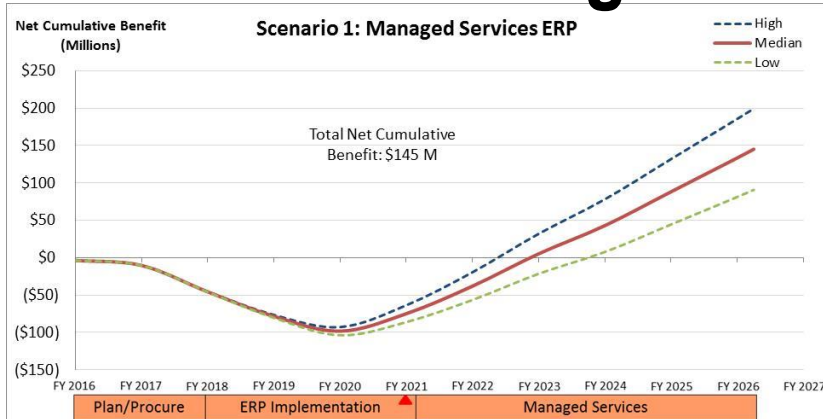
One Washington Business Case | Hard Dollar Benefits

The quantifiable benefits included in the One Washington business case include:

- *Strategic sourcing:* \$20 – 28 Million
- *Prompt pay discounts:* \$15 – 20 Million
- *Purchase card rebates:* \$243,000 – 330,000
- *Vendor fees:* \$1.7 – 2.3 Million
- *Termination of legacy system maintenance costs:* \$750,000 – 1 Million
- *Printing reduction:* \$890,000 – 1.2 Million
- *Accounts receivable collection:* \$8.8 – 11.9 Million

The methodology for each hard dollar benefit is provided in the Appendix for your reference.

One Washington Business Case | Net Impact

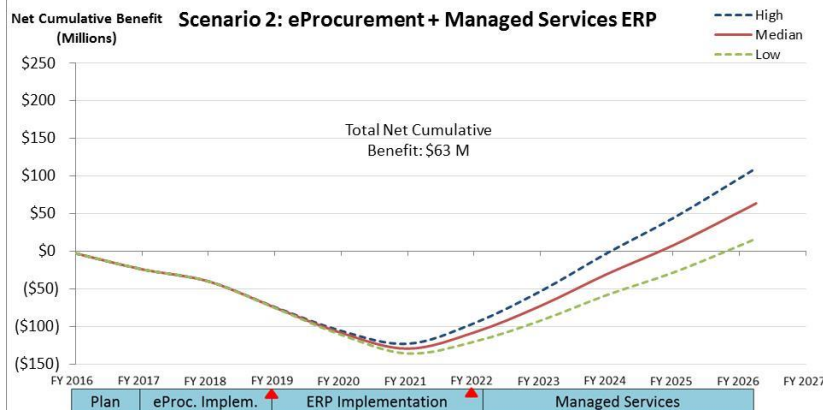


Scenario 1

Total Hard Dollar Costs: \$217.4 Million

Total Hard Dollar Benefits: \$362.6 Million

The break-even point for Scenario 1 occurs at the beginning of FY 2023. Total benefits exceed total costs by \$145 Million.

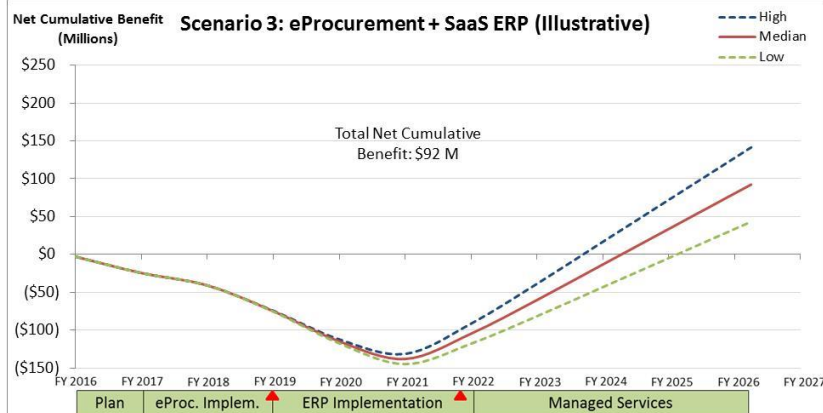


Scenario 2

Total Hard Dollar Costs: \$249 Million

Total Hard Dollar Benefits: \$312.4 Million

The break-even point for Scenario 2 occurs at the end of FY 2024. Total benefits exceed total costs by \$63 Million.



