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NASCIO Collaboration Series

Funding: The Drive Wheel for Cross-Jurisdictional Collaboration

Team Work

Work

Partnership

Funding

Ideas

Talent

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Introduction – collaboration – a great idea!

NASCIO has examined successful collaborative business scenarios and abstracted out repeatable best practices that include governance and cost sharing models. Through this process NASCIO has created and continues to supplement a web resource library at www.nascio.org/advocacy/collaboration/ that is an excellent reference point for planning and sustaining a successful collaborative. Collectively, the resources presented on this web page essentially represent a comprehensive playbook for identifying, developing and successfully managing cross-boundary initiatives. NASCIO also has maintained a library of "great ideas" collected through the State IT Recognition Awards Program. Specifically, collaborative arrangements presented in the *Cross-Boundary Collaboration and Partnerships* award category highlights successful initiatives that should be referenced as part of any early project framing efforts.

See www.nascio.org/awards for current and archived awards.

This report looks at funding approaches and some of the considerations to be applied in evaluating funding models. Specifically, this report examines:
- partnership approaches
- advice from those who planned and managed successful collaboratives
- funding strategies
- potential barriers to consider
- transactional cost economics
- recommendations for securing funding

In many cases, funding a specific initiative can entail more than one funding source working together as a *basket of funding streams* to provide both initial seed funding and ongoing sustained funding. Seeking funding is necessarily coupled with the vision, goals and objectives of a collaborative. When evaluating grants, loans and direct payments, the intent of the funding stream must match the intent of the collaborative initiative. In considering the full portfolio of funding models, the funding options pursued must be appropriately matched to a long term sustainment strategy for the collaborative. Further, evaluating funding approaches necessarily involves clear understanding of the total cost of ownership that includes transactional cost economics (TCE). *Securing funding starts with an understanding of the full costing.*

Collaboration – a growing momentum

Collaborative approaches were predominantly motivated by consistently tightened budgets through the first decade of the 21st century. That pressure remains.

Further, shared service issues and solutions have been worked on for over two decades, with some aspects being more mature than others:

- *interagency collaboration at the state level is more mature than state and local collaboration*
- *state and local collaboration is more mature than multi-state collaboration*
- *a focus on selected technologies is more mature than a focus on service processes; and*
- *governance and compliance provisions are more mature than funding options and integration with overall state core management and service prioritization processes*

There is another motivator that is playing an ever increasing role – citizen service. Increasing the quality and availability of citizen services through collaborative enterprise-wide and cross-enterprise collaboration is motivated by achieving a comprehensive view of the citizen, and organizing with consideration to life events. This motivation includes goals for increasing efficiency, effectiveness and capacity.[1]

The formation of collaboratives is gaining momentum and viewed as the way forward for delivering many business and technology services. According to the 2013 State CIO Survey 74% of state CIOs include cross-jurisdictional collaboration in their strategic plans.[2] Another 20% are considering following suit.

The formation of collaboratives can involve bringing two or more agencies together from within the same state or partnering with one or more other jurisdictions and/or the private sector. A newly formed cohort of jurisdictions can include virtually any level of government or government line of business. The 2013 State CIO Survey presents a variety of scenarios for IT shared services involving state government. What these results demonstrate is the wide portfolio of choices in joining up government. All of these potential partners should be evaluated in the context of the *strategic business and policy intent of the collaborative*. These arrangements are not mutually exclusive. Certain collaboratives, depending on the business intent of the collaboration, may include

more than one partner from this list. Further, such partnering may in effect be essential to achieving the business intent of certain types of collaboratives. If the business intent – the outcomes sought – have a broader context and reach, then the framing of such must consider the complete value chain from triggering events all the way through delivery or achievement of the outcomes. That value chain will drive the *partnering strategy* which outlines those strategic partners necessary for achieving intended outcomes. The *funding strategy* must then align with: the partnering strategy; the intended outcomes; and the objectives related to the sustainment or lifecycle of the collaborative.

Coordinating With and Leveraging Congruent Strategic and Management Functions

To maximize opportunities, increase efficiencies and build an institutional foundation the funding strategy needs to be coordinated or integrated with a number of other key and complementary strategic and management functions such as: IT driven or supported issue prioritization and targeting; solution identification, evaluation and selections; sourcing process and choices; project and portfolio management; and budgeting.

Examples include:

- Targeting and Prioritization: *Better alignment with state and gubernatorial priorities, especially for statewide and local issues; coordination with state call for projects processes, including the budget process*

- Solution Identification and Development: *Maximize options by coordination with technology tracking and management; innovation management, test-bed, center of excellence functions; government redesign initiatives*

- Sourcing: *Permits development of a wider range of partnerships and solutions; applies already mature performance management processes; helps identify and develop hybrid solution opportunities*

- Project and Portfolio Management: *Jointly with budgeting provides a means to develop a fully integrated funding and service portfolio that includes shared services*

- Budgeting: *Provides additional funding and financial management capabilities and support; maximizes funding options; helps integrate shared services funding in overall state public service need funding base*

NASCIO has already taken management process support and integration steps at the national level which can be actualized at the state level, including shared services. In 2013, seven of the key associations representing key aspects of state government operations joined together to form the *Alliance to Transform State Government Operations*, which aims to develop approaches for transforming public service from the inside out.[3] For example, state policy oriented procurement, budgeting and financial management experts can assist in developing state and local, and multi-state funding models.

