NASCIO
Representing Chief Information Officers of the States

SEPTEMBER 2008

INNOVATIVE FUNDING FOR STATE IT: MODELS, TRENDS & PERSPECTIVES

Founded in 1969, the National Association of State Chief Information Officers (NASCIO) represents state chief information officers and information technology executives and managers from the states, territories, and the District of Columbia. The primary state members are senior officials from state government who have executive-level and statewide responsibility for information technology leadership. State officials who are involved in agency-level information technology management may participate as associate members. Representatives from federal, municipal, international government and non-profit organizations may also participate as associate members. Private-sector firms join as corporate members and participate in the Corporate Leadership Council.

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Dick Thompson, Co-Chair
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Commonwealth of Virginia
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Vivek Kundra
Chief Technology Officer
District of Columbia

Andris Ozols
State of Michigan
Connie Robins
State of Washington
Darrell Black
State of South Carolina
John Lally
State of Minnesota
Joe Werner
Finance Director
Tennessee Office for Information Resources
Paul Creede
State of South Carolina

Sean McSpaden
Deputy Chief Information Officer
State of Oregon

Jim Schowalter
Minnesota Department of Finance
Martha Henry
Arkansas Department of Finance and Administration
Mitch Rosenfeld
Virginia Department of Planning and Budget
Sue Bost
California Department of Finance

Ben Husch
National Association of State Budget Officers (NASBO)
Stacy Mazer
National Association of State Budget Officers (NASBO)

Brenda Sessions
CIBER
David Ballard
Qwest Communications
Ian Temple
Cisco Systems, Inc.
Mike Claytor
Crowe Chizek
Robert Chandler
NIC
Robert M. Dallas
Alcatel-Lucent
Robert J. (Bob) Lutz
ACS Government Solutions
Tina Montoya
Pearson VUE

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Please direct any questions or comments about *NASCIO's Survey on Innovative Funding for State IT* to Drew Leatherby at dleatherby@amrms.com or (859) 514-9178.

Background & Approach

In 2008, NASCIO asked state CIOs to participate in a Web-based survey regarding their use of innovative or alternative funding models for information technology projects. The results of this survey serve as the baseline for this report. The online survey was completed by the state Chief Information Officer or other members of the state IT organization.

NASCIO does not rank states, but individual responses are available to state members so they may better assess their respective IT funding initiatives. Many of the states that responded requested that NASCIO keep their identities confidential, so specific state attributions to many comments have been removed. Through this report, NASCIO seeks to identify effective funding strategies that have been utilized or are currently being used successfully in the states.

Survey Participants

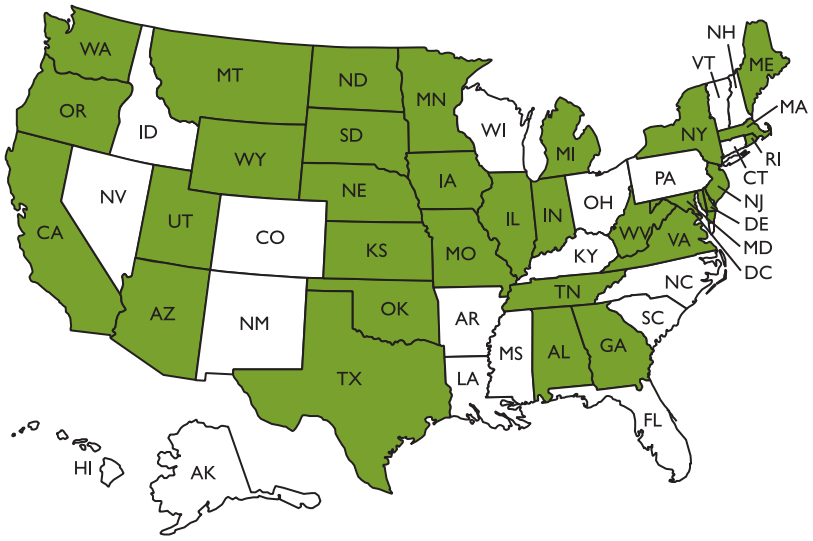
Thirty-one states responded to the survey from June 4, 2008 through July 22, 2008, representing approximately *68.69 percent of the nation's population. Participation included a wide distribution in geography, population, and budget.

*Source: Annual Estimates of the Population for the United States and States, and for Puerto Rico: April 1, 2000 to July 1, 2004 (NST-EST2004-01) <www.census.gov/popest/states/tables/NST-EST2004-01.pdf>

The following states responded *(listed alphabetically)*:

1. Alabama
2. *Arizona
3. California
4. *Delaware
5. Georgia
6. Illinois
7. Indiana
8. Iowa
9. Kansas
10. Maine
11. Maryland
12. *Massachusetts
13. Michigan
14. *Minnesota
15. *Missouri
16. Montana
17. Nebraska
18. New Jersey
19. New York
20. North Dakota
21. Oklahoma
22. Oregon
23. Rhode Island
24. South Dakota
25. *Tennessee
26. *Texas
27. Utah
28. Virginia
29. Washington
30. West Virginia
31. Wyoming

* = States whose funding models were highlighted in NASCIO's 2003 report



Executive Summary

The National Association of State Chief Information Officers (NASCIO) Executive Committee charged the Innovative Funding Working Group to address issues related to successful innovative and alternative funding models that enable states to deliver savings, and improve services to citizens. The goal of the Innovative Funding Working Group was to provide members of NASCIO with information and tools for the facilitation of innovative and alternative IT funding efforts. To these ends, the working group conducted a national survey on Innovative Funding for State IT and prepared this report based on survey results. This report updates NASCIO's 2003 report on innovative funding, "*Innovative Funding for Innovative State IT: New Trends and Approaches for State IT Funding*."

Key Survey Findings

NASCIO surveyed state Chief Information Officers concerning their IT funding initiatives. The trends discovered in responses from 31 states in 2008 reveal that states' IT enterprises are still highly reliant on "traditional" funding methods with the majority of states indicating that they have a 90 to 10 percent split in the use traditional funding to alternative funding; however, the survey also revealed a trend towards expansion and wider adoption of innovative and alternative funding models. These models are innovative or alternative in the sense that they are a departure from the "traditional" funding approach of obtaining monies out of the state general fund through legislative appropriations, and further "innovation" revealed itself in the form of techniques states are adopting to make their "traditional" funding dollars go farther by adopting unique ways of leveraging or stretching those dollars.

Current Trends in State IT Funding Initiatives

States have a wide variety of funding options available that are outside the "traditional" funding approach. NASCIO's recent survey identified the following innovative or alternative funding methods currently being utilized in the states:

- Benefits Funding

Table 1. Most Popular Innovative or Alternative Funding Models in the States

Funding Model	Number of States Utilizing Funding Model, 2008 Survey; *N=31*	Number of States Utilizing Funding Model, 2003 Survey; *N=23*
User-fee Revenue	22	NR
Grant Funding	22	NR
Budgeting & Appropriations Strategies	19	18
Leasing & Financing	19	15
Outsourcing & Managed Services	18	16
Purchasing & Procurement Strategies	17	16

Source: NASCIO's 2008 and 2003 surveys of state innovative funding for state IT

- Bonds
- Budgeting & Appropriations Strategies
- Certificates of Participation
- User-fee Revenue
- Grant Funding
- Investment Funds
- Leasing & Financing
- Outsourcing & Managed Services
- Performance-Based Contracting
- Public-Private Partnerships
- Public-Public Partnerships
- Purchasing & Procurement Strategies
- Sharing Services

Of those identified, the methods most currently being utilized were: **(1)** User-fee Revenue, **(2)** Grant Funding, **(3)** Budgeting & Appropriations Strategies, **(4)** Leasing & Financing, **(5)** Outsourcing & Managed Services, and **(6)** Purchasing & Procurement Strategies. These trends seem to mirror **NASCIO's 2003 report** on innovative funding where the report indicated the most commonly utilized strategies as: **(1)** Budgeting & Appropriations Strategies, **(2)** Outsourcing & Managed Services, **(3)** Purchasing & Procurement Strategies, and **(4)** Leasing & Financing. User-fee Revenue and Grant Funding represented two methods identified in the 2008 report that were not widely used in 2003. **(*See Table 1 on page 2*)**

Also, based on the number of responses, the adoption of partnership arrangements, both public-private and public-public indicated wider adoption. There is also a clear trend toward leveraging the assets of the private sector and utilizing direct **user-fee revenue** to fund the development of large IT projects such as the development and maintenance of state web portals.