Scenario 3

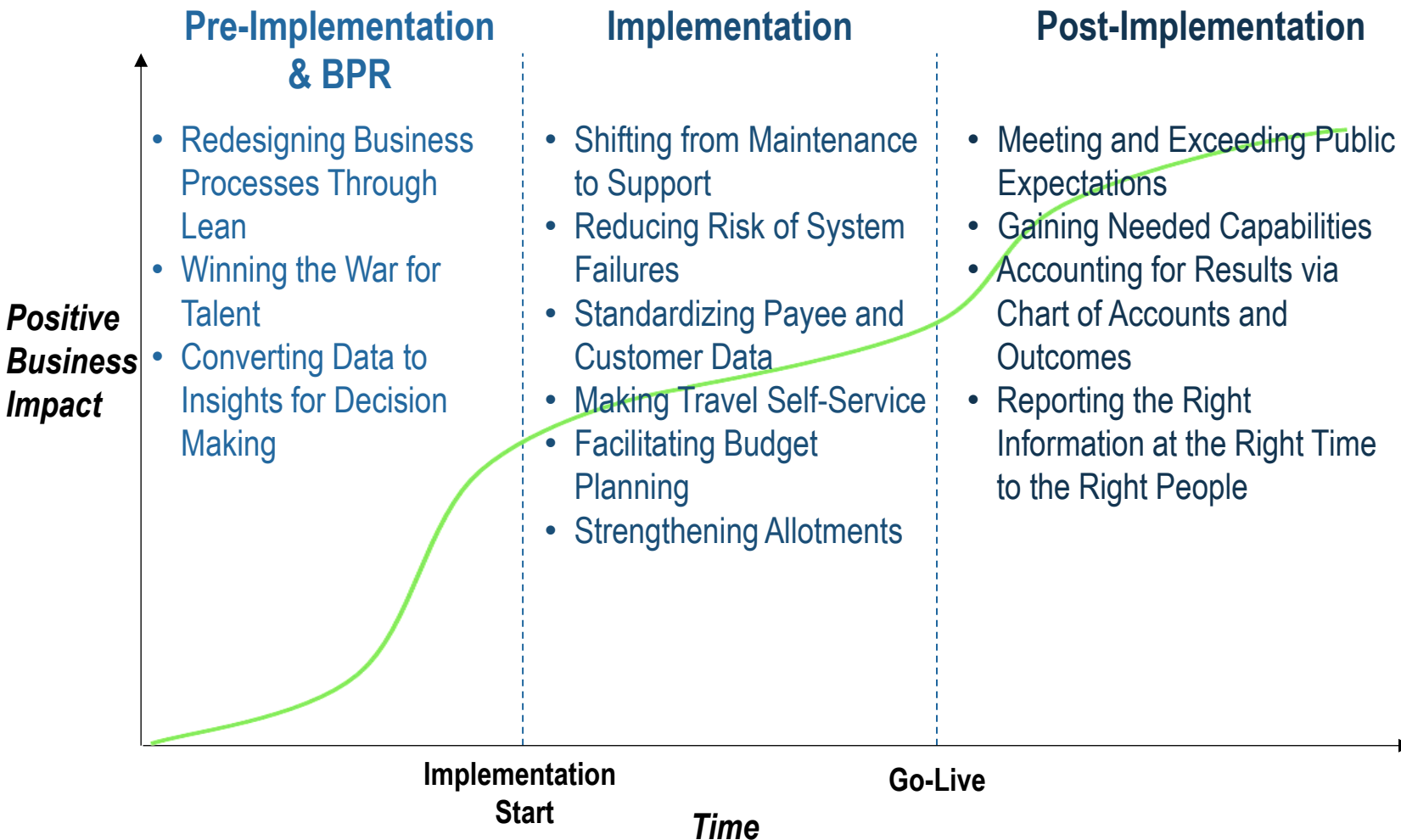
Total Hard Dollar Costs: \$235 Million

Total Hard Dollar Benefits: \$327 Million

The break-even point for Scenario 3 occurs at the beginning of FY 2024. Total benefits exceed total costs by approximately \$92 Million.