Partnering Options

This list of participating partners does more than simply present the fact that various collaboratives have been forming. As the list of candidate partners expands, so does the *potential sources of contributing funding*. That said, such formations have a give and take aspect relative to various risks. Expansion of the partner list can have a positive impact on funding risk – i.e., the diversity of funding sources can contribute to balancing and reducing the risks associated with maintaining adequate funding and the inherent cycles associated with grants, budgets, and revenue streams. However, as the list of participating partners increases, the challenges with achieving consensus on goals, objectives and strategy also increases. *Partnering strategy* examines all of these aspects as well as the medium to long term view toward a *partner portfolio*. That is, determination of the early partners, and who may constitute strong candidate partners in the future as the collaborative matures.

The 2013 State CIO Survey presents a fairly long list of services state CIOs are providing to local governments. This list can be considered as a first priority list for candidate services to be considered with a cross-jurisdictional collaborative. This is also a "first generation" list that represents early targets of opportunity and demonstrates the interest states have in collaborating. Only 10% of the responding states reported that they are currently not sharing services with other entities. In the future, it can be expected that additional creativity will arise in combining value chains, supply chains and resources to not only gain economies of scale on efficiency and effectiveness, but also innovative break-through strategies for doing new things organized by citizen *life events*.

Shared services partners
- Other state executive agencies – 88%
- Local government entities – 55%
- State colleges and universities – 53%
- State judicial agencies – 45%
- K-12 – 43%
- State legislative agencies – 39%
- Community colleges – 39%
- Entities outside my state – 16%

2013 State CIO Survey

Types of services being shared
- Network services – 63%
- Data center hosting – 61%
- Security – 51%
- Email/office productivity – 47%
- GIS – 47%
- Telephony – 45%
- Cloud solutions/hosting – 41%
- Co-location – 41%
- IT training – 35%
- Portal/website hosting – 29%
- Storage and backup – 28%
- Video conferencing – 26%
- Applications development/support – 24%
- Business intelligence/business analytics – 14%
- Enterprise resource planning – 12%
- Mobile apps – 12%
- Digital archiving and preservation – 10%
- Imaging – 10%
- None – 10%
- Records management – 6%

2013 State CIO Survey

Many aspects of government are best considered on a regional basis and are best delivered through collaborative initiatives that include orchestration of resources and service delivery across a broad set of jurisdictions. In certain circumstances, these jurisdictions are geographically contiguous. In other instances geographical proximity is not the determinant. Rather, the nature of the need or opportunity is the determinant.

Examples include disaster response, homeland security, public safety, unemployment insurance, public health and economic development. As the expertise in forming collaboratives matures, this list of services can be expected to grow and to include more sophisticated cross-jurisdictional coordination. Future examples may

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demonstrate more applications in economic planning, transportation, predictive policing, immigration, education, and natural resources.

Clearly the opportunities for collaborative approaches are numerous. And, the interest in collaborating is very high. But how do we make something happen? What are the mechanisms for enabling such arrangements? NASCIO has addressed a number of the mechanisms that make cross-jurisdictional collaboration possible. These include governance, cost sharing, and best practices for success. One of the early enablers and one that forms the foundation for sustaining collaboratives is *funding*. Funding is a strategy or *portfolio of strategies* in and of itself. Funding streams may be quite dynamic depending on where the collaborative is in its lifecycle. In the beginning, the collaborative may need seed funding for capital investment which may entail one time grants, direct payments, or loans. Later on the *basket of funding* may change to include performance-based contracting, user-fee revenue, and certificates of participation. In support of ongoing sustainment, the collaborative may engage supportive strategies for purchasing and procurement. The portfolio of funding, or the funding basket, is a strategy that runs parallel with the collaborative that is *relevant and adaptive*.

It is important to stay the course with the strategic intent of the collaborative and be careful that specified intent is not compromised, diluted, or abandoned simply to gain funding from an available source. Funding and funding sources should be properly matched with that intent.

The Voice of experience – out of the textbook and into the real world

Members of the NASCIO Cross-Jurisdictional Collaboration Working Group as well as others experienced with establishing successful collaboratives have offered sage advice on seeking initial and sustained funding for cross-jurisdictional collaborative arrangements.

- *Early funding helps secure additional partners and funding*
Funding gained in the beginning serves more than seed money for investment. It also provides seed money for gaining additional funding. Often the challenge is obtaining that early initial funding that serves as a baseline or foundation. That initial funding is important for achieving early credibility and potentially gaining additional funding. Selection of those early partner benefactors is also strategic in gaining credibility for the worthiness of an initiative. Subsequently it is much easier to gain additional supportive relationships and eventually access to additional funding through these relationships.

In most cases, supporters and contributors find funding the entire budget for an initiative too much of a lift. However, if an initiative has a budget of say $1,000,000, fund seekers can be quite successful in gaining contributory funding of say $200,000 or even $50,000 from new prospective contributors. It is easier to say "yes" to $50,000 than to $500,000.

Potential funding sources will evaluate the growing list of contributors in judging the credibility of an initiative and determining their own willingness to join a cohort of funding partners. As they see the accumulated funds growing, and the presence of important supporters, there is a stronger motivation to be associated with an initiative and to contribute a share of the necessary funding.

Finally, leadership in partner organizations will be much more willing to join a growing cohort of contributors than to be the sole source for finances and bear all the financial and reputation risk of a new venture. On the one hand, if it is highly successful, they receive all the credit. On the other hand, if it is not successful – again, *they receive all the credit*.