Introduction

"Fiscal 2008 marked a turning point for state finances with a significant increase in states seeing fiscal difficulties, in stark contrast to the preceding several years. As the economy has weakened, so has the state revenue and spending picture. The decline of the housing sector along with a weak manufacturing sector have combined to cause significant declines in revenue for a number of states." [1]

Why focus on funding?

With continued economic strain on state budgets and growing competition for state dollars, CIOs are being driven to look for new funding streams for state IT projects, and the current fiscal crisis facing most states has exacerbated the situation. Making the right financial decisions now can ensure continuity and reduce risk to the future of state IT enterprises. Traditionally, structural and administrative barriers make it difficult for some states to pursue innovative and alternative funding models; however, tight fiscal times provide CIOs a window of **opportunity** to grab the attention of state budget decision makers. Tight fiscal times can also **drive innovation** in IT financing.

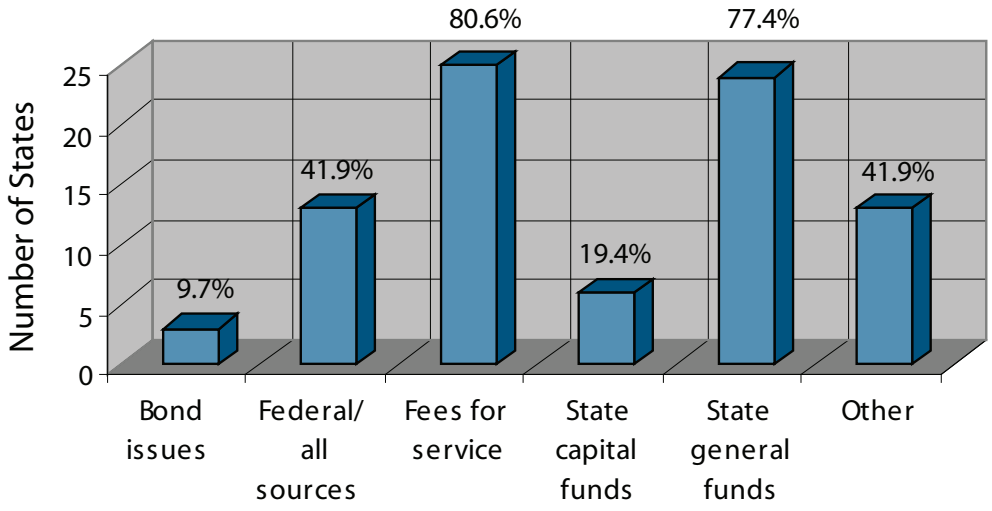
States IT Funding Profile

To place the findings of this survey in perspective we must first take a look at states' current funding profiles. When states were asked to indicate the percentage of revenue sources they rely upon to fund their IT organizations, fee-for-service and state general funds were at the top of the list, indicating that states are still highly reliant on "traditional" funding methods. ***(See figure 1 below)*** A majority of respondents also indicated that they have a 90 to 10 percent split in the use traditional funding to alternative funding, with no states indicating less than a 60 to 40 percent split.

To give us an idea of who is at the front line of proposing or recommending funding for state IT projects, respondents indicated that the state CIO or state budget director are the primary decision makers. ***(See figure 2 on page 5)*** Close to 39 percent of respondents indicated "other" entities, with state agencies or state agency CIOs or project managers being most referenced. Other states indicated legislative appropriations committees.

As **stakeholder trust** is a key element for the facilitation of innovative or alternative funding efforts, conversely, when states were asked to indicate which state officials are in charge of choosing or approving IT related funding decisions, or that

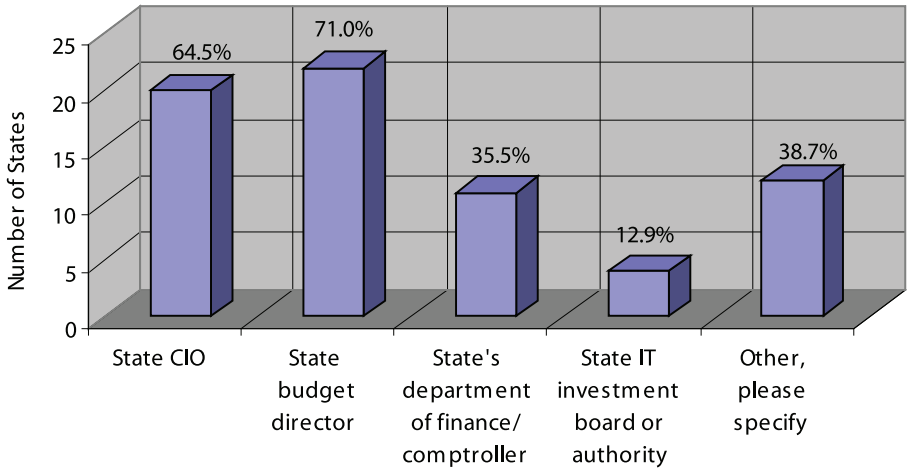
Figure 1. Percentage of revenue sources they rely upon to fund their IT organizations; *N=31*



Source: NASCIO's 2008 survey of state innovative funding for state IT.

[1] "*The Fiscal Survey of the States*," June 2008, Copyright 2008 by the National Governors Association and the National Association of State Budget Officers. All rights reserved.

Figure 2. Entity that proposes or recommends the type of funding vehicles for state IT projects; *N=31*

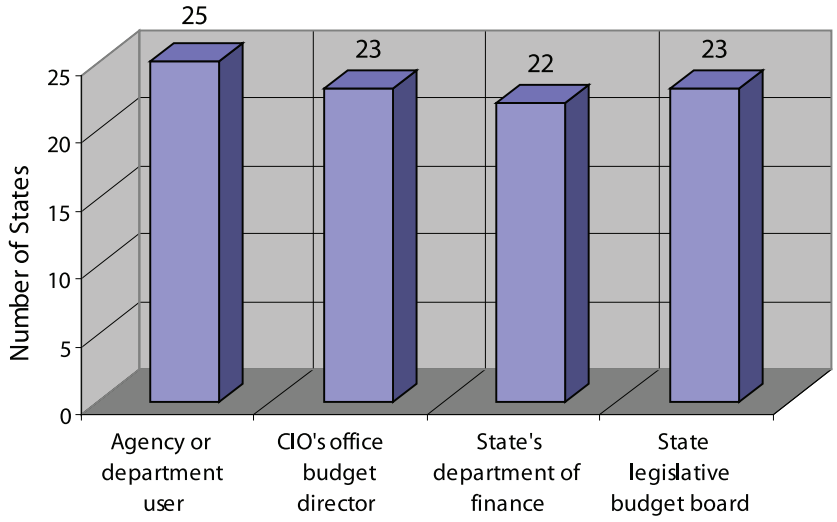


Source: NASCIO's 2008 survey of state innovative funding for state IT.