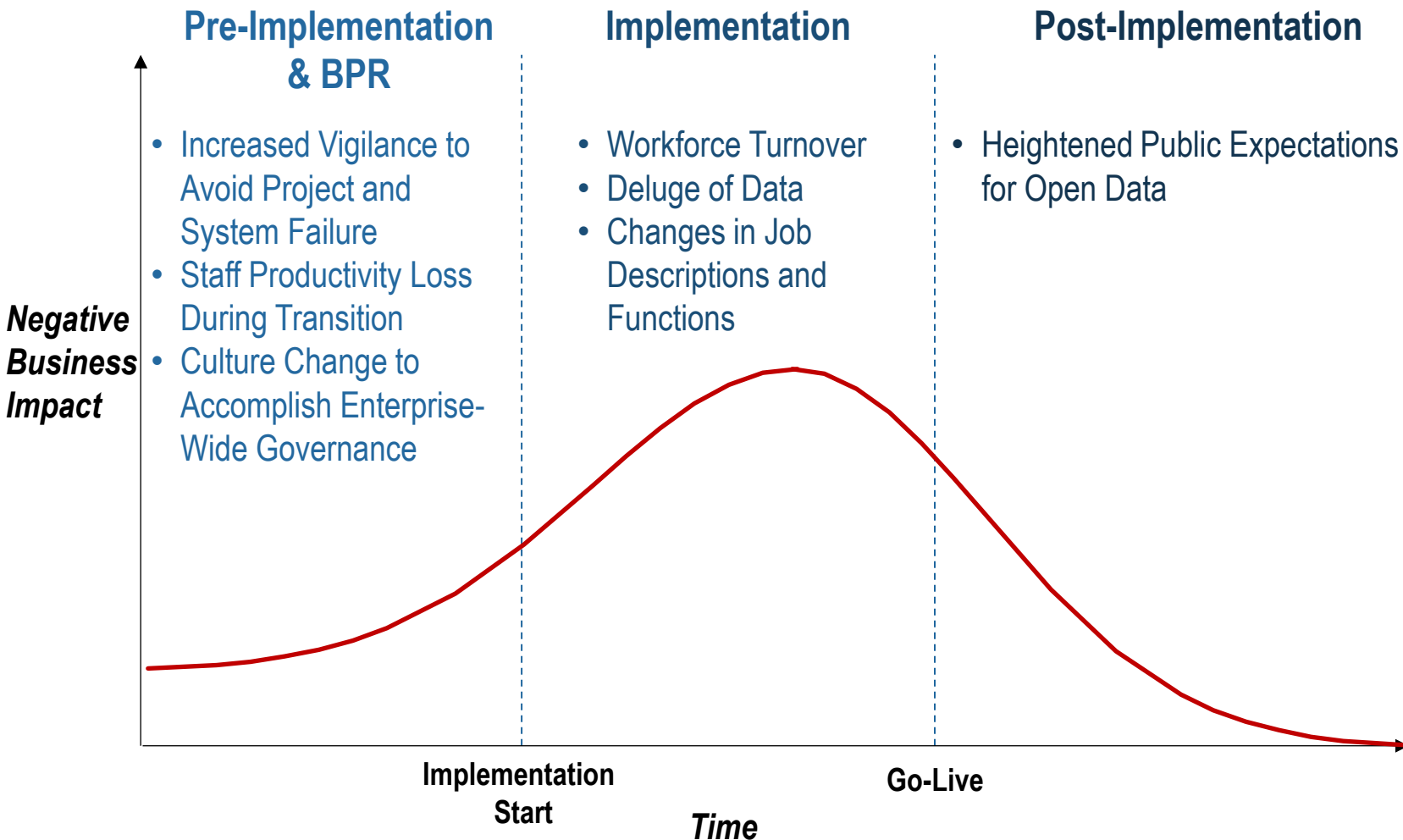
One Washington Mission Impacts | Positive

Positive mission impacts initiate at different time over the project lifecycle and then accumulate.