- ***The ongoing campaign for support***

The "campaign for funding" can be a never ending activity that includes surprises. It is really an ongoing communications and marketing effort that seeks not only real financing, but also supporters of the initiative. Creating a network of supporters who have their ears open for potential funding sources can be one of the most effective strategies for finding relevant funding sources. These supporters invariably are an important voice for spreading the word regarding the worthiness of a collaborative initiative within their respective networks of relationships. It is important to keep the "campaign for funding" or networking going as a continual vigilance and part of a normal operating habit for anyone connected with the initiative. The campaign for funding is really a "campaign for the initiative" and a "campaign for real outcomes." The messaging must emphasize the worthiness of the initiative and the inherent value to participating benefactors in being associated with such an initiative. If potential partners and benefactors embrace the vision of an initiative, then funding and other support is often a natural next step.

Campaigning includes taking advantage of every opportunity to meet new contacts and learn about other organizations. Sometimes potential leads for funding will come from those contacts or their personal network. This type of networking will not always have a sharp vision or clear immediate outcome that justifies establishing the relationship. Building relationships and the network, or a network of networks, is a strategic discipline with a long term view. At some point in future, some of these relationships will present opportunities for mutual benefit. It has turned out to be quite surprising for some initiatives to get a call from someone they hadn't even met that wants to contribute funding. That future may happen in weeks, months or years subsequent to making the initial contact.

It is equally important to stay true to the vision and mission of the collaborative and not try to make it into something that is everything to all people. The messaging has to be clean and simple so others who "volunteer" to help market the initiative are conveying the correct message. Expanding scope in order meet additional criteria from potential benefactors or funding sources is a mistake unless that expanded scope can be clearly justified and properly orchestrated with where the collaborative is in its lifecycle. A clear justification for expanding scope would be learning that there are additional functionality or target populations that should be included in scope. And, that scope change and funding source are at the proper stage for the collaborative to respond. However, any expansion of scope must be carefully evaluated to be sure the scope is not expanded merely to secure additional funding.

Successful networking requires a readiness to engage and communicate enabled by a solid business case to deliver at a high level and at a detailed level when opportunities present. Over time, many contacts in a *network of relationships* that support the mission of the collaborative will be looking for funding opportunities for the initiative because they believe in its mission and outcomes. Further, as the network grows, there is the opportunity to embellish and improve

on the business case and add new innovative business scenarios that are suggested from others who not only catch the vision, but expand on it.

Therefore, even with all of these aforementioned cautions, the business case becomes dynamic – continually evolving. This is a transformational perspective that fits with the notion of a dynamic, agile enterprise which NASCIO has promoted in past. An expansion of scope has been demonstrated by the previous list of shared services that are employed by most government entities. For example, network services, data center hosting, security and email. However, the earlier word of caution on scope expansion must also be kept at the forefront. Scope must not be expanded merely to secure additional funding. If that kind of activity is repeated too often or carried too far, the original intent of the collaborative will be lost. A sense of balance is required and requires judicious evaluation of funding opportunities.

- *"What are you trying to do? I'd like to help you with that."*
With that aforementioned cautious evaluation, it is important to have an ear for opportunity. In seeking funding, seek opportunities to assist a potential funding organization or an organization that has a funding source with achieving the strategic objectives of that organization as well as the mission of the collaborative. Identify partners who need something done that you are able to do for them through the collaborative initiative. They have the funding, you have the capabilities or capacities or the know-how. Some of these partners are able to bring in employees as well as funding. So there can be the additional "in kind" contributions which are as important as funding. This may result in eliminating redundant enterprise investment by consolidating and optimizing capabilities. Again, that kind of opportunity is best illustrated with the list of shared services presented in the 2013 State CIO Survey.
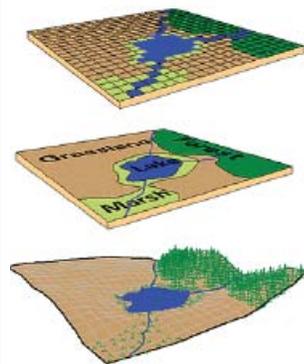
A clear example of this approach comes from geographical information systems (GIS) initiatives. GIS is clearly a resource that touches every government line of business and can enable analytics and decision making in virtually any aspect of society. The messaging in that example is to demonstrate how GIS can enable better understanding of a circumstance, redeployment of resources, and the measuring of outcomes. Gaining funding for shared GIS capabilities begins with understanding the mission, goals and objectives of an agency or a jurisdiction. The next step is explaining how GIS can enable that strategic intent and how sharing such a resource can save money.[4]

- *Grant funding - talk with the experts*
When evaluating grant funding, it is best to engage someone familiar with the application process for that specific source and how it works. Writing a business case, a proposal, or a grant application will require knowing how applications will be evaluated, graded and reach final selection. There may be some theme or higher goal that drives a particular

funding opportunity. Learn what is envisioned by that potential funding source and objectively evaluate how closely it maps to your goals. This is exemplified by various grant programs for supporting justice information sharing, homeland security and gubernatorial initiatives that provide guidelines, policy incentives and resources for local government service improvements including coordination and sharing.