must be convinced or sold on such initiatives, the results were virtually level across the board. ***(See figure 3 below)***

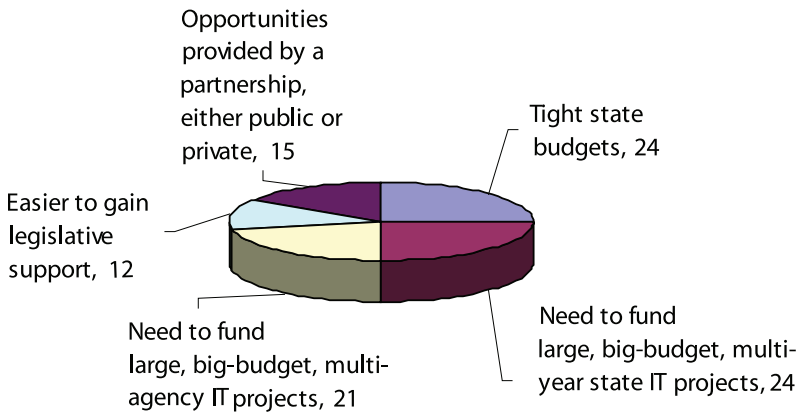
Finally, to provide readers a better picture of the reasons states have chosen to use innovative or alternative funding models to fund state IT projects, outside of the use of direct general fund appropriations, a majority of states indicated in the survey that **(1)** tight state budgets, **(2)** the need to fund large, big-budget, multi-year state IT projects, and **(3)** the need to fund large, big-budget, multi-agency IT projects, were the major drivers. ***(See figure 4 on page 6)*** Other comments provided by respondents included: "To promote innovation in IT;" "This may be part of the tight state budgets, but up front capital is the single largest issue;" "To gain efficiencies through standardization of IT environment and services;" and "To achieve greater economies of scale."

Figure 3. State officials in charge of choosing or approving IT related funding decisions, or that must be convinced or sold on such initiatives; *N=31*



Source: NASCIO's 2008 survey of state innovative funding for state IT.

Figure 4. Primary reasons states have chosen to use innovative or alternative funding models to fund state IT projects, outside of the use of direct general fund appropriations; *N=31*



Source: NASCIO's 2008 survey of state innovative funding for state IT.

Federal Cost Allocation and OMB Circular A-87

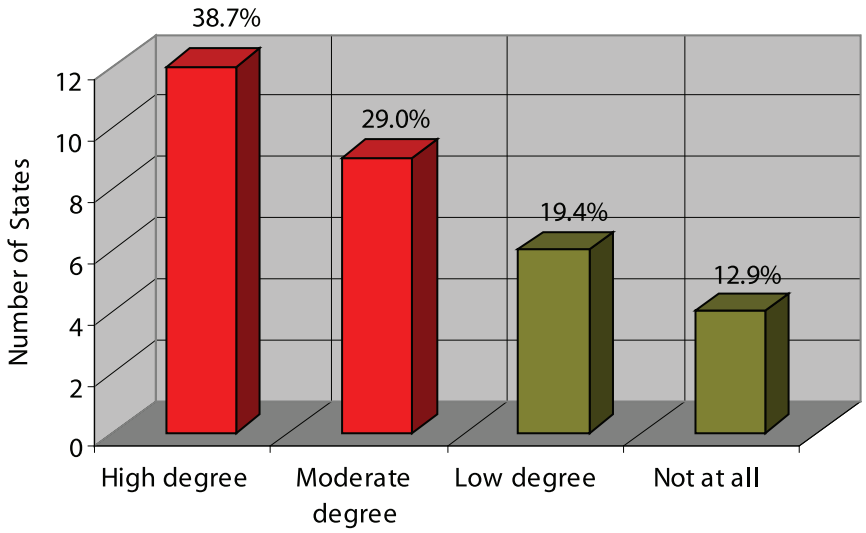
Each fiscal year, Congress appropriates funds for grants to state governments to further national goals, support delivery of federal programs and assist state government operations. Implementing these programs at the state level invariably requires the acquisition, configuration, deployment and maintenance of information technology (IT), and implementing an enterprise consolidation and shared services environment for delivering and supporting IT services to their state agencies continues to be a priority initiative of state CIOs. Consolidation of IT infrastructure and services represents a significant opportunity for cost savings and improved service levels. However, the rules concerning the use of federal IT funds is a continuing challenge to further progress in this area and an impediment to reducing costs and more effective use of federal funds. One of the foremost barriers to implementing an enterprise consolidation and shared services environment lies in the often inconsistent application of federal programmatic rules for IT investments by the states. This inconsistency results in a process by which each state must negotiate how IT investments are applied culminating in a variety of different interpretations and outcomes.

The state IT landscape has changed significantly, yet federal grant funding guidelines do not reflect this new environment. With new strategies and business models, state CIOs have been working diligently to break down "silos," or the way that physical infrastructure is placed and configured and IT services delivered. The general experience of state CIOs is frustration with federal funding constraints that are at odds with this goal. Currently, the general guidelines attached to federal programmatic funding do not promote enterprise IT shared solutions, infrastructure optimization or the integrated channels of services sought by citizens.

As millions of new federal dollars are spent on IT that supports human services, public health, justice and homeland security, a change in attitude toward enterprise IT solutions and flexible co-mingling guidelines with specific cost-allocation options could greatly improve the return on every federal dollar spent on information systems in the states. This flexibility could also prevent the creation of new "stovepiped" systems, or systems with rigid boundaries that only allow for the transmission of information along strict vertical agency lines rather than a horizontal exchange of information across state organizational lines.

There are statutory and regulatory requirements that govern the processes related to the approval of funding for state information technology projects associated with state-administered federal programs; however, these requirements do not acknowledge the enterprise view of information technology and evolution of the state IT organizational models. Therefore, in exploring all elements

Figure 5. Affect of OMB's Circular A-87 on States' IT Related Decisions Due to Potential Cost Allocation Conflicts; *N=31*



Source: NASCIO's 2008 survey of state innovative funding for state IT.

that may affect CIO's decisions on IT related funding, states were asked to what degree the rules concerning the use of federal IT funds, OMB's Circular A-87, "*Cost Principles for State, Local, and Indian Tribal Governments*" affected IT-related budget decisions in their state due to potential cost allocation conflicts. The majority of states indicated OMB Circular A-87 affected associated IT-funding either to a high or moderate degree, ***see figure 5***.

Comments regarding the affect of OMB's Circular A-87, "*Cost Principles for State, Local, and Indian Tribal Governments*" on states' IT Related decisions included:

Alabama, which indicated, following OMB's Circular A-87, they operate from a revolving fund so no budget decisions for expenditures are made without a vehicle in place to recover the cost. All benefits derived must be commensurate with what is spent so costs can be allocated in a fair and equitable manner. Costs are recovered on a unit basis. For example, e-mail mailbox price/ mainframe CPU price /phone price, etc.

The state of **Iowa** cited the recovery of depreciation expense is complicated by the operating capital restrictions contained in the OMB's Circular A-87.

Kansas noted that it is state policy to follow the guidelines set forth in OMB A-87. Challenges in following the document include: rate center expense separation, the large window needed to set new rates for new technologies, and providing enough immediate financial resources to pay for new technologies.