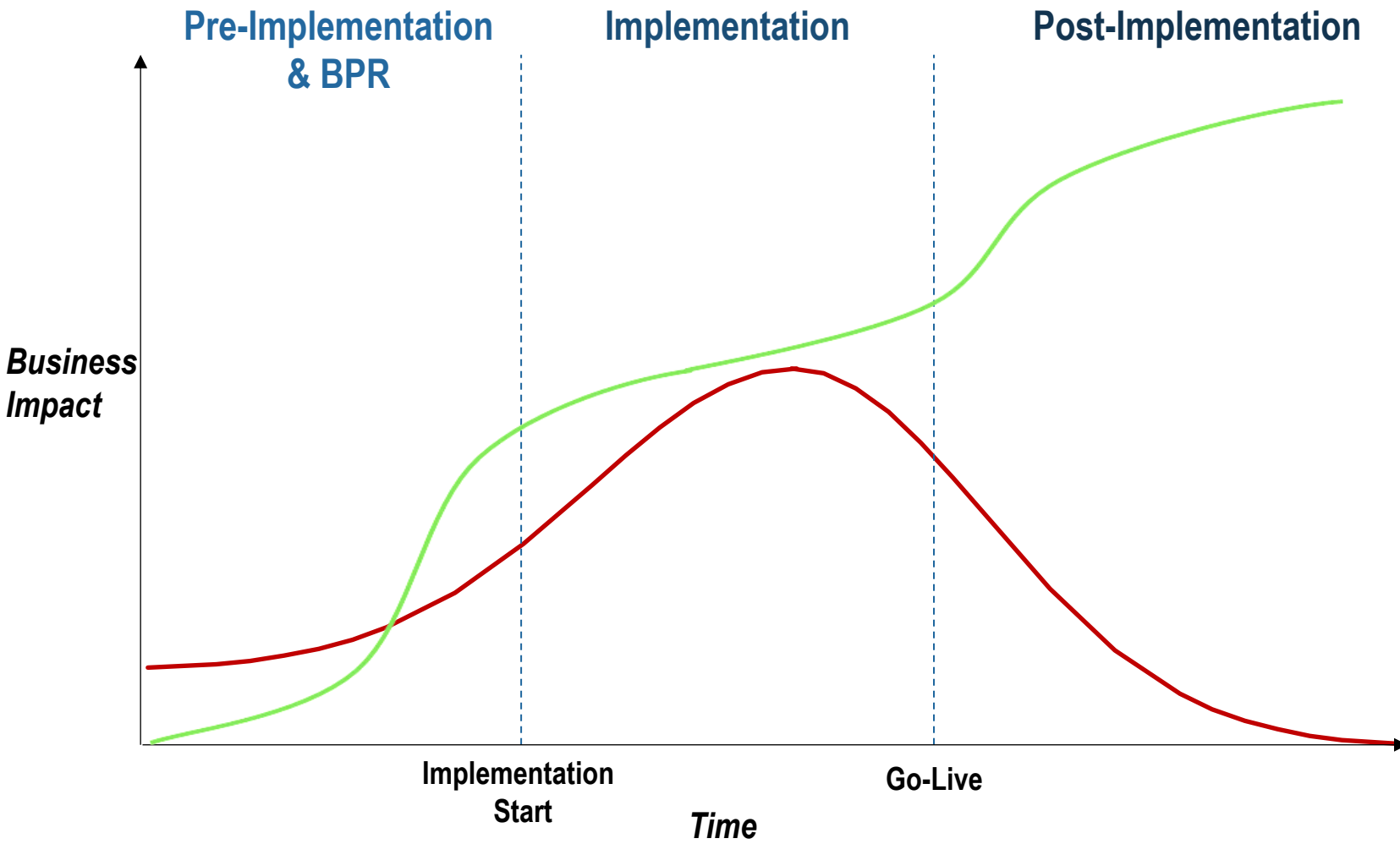
One Washington Mission Impacts | Negative

Negative mission impacts initiate at different times over the project; they peak around project go-live and decrease from there.



One Washington Mission Impacts | Net Impact

Sustained consensus and commitment from One Washington project leadership will be critical to piloting the project successfully to completion.



Administrative Items

» Next Meeting September 3, 2014

Appendix: Hard Dollar Benefit Methodology Slides

Benefits Analysis | Prompt Pay Discounts

| | |
|--------------------|---|
| Hypothesis | Establish terms in vendor contracts and accounts payable processes whereby payment within 10 days generates a 2% reduction in price. |
| Methodology | <p>The methodology is represented by a series of funnels showing the reduction of spend and the realization of savings:</p> <ul style="list-style-type: none"> All State spend data >\$1,000 per transaction: \$4 Billion Removed agency chargebacks: State spend data less agency chargebacks: \$3.6 Billion Removed 50% of vendor spend and savings realized from strategic sourcing: Addressable spend: \$1.7 Billion Assumed 2% in potential cost savings to State: Potential benefit: \$35 Million Remove 50% to represent current State benefit, assumed conservative 15% range: Net Benefit: \$15M – 20M annually |
| Sources | <ul style="list-style-type: none"> Washington Open Checkbook site (http://fiscal.wa.gov/Checkbook.aspx) |
| Assumptions | <ul style="list-style-type: none"> Agency chargebacks are non-applicable for prompt pay benefit realization Transactions < \$1,000 are not-applicable for prompt-pay discounts 50% of vendor spend would be non-applicable due to vendor attrition State could realize 2% in cost savings on addressable spend 50% of resulting cost savings may be already realized by the State, and thus are not applicable for this analysis Savings generated from strategic sourcing were removed from addressable spend to avoid double counting |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with prompt pay discounts is \$15-20 million per year. |