An important resource for government is www.grants.gov. Searches for grants can be conducted by keyword, eligibility, various categories and by federal agency. These funding opportunities prescribe in detail the application and evaluation processes. There are many other sources that include foundations, and state innovation funds. Collaboratives should research candidate funding sources with a strategy for creating a *basket of funding streams* and not necessarily depend on only one source. Each of these sources will require careful attention to the intent and outcomes for that funding stream. Ask the question, "can we add additional functionality, or is this too far from our vision?"

There are opportunities for grant funding for collaboration for enabling the priorities of federal agencies. Examples of priorities include disaster recovery, public safety, enabling first responders, information sharing, rural health, and rural economic development. In examining available funding sources look for federal initiatives that share the same vision, goals and objectives.

Managing grant funding will require careful accounting and reporting. There must be line of sight traceability of the funding stream to expenses. If the funding basket expands, realize that project management, financial and program performance reporting, and progress reporting can become complex.

- *Contributory funding is relative – maintain the perspective of scale and magnitude for smaller jurisdictions*

There is the issue regarding *ability to pay* particularly with smaller jurisdictions. As an example, to be an equally contributing member on the basis of financial contributions alone, might prescribe contributions of say $100,000 from each member. However, $100,000 can be of high magnitude from a smaller borough or township perspective. $100,000 may be entire IT budget for a small jurisdiction.

There may have to be some type of sliding scale that accounts for budgets of smaller jurisdictions that could benefit from a collaborative approach. It may also be the only avenue for certain jurisdictions to have access to certain IT capabilities and capacities. If such are not able to fully contribute an amount equal to larger members, they certainly can't afford to go it alone in acquiring certain capabilities. As well, the pooling of funds from multiple small jurisdictions can accumulate to fairly significant capital.

- *Risk Management – be cautious on expectations*
Careful investigation at the feasibility study stage is important in evaluating opportunities for collaboration and the continued sustainability. Unfounded

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assumptions can lead to disastrous outcomes. For example, the contribution from collaborative partners may not result in equal shares relevant to contributions and benefits. Or, those promises of intended contribution may not sustain particularly as real costs increase.

In architecting a collaborative, there must be sufficient evaluation and understanding of the long term viability and assurance of partner contributions. Interest in a collaborative approach may be initially embraced by potential partners. If an up-front investment is required, and is made, by some central organizing authority based on the assumption that those partner jurisdictions or organizations would later join, there is the risk of non-performance by those jurisdictions or organizations. Without some type of written commitment, there is no guarantee of future participation. There is always the risk of changing priorities particularly with turnover of executive leadership. It is also important to judge the viability of funding from sources that have relatively fragile budgets. Any such investments within that kind of circumstance should not be made unless the central organizer is also able to sustain an effort on their own and the business case would stand up with or without external partners.

- ***Making the case for enterprise solutions can be challenging – don't paint yourself into a corner***

An opportunity arises when agencies are planning an initiative to move to an enterprise shared solution. Even with the gains presented in enterprise solutions, there may not be the motivation or vision of "enterprise" necessary to convince an agency to expand their project scope from a point solution to an enterprise solution. The main barrier to an enterprise solution may simply be a "project deadline." If there is a real or arbitrary deadline, then the project is managed to that deadline. Noteworthy, that approach is one of the "7 deadly sins of project management."[5] Nevertheless, it is still practiced too often.

Broadening the scope to include additional participants will, in most cases, bring in a longer time frame. That said, one balancing argument is that project timelines are too often overly optimistic even when limiting the scope to a single agency. And in the final analysis, the experience may be that the initiative could have included additional partners within the project scope, completed at the same, or near same, actual completion date but having delivered much greater utility in the way of a broader enterprise solution. The additional partners would then have brought with their interest in the project, additional funding. Thus, partnering with other agencies can balance funding risk and contribute toward better orchestration of services across the enterprise. The corner we're trying to avoid is being locked out of offering an enterprise wide or collaborative solution. Anymore, early project planning should be asking, "can we expand our scope either now or in future?" "Does this implementation allow for future modification and innovation including expansion of partners?" "What savings can be gained for reinvestment by removing redundant investment in this solution from across state government?"

Initial plans for delivering any project can meet with not only the unexpected, but may have been founded on unrealistic assumptions regarding the project pace, resource availability and even funding. As well, requirements may change during the life of a project that requires extending the project timeline. These are real-

life characteristics of projects and should be taken into account by agencies that may be initially unwilling to expand the scope of their project to an enterprise wide project simply to save time.

Further exploration should be given to project staging such that the original lead agency on a project is able to achieve their objectives while affording the possibility of future expansion to an enterprise solution. The delivery of the originator's objectives could be orchestrated as a "first phase deliverable." This approach may meet with greater acceptability by the original project owner. That said, any capabilities delivered must then have the capacity for serving other lines of business as well as other jurisdictions. Solutions can't be programmed such that they only allow one set of business rules and therefore preclude necessary modification and innovation to serve a broader community. This approach requires a longer term vision and a broader motivation that considers all of government and maintains a vision for keeping options open for future collaborative arrangements.

Any new projects or investments should be evaluated through appropriate governance for its viability for future expandability and adoption. That emphasis gains importance when developing solutions that are applicable across a wider array of government lines of business. The list of shared services presented earlier are prime examples for collaboratives. All of these other than ERP are relatively straightforward in terms of justification.

It becomes more challenging when exploring transactional systems that have imbedded business rules. If those business rules are hard programmed into the system – then there is little or no flexibility in terms of broadening participation via collaborative. If an application can support more than one set of business rules – e.g., table driven approaches that will execute on specific business rules as a function of the "client" – then the door is open for a collaborative approach and collaborative funding. More of this type of scenario will be seen in the future as the notion of cross-jurisdictional approaches matures, cloud computing approaches mature, and consideration for "joining up" becomes more of a first choice consideration.