The state of **Maine** stated that some interpretations of the circular seem to prevent best use of SOA, especially sharing of infrastructure such as servers, redundancy investment, etc.

Michigan indicated that all state IT costs are accounted for in the Information Technology Internal Service Fund. The IT fund is reported to their Federal cognizant agency, Health and Human Services (HHS), within the Statewide Cost Allocation Plan (SWCAP) as Section II, Billed Costs. A-87 working capital reserve requirements for internal service funds may be a factor when analyzing budget related decisions.

The state of **Missouri** responded that they have consolidated IT staff and budgets from 14 of its 16 cabinet agencies. The numbers are 1,182 staff and a $218 million budget. This consolidation is funded from 181 appropriations from 121 funds. **Cost allocation issues are a constant concern**.

The state of **Nebraska** said that a **benefit of A-87** is that it encourages accrual-based accounting for major project expenditures. Compliance with A-87 also requires sound cost accounting systems. A **drawback to A-87** is that it adds a layer of cost, complexity, and additional reporting. There is also the risk of audit exceptions and penalties if the state is found out of compliance.

New Jersey indicated A-87 affects IT-related budget decisions in the ability to collect (recover) funds fairly. Also, A-87 is problematic for planning enterprise-based solutions since federal funding can only be "recovered" after the fact.

New York State stated that customer agencies that purchase data center, e-mail, network, or voice services from CIO/OFT using federal funds are bound by OMB Circular A-87.

The state of **North Dakota** cited that they strictly follow OMB's Circular A-87 in recovering the costs of their internal service fund; approximately $60 million per year.

South Dakota indicated that A-87 Drives fluctuation in their rates.

The state of **Texas** said its consolidated data center is based on a consumption-based model that began with certain one-time charges for facility and support center costs. Those costs may be paid in a lump sum or amortized over time. Because of the cost of money, payment in a lump sum is cheaper than the cost of paying over time. Circular A-87 does not recognize that cost and considers the higher amortization costs as the payment of interest with federal funds. That means either a state must pay before services are provided or use state funds to cover federal costs. A-87 should be updated to reflect new models of providing services.

West Virginia responded that Circular A-87 currently defines everything they do from a rate setting and cost allocation perspective. "As a state that receives a high percentage of federal dollars many high profile agencies such as human services are aware of the ramifications of not being in compliance with A-87. Our budget decisions center around how are we going to fund the project initially and who will pay for the project once completed and in maintenance mode."

Background on the Current Economic Situation in the States

The current economic situation in the states has a large effect on state IT funding decisions. According to the National Association of State Budget Officers (NASBO), fiscal 2008 marked a turning point for state finances with a significant increase in states seeing fiscal difficulties, in stark contrast to the preceding several years. As the economy has weakened, so has the state revenue and spending picture. The decline of the housing sector along with a weak manufacturing sector have combined to cause significant declines in revenue for a number of states. The budget difficulties, however, are not universal with many states currently escaping budget shortfalls. Some states have been insulated from the budget difficulties so far due to high energy and agricultural commodity prices as well as less exposure to declines in the housing sector. Even so, most states are concerned about a continued weakening of the national economy and the impact on their individual state fiscal situations.

The economic downturn is reflected in the expectation of only a 1.0 percent general fund spending increase in governors' recommended budgets for fiscal 2009. This would be the third lowest spending increase in the past thirty-one years and is less than one-sixth of the historical average of 6.7 percent. This is evidence of a significant weakening in state finances although there is still growth in expenditures overall.

The weakening of state fiscal conditions is also reflected in the fiscal 2008 estimated expenditure growth rate of 5.1 percent, a significant drop from the 9.3 percent increase in fiscal 2007 and below the historical average of 6.7 percent.

Overall, thirteen states were forced to reduce enacted budgets in fiscal 2008. This is in stark contrast to the three states that had to reduce their enacted budgets in fiscal 2007. During the last fiscal downturn of the early 2000's, the peak years of reductions to enacted budgets occurred in fiscal 2002 and fiscal 2003, when thirty-seven states each year were forced to make mid-year budget reductions. These years of peak cuts occurred after the national economic downturn ended. Eighteen states assume negative budget growth for fiscal 2009, while four states are estimating negative growth budgets for fiscal 2008.

Medicaid spending from state funds is estimated to increase by 4.4 percent in governors' recommended budgets for fiscal 2009; more than four times the rate of growth for the overall general fund. This increase in health care spending continues to place pressure on state budgets by exceeding overall spending. Even with the weakening of many state fiscal conditions during fiscal 2008, nearly one-half of the states have proposals to increase coverage to the uninsured in 2009 budgets.

Recommended net tax and fee changes for FY 2009 would result in $726 million in additional revenue. Sixteen states recommend net decreases while eleven states recommend net increases. Revenues from all sources which include sales, personal income, corporate income and all other taxes and fees exceed expectations in fifteen states, are on target in fourteen states, and are below expectations in twenty states. This is a contrast to the previous year when only eight states reported revenue collections lower than estimates.

Balance levels, after reaching a peak in fiscal 2006 at $69 billion or 11.5 percent of expenditures, have declined. Fiscal 2007 balances declined slightly to 10.5 percent of expenditures. Based on fiscal 2008 estimates, balances are 8.0 percent of expenditures and are projected to decrease to 7.5 percent for FY 2009. While the balances are declining, they remain above the historical average of 5.8 percent of expenditures.

Citation: Previous section on the Economic Assessment of the States, prepared by Ben Husch, National Association of State Budget Officers (NASBO), July 2008.

Section I: Adoption and Utilization of Innovative and Alternative IT Funding Models

Similar to responses received in NASCIO's 2003 report on innovative funding, "*Innovative Funding for Innovative State IT: New Trends and Approaches for State IT Funding*," states have a wide variety of funding options available that are outside the "traditional" funding approach. Models referred to as "innovative" or "alternative" are termed so in the sense that they are a departure from the "traditional" funding approach of obtaining monies out of the state general fund through legislative appropriations. NASCIO's recent survey identified the following "innovative" or "alternative" funding methods currently being utilized in the states:

- Benefits Funding
- Bonds
- Budgeting & Appropriations Strategies
- Certificates of Participation
- User-fee Revenue
- Grant Funding
- Investment Funds
- Leasing & Financing
- Outsourcing & Managed Services
- Performance-Based Contracting
- Public-Private Partnerships
- Public-Public Partnerships
- Purchasing & Procurement Strategies
- Sharing Services

Of funding models identified in the survey, those most widely utilized were: **(1)** User-fee Revenue, **(2)** Grant Funding, **(3)** Budgeting & Appropriations Strategies, **(4)** Leasing & Financing, **(5)** Outsourcing & Managed Services, and **(6)** Purchasing & Procurement Strategies. These trends seem to mirror **NASCIO's 2003 report** on innovative funding where the report indicated the most commonly utilized strategies as: **(1)** Budgeting & Appropriations Strategies, **(2)** Outsourcing & Managed Services, **(3)** Purchasing & Procurement Strategies, and **(4)** Leasing & Financing. ***User-fee Revenue and Grant Funding represented two methods identified in the 2008 report that were not widely used in 2003***. *See table 2 below*:

Also, based on the number of responses, the adoption of partnership arrangements, both public-private and public-public indicated wider adoption. There is also a clear trend toward leveraging the assets of the private sector and

Table 2. Most Popular Innovative or Alternative Funding Models in the States

Funding Model	Number of States Utilizing Funding Model, 2008 Survey; *N=31*	Number of States Utilizing Funding Model, 2003 Survey; *N=23*
User-fee Revenue	22	NR
Grant Funding	22	NR
Budgeting & Appropriations Strategies	19	18
Leasing & Financing	19	15
Outsourcing & Managed Services	18	16
Purchasing & Procurement Strategies	17	16

Source: NASCIO's 2008 and 2003 surveys of state innovative funding for state IT

public-public partnerships. These methods will be addressed later in this report.