Benefits Analysis | Purchase Card Rebates

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|--------------------|--|
| Hypothesis | Enhance use of purchasing cards to increase rebates. |
| Methodology | <p>The methodology is represented by a funnel diagram showing the flow from initial spend data to the final net benefit. The process involves removing agency chargebacks and strategic sourcing savings, then applying a 1.3% rebate to the remaining addressable spend.</p> |
| Sources | <ul style="list-style-type: none"> Washington Open Checkbook site (http://fiscal.wa.gov/Checkbook.aspx) |
| Assumptions | <ul style="list-style-type: none"> Transactions < \$1,000 are applicable for P-card discounts Agency chargebacks are non-applicable for strategic sourcing benefit realization State could realize 1.3% in cost savings on addressable spend, based on current contract with US Bank Savings generated from strategic sourcing were removed from addressable spend to avoid double counting |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with P-card discounts is \$243,000 – 330,000 per year. |

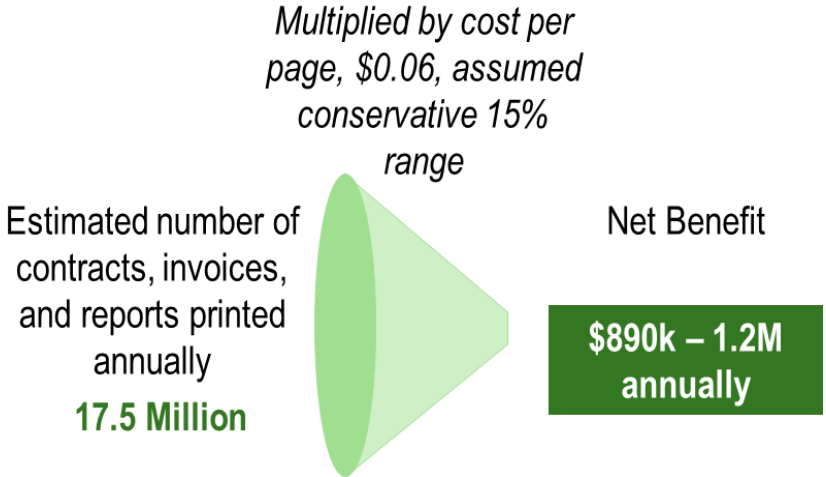
Benefits Analysis | Vendor Fees

| | |
|-------------|--|
| Hypothesis | Generate additional revenue by standardizing a 1% fee charged on all vendor contract sales. |
| Methodology | <p>Removed agency chargebacks</p> <p>Removed 60% of vendor spend and savings realized from strategic sourcing</p> <p>Assumed .26% in additional revenue to State, adjusting for two exception areas</p> <p>Removed \$1.5M in benefit according to DES information, assumed conservative 15% range</p> <p>All State spend data \$4.1 Billion</p> <p>State spend data less agency chargebacks \$3.7 Billion</p> <p>Addressable spend \$1.4 Billion</p> <p>Addressable benefit \$3.5 Million</p> <p>Net Benefit \$1.7M – 2.3M annually</p> |
| Sources | <ul style="list-style-type: none"> Washington Open Checkbook site (http://fiscal.wa.gov/Checkbook.aspx) |
| Assumptions | <ul style="list-style-type: none"> Agency chargebacks are non-applicable for vendor fee benefit realization 60% of vendor spend would be non-applicable due to vendor attrition Savings generated from strategic sourcing were removed from addressable spend to avoid double counting State could realize .26% in additional revenue from addressable spend for most SubObjects, with exception of Communications Services and Furnishings/Equipment/Software |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with vendor fees is \$1.7-2.3 Million per year. |