Even highly specialized capabilities that are unique to a given line of business are being considered as candidates for collaborative approaches. State governments are pursuing collaboratives related to transportation, unemployment insurance and public health. These *line of business specialties* will continue to mature as an opportunity that can uncover savings that can be made available for re-investment into other opportunities. This kind of an approach for reinvestment is further described in NASCIO's report *Innovative Funding for State IT: Models, Trends, and Perspectives* under the category of funding titled "Budgeting and Appropriations Strategies."

References and resources for developing a funding strategy

NASCIO has reported in past on funding options for state government. Two very comprehensive reports were published in 2003 and in 2008. Additionally, other reports are listed in the appendix that provide a survey of possibly funding strategies. The results of the NASCIO reports are summarized here.

The following set of models refers to "innovative" or "alternative" means of funding in the 2008 report. Given that they are non-traditional approaches that do not tap general fund resources they remove the need to *compete* for general funds. The 2008 report provides details on each of these approaches as well as a list of the states that had employed these methods at that time.

Funding Options

- Benefits Funding
- Bonds
- Budgeting & Appropriations Strategies
- Certificates of Participation
- User-Fee Revenue
- Grant Funding
- Investment Funds
- Performance-Based Contracting
- Purchasing & Procurement Strategies
- Sharing Services

Funding Approaches from the NASCIO 2008 Report

NASCIO also looked at alternative outsourcing and partnering options which are presented here and described in detail in the 2008 report.

Partnering Approaches

- Leasing & Financing
- Outsourcing & Management Services
- Partnering with other Branches of Government
- Public-Private Partnerships
- Public-Public Partnerships

Partnering Approaches from the NASCIO 2008 Report

External funding sources – grants, direct payments and loans

Federal assistance deserves special attention due to the fact that there is a wide portfolio of channels that fall under this category that include formula grants, project grants, direct payments with and without restrictions on usage, direct loans, advisory services and many more. The full catalog of available funding or in-kind assistance is available in the Catalog of Federal Domestic Assistance (CFDA) at *www.cfda.gov*.
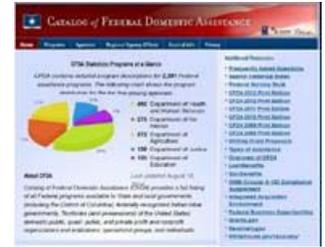
As aforementioned, federal grants can be researched and evaluated against the goals and objectives of the initiative or project. The state of Ohio Office of Information Technology published a comprehensive survey of funding sources in 2004 that is another essential resource for state and local governments. The focus of the Ohio survey was toward geospatial technology projects. However, the information presented is relevant to any state or local government initiative. The report is further described in the appendix of this report and can be downloaded at *ogrip.oit.ohio.gov/Portals/0/PDFs/Potential_Grant_Funding.2004.pdf*.

As presented in the Ohio report, seeking and applying for any type of grants or direct payments requires appropriate research, capabilities in making a business case and writing grant applications, grant management, and grant reporting.

Grants are available from a variety of sources. The environment for these fund sources are often very competitive requiring well written business cases. Often the business case must present how the initiative will not only benefit the immediate need, but be reused by other state and local governments. Search for and apply for grant funding that matches the intent of the initiative seeking funding. Because of the level of effort in preparing grant applications, that matching of projects with grant objectives is critical. Grant applications will be carefully scrutinized by the grantor regarding a project's fulfillment of the intent of the grant program. Once a candidate grant is identified for further consideration, it would be prudent to evaluate the projects the grantor has funded in past. It may also be prudent to talk with the grantor and past award recipients to learn more about the grant program. Writing a grant application is a significant amount of work and should be entered into as a project in and of itself. That level of work needs to be justified – there has to be a fairly strong assurance that the grant application will be accepted.

Barriers to Joining Up

In forming a collaborative and seeking partners there are barriers that can be anticipated which can interfere with available funding from those partners. When seeking local government partners understand that there are local rules and priorities that can be quite different from the priorities of state government. Missions of jurisdictions can be very different or be interpreted as

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being very different. Some funding mechanisms may be specifically restricted such that they preclude application from local governments. Approvals can get interrupted by long and arduous approval processes, local regulations, and legislation. Sometimes statutory change is required and that kind of change is happening in state legislatures that recognize the value of collaboration with other jurisdictions. An informal or formal Attorney General assessment or review may be required or certainly prudent. Such a review can help identify potential jurisdictional policy and legal conflicts.

Be ready to deal with these barriers. It may be determined that trying to overcome some of these types of barriers is simply not worth the effort. The collaborative must be judicious in determining potential partners and the likelihood of support as well as the likelihood of successfully navigating through the inherent approval process.

Transaction Cost Economics

This section is a very brief description of an important aspect of partnering – when either out sourcing or in sourcing. The issue is related to funding but from the *cost side*. When seeking funding of any kind, it is imperative that there is a full accounting for the cost of an initiative. There can be no surprises related to costs further down the project timeline and after partners have made commitments to not only fund a project or initiative, but also the parallel commitment to *not* fund some other competing initiative. These partners had decided to go with your initiative. Don't make them regret it and begin calculating opportunity cost or sunk cost associated with their choice.