Below, this report addresses these innovative and alternative funding methods in more detail in the order of their current rate of usage or adoption. [**Please note** that funding methods involving partnership and outsourcing are addressed in "**Section II**" of this report.]

USER-FEE REVENUE:

Although not widely popular among citizens, in recent years more states have adopted user-fee revenue as a method to offset the reliance on tax increases to fund large multi-year projects such as state web portals. This trend, also referred to as a "utility model," may be due to the difficulty of states to maintain continuous investment to sustain increases in state's IT related business needs. **Twenty-two** states indicated they are currently utilizing "**User-fee Revenue**," which simply involves added fees to a citizen to state transaction, e.g. court, licensing or DMV transactions. Several states shared their utilization of this method, and all except one indicated that they are using this method successfully:

The state of **Iowa** charges convenience fees for a number of e-government applications available through the state's web portal. The revenue goes into a revolving fund and is used to fund other e-government activities.

The state of **Maryland** indicated they use this method to fund several major IT development projects in various state agencies.

The Commonwealth of **Massachusetts** cited use in limited applications (for example, campground reservations and fishing/hunting licenses).

The state of **New Jersey** utilizes a $0.90/month surcharge added to telephone bills, which funds the statewide 9-1-1 network.

New York indicated that 75 percent of their Office for Technology's budget is supported by fees from customer state agencies for data center, network, voice and e-mail services.

Oregon is using this method for their Fish and Wildlife point-of-sale licensing system.

The state of **Rhode Island** offered that user-fee revenue was used to pay for the state's new DMV system.

Utah cited that they contract with an outside vendor for specific services that adds a fee to users.

The Commonwealth of **Virginia** utilizes this method for their statewide procurement system, "eVA."

As can be expected, citizens are not always happy to pay for government services, and the state of **Missouri** indicated that they received push back from their citizen customers.

GRANT FUNDING:

Twenty-two states also indicated they are currently utilizing "**Grant Funding**," which could include private foundation grants, federal block grants, federal program grants, and state sponsored grant programs. Although not necessarily innovative, grant funding offers new and sometimes unique opportunities for funding streams. State responses seem to indicate wide use and a "love," stated in one case, of these funding streams. Comments on their use included:

Georgia, which indicated grant funding has been a "great way" to fund public-private partnerships.

The state of **Iowa** noted that their most recent grant was a Criminal Justice Integration grant.

Maine said state agencies currently seek grants without CIO oversight; however, they noted that this process is expected to change.

The state of **Maryland** responded that grant funds are used to fund several major IT development projects in various agencies.

The Commonwealth of **Massachusetts** noted that grant funds are used by individual agencies and that the commonwealth maximizes federal funding opportunities.

The state of **New Jersey** has funded various initiatives through Homeland Security grants or other block-grant funding.

New York indicated that customer agencies use federal funding streams to pay for services. The state of **Utah** indicated that many federal grants are used for funding new IT projects.

BUDGETING & APPROPRIATION STRATEGIES:

Nineteen states indicated they are currently utilizing "Budgeting & Appropriation Strategies," which are used to gain additional funding for IT projects or increase flexibility in the use of existing IT funds by retaining technology funds that are unspent at the end of the budget year (as opposed to allowing them to revert back to the state general fund); using uncommitted year-end funds for technology projects; reallocating savings realized from previously implemented technology projects to fund other technology projects; and/or, increasing in-house expertise to reduce the amount of budget dollars spent on outside consultants and optimize the return on IT funding. **Note:** To effectively utilize this funding method, states must be sure they have pre-established authority to carry forward unspent dollars and that end-of-year surpluses won't spur budget officials to lower future appropriations. States that indicated they use this method offered the following comments:

The state of **Georgia** stated that this method is linked to their strategic planning process.

Iowa said that they have used budgeting strategies in the past for large, unusual, or cross-boundary expenditures.

The state of **Maine** cited that this type of funding is appropriated or allocated to state agencies and used to pay central IT costs (including infrastructure as a fee-for-services), and to fund some projects.

In **Maryland** capital funds are used for various IT projects including transportation related projects and building communications infrastructure. Maryland's State Finance and Procurement Code 3-410.2 established the "*Major Information Technology Development Fund*" used for funding IT development projects as a non-lapsing fund. The Fund is interest bearing with income to be used to fund new or ongoing initiatives.

The Commonwealth of **Massachusetts** indicated this method would provide additional flexibility to replace and enhance infrastructure as well as add more capacity.

Missouri stated that budget flexibility between personal services and expense and equipment is a useful tool.

The state of **Utah** offered that extra money was available in their school funds that were used to fund state IT projects; also that non-lapsing money was used to fund IT projects.

Wyoming's comment reinforces the above noted caution, by indicating that they tried to gain access to unspent funds but have been denied, but will try again.

PURCHASING & PROCUREMENT STRATEGIES:

Seventeen states indicated they are currently utilizing "Purchasing & Procurement Strategies," which involves leveraging the buying power of the state as an enterprise in order to generate savings on IT procurements. Such strategies may include: garnering volume discounts on the purchases; streamlining the procurement process by implementing a bid-within-a-bid process to allow vendors to bid smaller, more easily defined portions of a larger project; and, encouraging the use of innovative funding models, such as "performance-based contracting" and "benefits funding," which are addressed in more detail below. All but one state indicated successful use of this method, and as one state put it, "Smart procurement is always important, but does not solve my funding issues."

The state of **Iowa** stated that volume purchase contracts for a wide range of IT hardware and software are in place and are mandated for executive branch agencies to use.

Maryland cited that many IT master contracts exist in the state, including local access telephone services, hardware and COTS software, and consulting and technical services. Under these master contracts, economies of scale and beneficial pricing resulting from competition between master contractors is realized.

The Commonwealth of **Massachusetts** responded that this method will be identified as a key initiative in their upcoming IT Strategic Plan.

New York utilizes this method for aggregate PC purchases and centralized contracts for IT services and technology.

The state of **Oregon** said they have become more active in establishing statewide price agreements for IT related goods and services in the past 5 to 10 years, and that many agreements exist and more are planned in the next few years.

Utah noted that their Department of Technology Services provides all IT contracts to all executive branch agencies and that purchase discounts have been realized.

SHARING SERVICES:

Sixteen states indicated they are currently utilizing "Shared Services," which increases savings and efficiencies by encouraging agency collaboration; once areas of potential collaboration have been identified, agencies and other stakeholders are brought together to coordinate efforts. This allows costs to be spread among the participating agencies. Shared services and shared or aggregate purchasing is different from consolidation in that it is typically a voluntary activity, and provides states a mechanism to promote participation among agencies and state entities that are sometimes difficult to bring under states' enterprise consolidation initiatives. One state indicated, "The results here are mixed; shared services or consolidated services are difficult to put in place in a decentralized operating environment." Ways in which other states indicated they are utilizing the shared services model include:

Iowa, which indicated shared services are referred to as "Utility" services in their state and are designated by customer councils comprised of state agency IT professionals.

Maryland said that intra-agency resource sharing exists within the state, and that agreements exist between state agencies and county and municipal governments.