Benefits Analysis | Termination of Maintenance Costs

| | |
|-------------|--|
| Hypothesis | Decommission many current financial systems to avoid future maintenance costs. |
| Methodology | <p>Audit report data \$5.2 Million</p> <p>Removed labor-based costs</p> <p>Audit data less labor-based costs \$1.6 Million</p> <p>Removed systems not slated to be decommissioned, assumed conservative 15% range</p> <p>Net Benefit \$750k – 1M annually</p> |
| Sources | <ul style="list-style-type: none"> 2013 Performance Audit, <i>Creating a 21st-century Financial Management System in Washington</i> |
| Assumptions | <ul style="list-style-type: none"> Labor-based costs are non-applicable because they include State employee labor. Costs for systems that are in scope but were not slated to be decommissioned by the Current Financial Systems Assessment are non-applicable. The validity of DES's Audit Report data, which accounted for 80% of the costs, can be extrapolated to the remaining 20% of maintenance costs. |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with the termination of legacy system maintenance costs is \$750,000 – 1 Million per year. |

Benefits Analysis | Printing Reduction

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|-------------|---|
| Hypothesis | Reduce the number of printed documents to avoid printing costs. |
| Methodology | <p>Multiplied by cost per page, \$0.06, assumed conservative 15% range</p>  <p>Estimated number of contracts, invoices, and reports printed annually 17.5 Million</p> <p>Net Benefit \$890k – 1.2M annually</p> |
| Sources | <ul style="list-style-type: none"> Washington Open Checkbook site (http://fiscal.wa.gov/Checkbook.aspx) Lexmark and O'Keefe & Company: "2009 Government Printing Report" |
| Assumptions | <ul style="list-style-type: none"> The State prints approximately 17.5 million pieces of paper annually, based on experience in other similar States, adjusted conservatively. Each paper printed costs the State \$0.06, based on a study conducted by Lexmark and O'Keefe & Company. |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with the reduction of printing and storage is \$890,000 - 1.2 Million per year. |

Benefits Analysis | Strategic Sourcing

| | |
|-------------|--|
| Hypothesis | Increase the State's large buying power to drive lower costs and higher quality of services and goods. |
| Methodology | <p>The methodology is represented by a series of funnels showing the reduction of spend from initial state data to the final net benefit. The process starts with \$4.1 Billion in all state spend data, which is reduced by agency chargebacks to \$3.7 Billion. This is then filtered to an addressable spend of \$974 Million. After removing DES statewide contract spend, the addressable spend is reduced to \$489 Million. Finally, assuming a 5% savings opportunity (conservative 15% range), the net benefit is estimated at \$20M – 28M annually.</p> |
| Sources | <ul style="list-style-type: none"> Washington Open Checkbook site (http://fiscal.wa.gov/Checkbook.aspx) |
| Assumptions | <ul style="list-style-type: none"> Agency chargebacks are non-applicable for strategic sourcing benefit realization Share of spend from selected spend objects was defined based on experience working with State governments and using judgment based on vendors aligned to each category (e.g., 70% of Computer/Information Services spend was identified as applicable spend, 40% of Communications Services spend was identified as applicable spend). |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with prompt pay discounts is \$20-28 million per year. |

Benefits Analysis | Accounts Receivable

| | |
|--------------------|---|
| Hypothesis | Utilize the ERP system to help streamline and optimize the AR process, allowing for better collection of outstanding debts. |
| Methodology | <p>Identified allowances for uncollectables</p> <p>Removed funds with low probability of collection</p> <p>Applied savings figure of 10%, assumed conservative 15% range</p> <p>2013 CAFR Accounts Receivable \$1.58 Billion</p> <p>2013 Uncollectables \$781 Million</p> <p>Addressable spend \$103 Million</p> <p>Net Benefit \$8.8M – 11.9M annually</p> |
| Sources | <ul style="list-style-type: none"> CAFR data extract (2010-2014) |
| Assumptions | <ul style="list-style-type: none"> 2013 CAFR data is comprehensive and represents a baseline from which to estimate benefits Approach validated working with Wendy Jarrett and agency contacts to confirm and validate fund details Funds included: HCA General Fund; DOT Tacoma Narrows Toll Bridge Account, State Route Number 520 Corridor and Civil Penalties Accounts, Transportation Equipment Account, and Motor Vehicle Account; ECY State Toxics Control Account and Coastal Protection Account; and WSP State Patrol Highway Account A proactive and ERP-driven approach to collections can reduce allowances for uncollectables by 10% |
| Results | For purposes of providing a conservative estimate, the quantified benefit associated with the improved collection of Accounts Receivables is \$8.8 – 11.9 Million per year. |



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