Transaction cost economics (TCE) is a discipline for ensuring the full cost of an initiative is determined before getting to the funding phase. It is a dramatic diversion from the historical supposed "win–win" negotiations that are so typical of most contract negotiations. This approach includes many aspects related to management, relationships, and finance.

From the relationship side, trust relationships are essential to selecting and negotiating in public private-partnerships as well as public-public partnerships. A collaborative may select to outsource a service capability to an industry partner, to another public entity, or to an internal service provider. No matter the specific circumstance, it is important to develop a trusted working relationship that "intends" to sustain. Any candidate partner should be interested and capable of riding out the economic storms as well as smooth waters with government. This approach is oriented toward the long term – not point solutions that are highly temporal in nature.

However, the philosophy of this approach also includes consideration that if in future such supplier partner is not able to sustain support or advance with the

collaborative into new innovations that serve the citizenry, then there must be an organized well executed exit strategy that is also provided for and doesn't harm either party. Exit strategies should be managed affairs – not emergencies nor necessarily considered failures. Rather, a natural course of potential events that are anticipated.

Partnering with external suppliers is so prevalent, and so important, that government must become expert at making such arrangements. The old paradigm of negotiating for least cost is an approach government must move beyond. As well, highly specific performance contracts preclude the ability to make adjustments when either circumstances change that require new or different functionality, or opportunities arise that can drive a change to requirements. Don't get painted into the corner of a highly specific performance contract.

Create contracts that are really frameworks for getting work done. A better approach is to write a contract that presents an outline of the work to be done, and provides a process for modification. For work *yet to be determine*d, focus on the *process and tools* to be used, not on the work to be done. The contracting must provide necessary provisions for any possible events that can be reasonably anticipated. Government must advance toward a more sophisticated approach to partnering, contract negotiations and supplier-partner management. A contract must be negotiated such that all parties are kept whole if the collaborative encounters various circumstances that can be reasonably considered possible. It is in the customers' best interest that the supplier-partner, whether they be a for-profit or a non-profit, remain economically viable. As well, a supplier-partner shouldn't drain a customer dry. Avoid or at least limit punitive contract provisions.

A different approach is one that maintains a long term view on relationships, service provision, supply chains, capital costs, and *all* transactional costs. The appendix of this report presents the principles of TCE as well as valuable references for further explanation. The intent of business relationships is not to punish – or "win" - rather to *reach mutually beneficial outcomes*.

Summary

Part of the emphasis here is that funding mechanisms must be evaluated against a number of factors such as the goals and objectives of the initiative; the matching of the business case with the intent of funding sources; matching with partners objectives and approval processes; viability of funding streams; trust based partnering with service providers that is mutually beneficial. It is critical to take full account of all costs associated with an initiative – including hidden costs. Further, in seeking providers, partners, and funding sources, it is prudent to think beyond the immediate project scope and consider that any collaborative has the potential to grow and expand its scope over time. Partnering and funding sources then become even more strategic.

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Recommendations:

- Use the collaborative nature of the initiative or project as a key element in marketing and communication with potential collaborative partners.

- Establish partnerships that are in the game for the long term. As collaboratives become more dependent on their partner-suppliers there is of necessity an inter-dependency. Be cautious regarding switching partners. Better to have established trusted strategic partnerships with partner-suppliers that have the staying power to ride the economic waves and remain faithful trusted partners.

- Take into account partner administration processes including: IT driven or supported issue prioritization and targeting; solution identification and selections; budgeting; grant applications; procurement; portfolio management; process and government redesign; and legislative processes to ensure proper coordination with core strategic and operational processes and submitted budgets. Such evaluation should help validate the partners that have been selected and indicate some partners may not be a good match with the strategic intent of the collaborative.

- When negotiating with a prospective partner-supplier, negotiate for best value not lowest price. Select supplier-partners based on the propensity for establishing a long term trust relationship that recognizes the needs of both partners. Pursue a best value transaction cost economics (TCE) approach to contracting. See the principles or lessons for TCE and references in the appendix.

- Ensure full accounting for total long terms costs to avoid the necessity for requesting additional funding for unanticipated costs. In other words, be very cautious in identifying all costs including contingencies. Subsequent requests for unanticipated costs will erode credibility and bring into question the validity of project budget and project plan. Such requests may also be denied.

- Create the capabilities for researching and applying for external grant-type funding. This includes direct payments, formula grants, project grants, direct loans and specialized government services. Researching external funding, grant writing, budget development, program performance reporting and grant management are all necessary capabilities for researching, applying for, receiving and managing external funding. If this will be an important aspect of funding a cross-jurisdictional initiative, develop or acquire the necessary personnel and related capabilities.

- Continue to look for efficiencies and economies of scale that will result in cost savings which can be redirected toward new collaborative investments. Have in place the necessary fund accounting processes for building innovation funds from such savings.