The Commonwealth of **Massachusetts** offered that shared services strategies will be implemented as part of projects that receive new capital funds.

The state of **Utah** responded that many projects are across agency boundaries and agencies come together to fund and participate.

For additional information on consolidation and shared services, please reference NASCIO's prior publications: (1) ***Staying Connected to Your Customers: Strategies and Tactics to Grow Enterprise IT Services***, December 2006; (2) ***Relationships Matter: Customer Service Strategies to Promote Enterprise Services***, October 2006; (3) ***NASCIO's Survey on IT Consolidation and Shared Services in the States: A National Assessment***, May 2006; and (4) ***IT Consolidation and Shared Services: States Seeking Economies of Scale***, March 2006; available at <www.nascio.org/publications>

BOND FUNDING:

Nine states indicated they are currently utilizing "Bond Funding," which simply involves issuing project bonds through the state's bonding authority to fund IT procurements.

The state of **Maine** said bond funding requires voter approval and has not been attempted.

Massachusetts is awaiting legislative approval for it's fourth IT bond issue.

The state of **New Jersey** stated that some capital funding has been bond-based for past initiatives.

Oklahoma is using bond funds to finance their new data center.

The Commonwealth of **Virginia** is utilizing bond funds for the rebuild of it's statewide emergency radio system.

PERFORMANCE-BASED CONTRACTING:

Seven states indicated they are currently utilizing "Performance-Based Contracting;" a contract for which a state defines its objectives for an IT system or project; the vendor then decides on the best solution to meet those objectives. The state and the vendor also select performance measurements to gauge the solution's effectiveness, with rewards for superior performance and penalties if the vendor fails to meet the specified objectives. Often, the vendor does not receive payment until it achieves certain performance levels.

The state of **Missouri** stated that this method of funding serves everyone well.

New York indicated that their $20 billion, 20-year contract for their state-wide wireless public safety network is a performance-based contract.

Oregon stated, "Typically, agencies have constructed contracts with no payment until the system is delivered and penalties for late delivery, etc. That said, we have limited experience with share-in-savings or incentive-based contracts with bonus payments made for early delivery."

Benefits Funding:

Six states indicated they are currently utilizing "Benefits Funding," under which a state pays for a technology project with the financial benefits that are realized from the project's implementation. Usually, the benefits are in the form of additional revenue or savings created by the project. States often use this model to fund tax or other revenue-generating systems.

Maine stated that they utilize benefits funding for some portions of the state's Web portal.

The state of **Oregon** said they once had a "Productivity Improvement Fund;" a fund created by statute; however, the funds were depleted and have not been replenished.

Virginia responded that benefits funding was facilitated by their 2003 public-private partnership legislation.

The state of **West Virginia** indicated that the agencies normally receive the benefits of this method and that the Governor's Office of Technology can not take any savings to fund its projects.

Certificates of Participation:

Six states also indicated they are currently utilizing "Certificates of Participation," where investors provide funds up-front for a state IT system and, in return, receive Certificates of Participation representing a share of the payments the state makes to the lessor to lease-purchase an IT system. Typically, the state's lease payments are applied to the purchase price of the system plus interest. Once the state's lease payments total the system's purchase price, the state has effectively purchased the system. Certificates of Participation, often referred to as "Municipal Leases," generally do not count against a state's debt ceiling, but have a higher interest rate than general obligation bonds.

The state of **Maine** stated that Certificates of Participation have been used with mixed success and are best used to fund specific, defined projects.

The Commonwealth of **Massachusetts** said that they utilize a tax exempt lease program.

Investment Funds:

Finally, **two** states indicated they are currently utilizing "Investment Funds," which are pools of money established for funding pilot programs, trying new technologies or supporting projects with short pay-back periods. Savings generated by funded projects can be used to replenish the investment funds. Monies from the investment funds can either be provided to agencies as grants or loans.

The state of **California** has statutory authority to use investment funds but they were never funded.

New York cited that investment pools were not large enough to meet demand.

Similarly, **Oregon** indicated the state does not have an IT Investment Fund through which agencies compete for funding.

Section II: Outsourcing and Partnership Options

Based on the number of responses, the adoption of partnership arrangements, both public-private and public-public indicated wider adoption among states. There is also a clear trend toward leveraging the assets of the private sector and direct **user-fee revenue**. In this model, the delivery of service is the most important factor and the cash savings realized is just icing on the cake. States should examine market trends towards direct use of fees and privatization, especially when dealing with large multi-user projects. In cases such as these, states are typically better at steering the boat rather than rowing the boat, per se, when it comes to a large business enterprise (e.g., fiber optic networks, state portals, etc.).

This trend may be due to the difficulty of states to maintain continuous investment to sustain increases in state's IT related business needs. With outsourcing and leasing and financing options, states avoid depreciating resources and also improve the nominal cost of dissemination. Also, with the revenue contractors may receive from **user-fees** or **selling bulk data** to the private sector, initiating contracts with states for projects such as portal development and maintenance are becoming more attractive to the private sector.

Leasing & Financing:

Leasing and financing represents another method gaining wider adoption among states to fund assets that are considered "transitional." This trend mirrors other areas of state government where leasing and financing is utilized to purchase items where the cost of acquisition and disposal is an issue. **Nineteen** states indicated they are currently utilizing "Leasing & Financing," which involves the purchase of hardware, software or IT-related services using a lease-purchase agreement or a financing agreement; either type of agreement allows states to spread the costs of purchases over a period of time as opposed to paying for them in a lump sum up-front. States' comments regarding their use of leasing and financing models included:

The state of **Iowa** stated that all desktop and laptop PCs and most servers are now leased.

Maryland uses multi-year leases on depreciable equipment.

The Commonwealth of **Massachusetts** used operating leases for PC/notebook acquisition by executive department agencies.

The state of **Missouri** uses this option to fund public safety and radio interoperability.

New Jersey cited the use of a statewide line-of-credit for some IT projects with debt service payment made with indirect recovery funds, direct billing, or state appropriations.

The state of **Oregon** said that several of their state agencies have leased midrange computers in the past, and are now pursuing lease options for other large computing platforms within their state data center.

Wyoming stated that this method was the only way they could finance the state's new data center.

Outsourcing & Managed Services:

Eighteen states indicated they are currently utilizing "Outsourcing & Managed Services," which are agreements with private sector entities that provide technology solutions for the state; acquiring expertise or services that are otherwise hard to find and retain in-house for a reasonable price. Under these types of contracts, a state often pays for the vendor's services as it uses them as opposed to paying for them in advance. This method will be addressed in more depth in the report's section on partnership funding, but states that commented included:

Iowa said a number of software development contractors are working in-house.

The state of **Maine** cited that this method has very limited use to date, but they anticipate significant movement in this area.

Maryland uses this method for many IT projects and initiatives to perform project implementation, maintenance, contracts and project management.

In **Massachusetts,** outsourcing is not used frequently; however, managed services are used for

services such as VPN and VoIP.

Oregon indicated they use this method for their campground reservation system and is also planned for their Medicaid Management Information System once it is implemented.

For the Commonwealth of **Virginia** this method is facilitated by their 2003 state public-private partnership legislation.

Wyoming utilizes this method for their state's enterprise e-mail.