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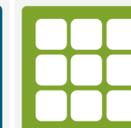
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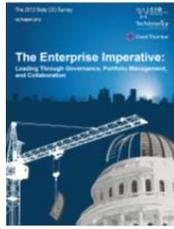
The Enterprise Imperative: Leading Through Governance, Portfolio Management, and Collaboration
October 2013
NASCIO, TechAmerica, and Grant Thornton LLP have collaborated for a fourth year on the annual survey of state government IT leaders. The 2013 survey report, The Enterprise Imperative, offers the latest insights from State CIOs and concludes these leaders are emphasizing effective enterprise governance models, adopting business disciplines, and forging the right relationships for collaboration. The 2012 survey – Advancing the C4 Agenda – focused on the balancing act that CIOs must maintain both in providing high-quality services and in delivering new, innovative solutions. These demands have not decreased. CIOs are responding by focusing on the enterprise, and by coordinating across boundaries. The enterprise focus may involve integrating governance and portfolio management across the state, improving the effectiveness of IT procurement, or deploying statewide identity and access management solutions

Innovative Funding for State IT: Models, Trends, and Perspectives
September 2008
*Based on a survey of the states, this report examines the use of innovative, alternative and financing funding models for technology projects that enable states to deliver savings, and improve IT services to citizens. The results update NASCIO's 2003 report on innovative funding, "*Innovative Funding for Innovative State IT: New Trends and Approaches for State IT Funding,*" and provide state CIOs with information and insights for the facilitation of innovative funding initiatives in their own states. A product of NASCIO's 2008 Innovative Funding for State IT Working Group, this report was developed based on results from an all states survey of state CIOs; thirty-one states responded concerning their IT funding initiatives.*

Innovative Funding for Innovative State IT
November 2003
Many states have found it increasingly difficult to obtain funding for state IT projects through traditional means, such as via appropriations from the state general fund. In spite of tight economic times, citizens' demand for improved ways of doing business with state government and 24 x 7 access to government services has remained strong. This report provides states with innovative avenues of funding so that they can provide citizens with the government services they demand. This publication details eleven innovative funding models and provides case studies on how each model has been implemented by a state. The report also includes a study conducted by NASCIO's Corporate Leadership Council (CLC) that surveyed the states on the types of funding models they are currently using. The survey results from the twenty-three states that responded are included in this publication.

Governance of Geospatial Resources: "Where's the Data? Show Me" - Maximizing the Investment in State Geospatial Resources
July 2008
Geospatial resources refer to a whole discipline around managing data with a spatial orientation or component to support better decision making. Geospatial resources include a field of knowledge, people, policies, processes, standards, and technology that are not only necessary for everyday decision making but also critical for continuity of operations and disaster recovery. A new emphasis on location aware is evidenced further as State CIOs named "GIS" on their Top Ten list of Priority Technologies for 2008. Geospatial resources are so ubiquitous anymore that state government as well as citizens and industry think "where?" regarding almost every issue. This issue brief explores government's demand for geospatial resources and offers recommendations and calls to action for the state Chief Information Officer to meet that demand.

Looking to the Future: Challenges & Opportunities for Government IT Project Management Offices
October 2006
This brief, developed by NASCIO's State IT Project Management (PM) Forum, addresses several of the top state government challenges including portfolio management and strategic planning, PM skill maturity, political risks, structures/organizations, procurement processes/rules, as well as funding models and spending cultures particular to government.

Mining for Budget Gold: How to Pay for Your IT Initiatives – NASCIO 2008 MidYear Conference Session
*Conference Interactive Audience Polling Results*
http://www.nascio.org/events/2008Midyear/survey/Mining%20for%20Budget%20Gold.pdf

Other resources

Ohio Geographically Referenced Information Program (OGRIP)
This paper presents a variety of funding mechanisms and sources for the development and implementation of GIS programs. The target audience is the state of Ohio GIS community, but it is an excellent reference for any state or local government. Included in this document is a variety of information on federal, local and private funding sources and additional information on grant research and training that may be helpful when searching for external funding for GIS or any other technology projects. NASCIO highly recommends this resource for state government funding research efforts.
ogrip.oit.ohio.gov/Portals/0/PDFs/Potential_Grant_Funding.2004.pdf
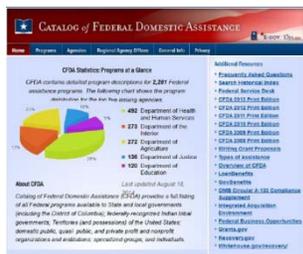
The Catalog of Federal Domestic Assistance
The Catalog of Federal Domestic Assistance (CFDA) provides a full listing of all Federal programs available to State and local governments (including the District of Columbia); federally-recognized Indian tribal governments; Territories (and possessions) of the United States; domestic public, quasi- public, and private profit and nonprofit organizations and institutions; specialized groups; and individuals.
www.cfda.gov

Pay IT Forward: Doing the Public's Business with Digital Technologies
while Reducing Pressure on the General Fund
Pay IT Forward documents more than a dozen IT-related strategies currently in use by government to make better decisions, increase revenues, reduce expenditures, and open the doors for new opportunities and innovation while reducing pressure on the general fund. The cases and examples profiled here show operational savings of 12 to 30 percent or more. The millions in hard-dollar savings – not to mention soft-dollar cost-avoidance and service enhancements – are coupled with over a billion dollars in increased revenue, all without raising taxes.
http://media.centerdigitalgov.com/Pay_IT_Forward/pay_IT_lowres.pdf

Government Technology Series

➢ *Finding and Funding IT Projects - Government Technology*
http://www.govtech.com/magazines/gt/Finding-and-Funding-IT-Projects.html?page=1

➢ *Finding and Funding IT Projects, Part 2: User Charges*
http://www.govtech.com/magazines/gt/100553189.html

➢ *Finding and Funding IT Projects, Part 3: Performance Contracting*
http://www.govtech.com/magazines/gt/100553054.html

➢ *Finding and Funding IT Projects Part 4: Budget Process*
http://www.govtech.com/magazines/gt/Finding-and-Funding-IT-Projects-Part.html

Best Practices for Creating Government-to-Government Partnerships That Work
Gartner
Published: 14 August 2014
Analyst(s): Bryan Pagliano, Glenn Archer
When sourcing IT services from another agency, relying on prescriptive memorandums of understanding is, at best, a suboptimal approach. To improve performance, IT sourcing leaders should use a phased approach that includes evaluating, designing, deploying and evolving the shared service partnership.