PUBLIC-PRIVATE PARTNERSHIPS DEFINED:

NASCIO defines "Public-Private Partnerships" as a relationship under which a state contracts with a vendor to pay for part or all of an IT project upfront; the vendor recovers its costs from revenue generated by the project. A state may share in the revenue generated by the project as well. These partnership arrangements can also include sponsorships or voluntary contributions by a vendor to a state IT entity. When states were asked to describe how they define a public-private partnership, their responses included:

Alabama State Code does not formally define a public-private partnership. For our purposes, the state contracts with a private entity to provide infrastructure and services. The private entity collects a transaction fee, which is less than the user's cost to complete the same transaction in a more traditional way. The private entity also agrees to perform a pre-determined amount of service without cost to the state.

Delaware – A scenario where the state formalizes an agreement with a private entity for equipment, services, or other commodities in exchanged for a longer term consideration.

Georgia understands the possible benefits which could be gained through a contractual agreement between a state, public agency and a private sector entity. Economies of Scale could be obtained through the sharing of resources and infrastructure to provide shared services and/or facilities to citizens and the general public. PPP's are being researched for possible future consideration

Illinois – A contractual partnership with a vendor(s) that involves a mutual investment by all parties, and which provides a mutual benefit to the parties involved, as well as to the users and to the citizens of Illinois.

Iowa – A public-private partnership is one in which both state government and the private sector have funds at risk and both benefit in the "success" of the venture.

Maine – The development of a relationship where risks and rewards are shared, with one or more non-governmental entities working with a state agency. The rewards are not significantly monetary.

Maryland – Public-private partnership is defined as a contractual relationship between a private entity and the State.

Massachusetts – A government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

Minnesota – An arrangement in which both public and private partners share risk for the successful outcome of a project.

Missouri – In Missouri this means that government and private industry agree to share assets and/or co-mingle funds to accomplish a large project of mutual interest. The state has an attorney's opinion that this is acceptable when the primary beneficiary is the state or its citizens.

Nebraska – Both parties share costs and risks of the project, pursuant to a formal contract.

New York – Partnerships wherein the public and private sectors both invest resources — dollars, equipment, real property and/or human resources — to achieve goals that are beneficial to both the public and private participants.

North Dakota – A public-private partnership would exist when government and a private sector organization procure IT services/products jointly and share in the costs.

Oklahoma – A public-private partnership is where the state and a private entity collaborate in achieving a state initiative, such as operating the state's phone system or portal, or building a facility. The

private entity may provide some or all of the funding for the initiative.

Oregon – (1) A situation where the vendor implements the system and then recovers costs through fees over time. (2) A mutually beneficial relationship between the state and a vendor to build, maintain, and operate a system over time.

Texas –A state contracts with a vendor to pay for part or all of an IT project up-front; the vendor recovers its costs from revenue generated by the project. A state may share in the revenue generated by the project as well. These partnership arrangements can also include sponsorships or voluntary contributions by a vendor to a state IT entity.

Virginia – Formally defined by **(a)** vendors who choose to use the Public-Private Educational Facilities and Infrastructure Act of 2003 (known as PPEA) to make unsolicited proposals; or by **(b)** agencies that choose to solicit proposals under provisions of the act. In either case, the winning vendor is making an upfront capital investment and proposing an acceptable means for being compensated for such investment, typically by means of capturing savings/efficiencies from the project.

Wyoming – A state contract with a private sector vendor to complete all or part of a major IT project in which the vendor recoups its costs from future revenue generation of the completed project.

PUBLIC-PRIVATE PARTNERSHIPS IN THE STATES:

Many states have turned to the use of "**Public-Private Partnerships**" to fund large IT initiatives in their states, and **twelve** states indicated in this survey that they are currently utilizing this method to fund IT projects or initiatives in their states. When asked to describe the nature of their partnership agreements, state comments included:

Alabama, which uses a public-private partnership with Alabama Interactive, Inc. (AI), to develop e-business without the state incurring any development expense. Through this partnership professional licenses, fishing and hunting licenses, trucking permits, etc. can be obtained online.

The state of **Delaware** stated that through established legislation, the state has the ability to enter into agreement with a developer to build a new data center. In turn the state will lease the new data center for an extended period of time with timed options to purchase the facility outright.

Georgia responded that they are planning a public-private partnership through the outsourcing of the **Georgia.Gov** state portal, which will include a revenue sharing model. Although not fully operational, Georgia understands the benefits of an agreement between the state and the private sector. Economies of scale will be obtained through the sharing of resources and infrastructure to provide shared services and/or facilities to citizens and the general public.

The state of **Illinois** cited that the Illinois Wireless Information Network (IWIN) became operational in February 2000. The network is a result of a unique contractual partnership between Illinois, Verizon Wireless, and Motorola, to provide a fast, reliable and secure wide area data network to state and local government wireless users. With 8,000 users, IWIN has grown to become the largest public safety mobile data network in the country. IWIN is instrumental in facilitating the prompt wireless access for the benefit of authorized users on a real-time basis. Wireless services are available to state agencies and county governments as well as municipal and local government units; (the majority of users are responsible for carrying out law enforcement activities and for ensuring public safety). Services include dedicated cellular bandwidth; full statewide coverage; software; access to LEADS (Law Enforcement Agencies Data System), Secretary of State and NCIC (National Crime Information Center); secure data access and transmission using password protection and encryption; computer based training on hardware; 24/7 support; mapping and GPS access capability; a standards-based network allowing use of a variety of laptops, modems, and handheld devices.

The STARCOM project is another example of public-private partnership. The project partners the state of **Illinois** and a private contractor to create a statewide (trunked) digital voice mobile 700/800 MHz radio network communication system. SOI/BCCS facilitates, provides state-owned resources such as frequencies and infrastructure, and establishes master contracts for equipment and services. This system helps to meet the

communications and interoperability needs of state agencies, local law enforcement, and governmental entities sharing the network.

Indiana said they utilize ChaCha <http://en.wikipedia.org/wiki/ChaCha_(search_engine)> which provides the search vehicle on the state portal and provides revenue back to the state based on usage. That revenue is used to fund other state IT projects. The state also indicated they have several partnerships with companies that provide information from the state to vendors for which they receive a fee.

In 1991, the state of **Kansas** initiated a public-private partnership with the Information Network of Kansas (INK). It was created by the Kansas Legislature in 1990 to provide Kansas equal electronic access to state, county, local and other public information. The partnership with INK created a "**self-funding**" portal and many of these applications require a **usage fee** to be paid by the end-user. A portion of those fees are returned to the state where they are available for IT projects. The goal is to positively transform the relationship between citizens, business and governments through e-government applications and services.

The state of **Maryland** uses contractual resource sharing agreements, typically for fiber or wireless network assets, to promote expeditious and efficient infrastructure development while minimizing General Fund expenditures.

Comm-PASS is the Commonwealth of **Massachusetts**' procurement access and solicitation system used by state agencies to post their procurements, and for vendors to seek and respond to contracting opportunities with the state, <www.comm-pass.com>. A vendor invested in the development and implementation of this web-based application. The vendor charges fees from potential bidders for value-added subscription services up to a break-even point. After that, revenues are shared by the Commonwealth and the vendor until the end of the contract. The Commonwealth has a perpetual license for the system moving forward.

The state of **Missouri** uses this method to help push rural high speed Internet bandwidth, and will likely partner with public utility companies to leverage radio communications to provide interoperability. They further indicated the private sector has towers and other assets the state needs to communicate during emergencies.

Nebraska's State Records Board contracts with Nebraska Interactive to manage the state's portal, Nebraska.Gov.

New York recently conducted an RFI to solicit ideas for public-private partnerships to construct and operate an Enterprise Technology Multiplex.