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D*elivering Results - National Governors Association*
On 13 July 2014, Colorado Gov. John Hickenlooper, new chair of the National Governors Association (NGA), announced "Delivering Results," an NGA initiative aimed at improving the management and productivity of state governments. The recommendations include exploration of innovative public-private partnerships to deliver and finance public services.
http://nga.org/cms/sites/ci/home/chairs-initiative-2014-2015---de/index.html

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Unpacking Oliver-10 Lessons to Creating Better Outsourcing Agreements, April 2010

This white paper examines 10 key lessons of transaction cost economics in outsourcing from Dr. Oliver Williamson's Nobel Prize-winning work that are directly applicable to outsourcing and supply chain professionals. This article explains how supply chain managers can use Dr. Williamson's ideas to create better outsourcing agreements.
http://www.apqc.org/knowledge-base/documents/unpacking-oliver-10-lessons-creating-better-outsourcing-agreements

Principles or Lessons Transaction Cost Economics[6]

1. Outsourcing is a continuum, not a destination.
Deciding to in-source or outsource is rarely a simple 'yes or no' decision. The goal is to reduce costs, and improve service while maintaining or increasing profit margins for all partners.

2. Develop Contracts that create "Mutuality of Advantage."
Contract for win-win by committing to a 'What's in it for We' approach.

3. Understand the Transaction Attributes and their Impact on Risk and Price.
Partnering organizations should look to identify all costs, including transaction costs associated with asset specificity, uncertainty, frequency and work to develop solutions that can mitigate these risks and the costs associated with them. It is important to understand the true "Cost to Serve." Don't ignore the risks – but identify them and determine the best way to manage them. Risks and costs need to be addressed from a "holistic" supply chain perspective. Remembering the sum of the local costs does not equal the global cost.

4. The Greater the Bilateral Dependencies, the Greater the Need for Preserving Continuity.
Companies that are "promiscuous" frequently bid and transition work to new suppliers that are likely to experience higher overall costs than if they had developed a fair and equitable contract that preserves continuity and eliminated switching costs.

5. Use a Contract as a Framework – Not a Legal Weapon
Creating a detailed contract and associated statement of work puts the outsource provider and customer into a "box." This limits innovation and encourages finger-pointing when there is inevitable scope creep and changes. It is better to indicate an outline of the work to be done, and provide recourse for ultimate appeal. For work yet to be determined, focus on the process and tools to be used, not on the work to be done.

6. Develop Safeguards to Prevent Defection.
It is important to recognize that business relationships may need to change due to changes in the market and for this reason contracts need a well thought out exit management plan. Due to the changing market place, a perfect supplier (or customer) today might not be a perfect match in the future. For this reason, practitioners should clearly identify the costs associated with terminating a contract. Create safeguards in the contract that are fair and equitable in terms of keeping either party "whole" in the event that a contract needs to be terminated prematurely.

7. Predicted Alignments can minimize Transaction Costs.
Predicted alignments or what is sometimes thought of as "shared visions" can and does reduce transaction costs. When at all possible, create a shared vision that will guide how both the company and the service provider will work. Companies should create mutually beneficial outsourcing agreements whereby the service provider is rewarded financially for achieving the desired outcomes for the company that is outsourcing. Develop pricing models that reward and incentivize service providers for achieving the desired outcomes.

8. Your Style of Contracting Matters; Be Credible.
Organizations that use their "muscle" to gain an advantage over suppliers may have a short term win, but they will lose in the long term. Companies will ultimately face higher market costs and transaction costs from switching or transitioning suppliers, or at a minimum from suppliers being forced to use conventional negotiations to put in myopic and costly contractual provisions and behaviors that simply drive up hidden costs.

9. Build Trust; Leave Money on the Table.
Leaving money on the table may sound foolish, but when striking a strong business relationship it can signal a constructive intent to work cooperatively that will build an environment that is credible from start to finish. As the old proverb states "Give and it will come back to you, generosity gives rise to generosity."

10. Keep it simple.
Organizations should strive to keep its relationships and contracts pragmatic, plausible and correct. Those are excellent lessons in life and for a good business relationship and supporting contract.

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(Endnotes)
1 *Cross-Jurisdictional Collaboration – A Formula for the Future*. Accenture. A Report from the 2010 Harvard Shared Services in Public Sector Summit. Retrieved on 8/16/2014 from http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture_Cross-Jurisdiction_Collaboration_A_Formula_for_the_Future.pdf

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5 Kapur, G.K., *Project Management for Information, Technology, Business and Certification*. Pearson Education, Inc. Upper Saddle, NJ. 2005. ISBN 0-13-112335-1. pp. 9-16.

6 Vitasek, K., Manrodt, K., Wilding, R., Cummins, T., *Unpacking Oliver – Ten Lessons to Improve Collaborative Outsourcing*, Vested Sourcing 2010. ISBN 978-0-9845939-0-3