Oregon stated that a third party vendor implemented their Fish and Wildlife licensing point of sale system. The state paid zero dollars upfront to implement the system. The vendor will recover their costs over time through **transaction fees**. The state will also share help desk responsibilities with the vendor over time, and the vendor will operate, maintain, and support the system.

The state of **Texas'** Department of Information Resources contracted to develop and operate TexasOnline.Com, the state's Internet portal. No state funds were used to develop the portal. The contractor's costs were reimbursed through **transaction fees**. The state owns the hardware on which the portal operates, has a perpetual license for the software code, and since the contractor broke even on its costs in April 2006, the state receives 20 percent of gross revenues and 50 percent of all net revenues.

The **Virginia** Information Technologies Agency (VITA), has entered into a 10-year, $1.9 billion partnership to completely transform the IT infrastructure of the executive branch of state government and then operate that infrastructure, including scheduled periodic refreshes. Complete details can be found at: <www.vita.virginia.gov/itpartnership>

West Virginia currently has a zero fee contract to fund completion of their state's portal. The vendor receives funding through **transactions costs** generated on the portal sites such as DMV etc.

PUBLIC-PRIVATE PARTNERSHIP OBSTACLES AND CHALLENGES:

When states were asked to indicate **obstacles or challenges** they experienced with "**public-private partnership**" arrangements, **nine** states indicated "Legal Ramifications of the Relationship," and **seven** states indicated "Their Long-Term Nature that May Come in Conflict with State Appropriation or Procurement Rules." Additional obstacles or challenges indicated included:

The state of **Delaware**, which responded that this idea was a creative financing method that has not yet been used in state government in Delaware. As such, it is sometimes difficult to convince people of the positive merits.

Georgia cited the challenge of attracting private partners who are willing to work through the rigors of working with state government.

The state of **Indiana** stated that they have **no problems** with these partnership arrangements and make sure that any potential issues were covered before they started the practice.

Maine indicated indemnification requirements were a challenge, as well as corporate legal department's inflexibility (particularly publicly traded companies). They also indicated that this may be a Sarbanes/Oxley issue.

The state of **Maryland** said that projects funded through bond sales, including public safety communications projects, must meet strict limits on private activity.

The Commonwealth of **Massachusetts** noted that in this particular instance it was difficult to accurately project the level of potential interest in the value-added services, which in turn has affected the revenue projections. They also indicated that private-public partnerships are often challenging to negotiate to ensure that the interests of all parties are balanced.

Minnesota indicated that it takes careful negotiation to identify cost savings or increased revenue that result from a project since they are difficult to measure and calculate.

The state of **Missouri** stated, "Not so much obstacles, but challenges include governance structures and the fact that by partnering with state government one particular company might gain some competitive advantage over their competition."

Similarly, **Oregon** cited that the long-term relationship with a single vendor is too cozy and could inhibit open competitiveness and fair pricing for services over time. Also, indicated concerns by their state unions about outsourcing work to the private sector.

Virginia indicated that the consolidated provision of utility services inevitably encounters multiple conflicts with other sections of state law, which define a very decentralized, agency-centric form of organization and responsibilities. While a partnership logically calls for treating each partner as equals in many respects, by definition many state laws, regulations, etc., require different treatment, most significantly in the areas of personnel and procurement.

The state of **West Virginia** said that the zero fee arrangement has generated some challenges initially on providing the vendor with enough revenue to fund operations.

STATES' STRATEGIES TO OVERCOME OBSTACLES TO PUBLIC-PRIVATE PARTNERSHIPS:

When asked to describe **strategies** or **tactics** that were employed to **overcome** these **obstacles** or **challenges**, states' comments included:

Delaware, which met individually with key stakeholders to ensure they understood all aspects of the proposed arrangement.

The state of **Georgia** stated they:

1. Researched successful public-private initiatives in other states.
2. Identified potential partners who have demonstrated success in similar initiatives.
3. Identified best practices in outsourcing portal infrastructure.
4. Examined and redefined the strategy for portal use in the state.

Maryland said that sites earmarked as having potential probate activity are generally excluded from consideration for contractual resource sharing agreements.

Minnesota cited the early involvement of legal counsel and procurement staff, as well as reaching an agreed upon baseline.

Oregon said that state agencies with significant union representation are required to conduct feasibility studies whenever they contemplate significant contractor performance of IT work. The studies are designed to demonstrate and document that there is or isn't a business case to have contractors perform the work.

The Commonwealth of **Virginia** indicated that most work-arounds from the **personnel** side end up being a "separate but equal" approach to treating employees essentially "the same" but through parallel channels in VITA and the contractor. Where state employees end up receiving their day-to-day assignments from the contractor supervisors, the relationship ends up being as if VITA is a sub-contractor to a vendor. On the **procurement** side, some potential issues are mitigated by the fact that VITA's partnership arrangement with the contractor is a fee-for-service contract, i.e., the vendor owns all the new infrastructure, with the state contracting for specific service levels (not pieces of hardware or software) via 195 service level metrics included in the contract. Issues with interfacing with the statewide procurement system, eVA, have required a combination of software and process changes.

PUBLIC-PRIVATE PARTNERSHIP MEASURES OF SUCCESS:

When states were asked to indicate how they **measure the success** of **public-private partnerships** their comments included:

The state of **Alabama**, which stated that this particular initiative has been extremely successful. One of the outcomes of this service has been the creation of the state's award winning internet portal, <www.alabama.gov>.

Delaware responded that in this case success would be measured by the completion of the facility with the estimated lease payment being the only expense that the state had to pay.

The state of **Georgia** indicated that regarding the state's portal, they are focusing on better service to citizens and a more efficient use of funds. The following metrics will be used:

1. Number of transactions
2. Amount of revenue
3. Number of new products or services implemented

Illinois offered that they measure success through the continued rate of partnership in the programs.

The state of **Indiana** cited customer satisfaction and usage.

Kansas stated that success is measured by customer or end-user satisfaction and the amount of fees that are returned to the state.

The state of **Maryland** said that the direct measure of the success of these contractual resource sharing agreements is the reduction of operating costs in the delivery of services to "**networkMaryland**" <http://doit.maryland.gov/support/Pages/networkMaryland.aspx> and public safety communications customer bases.

Massachusetts responded that both parties have to be satisfied regarding the value derived from the partnership. There also has to be a good exit strategy when the arrangement no longer makes sense for one or both parties.

Missouri indicated that technology projects are usually easier to measure. Also, that radio coverage, rural bandwidth speeds and cost avoidance or savings will certainly be measures.

Nebraska stated that they monitor deliverables and objectives as set forth in the contract.

Texas indicated their measures of success were

1. Superior service to citizens;
2. Revenue to the state; and
3. No general revenue used to support the project.

The Commonwealth of **Virginia** said that the 195 service level metrics included in the state's contract are very specific indicators of success.

For additional information on public-private partnerships and also on how these arrangements can affect your state's IT workforce, please reference NASCIO's prior publications: (1) ***Keys to Collaboration: Building Effective Public-Private Partnerships***: NASCIO's Corporate Leadership Council (CLC), May 2006; and (2) ***State IT Workforce: Here Today, Gone Tomorrow?***: A National Survey of the States, September 2007; both available at <www.nascio.org/publications>

PUBLIC-PUBLIC PARTNERSHIPS:

Fifteen states indicated they are currently utilizing "**Public-Public Partnerships**," which constitutes collaboration between a state, states agencies, the legislative or judicial branches, or state municipal governments. The use of this method appears to be gaining wider adoption, and states that indicated they are currently using a public-public partnership to fund IT projects or initiatives were asked to describe the nature of their partnership agreement. Descriptions included:

The state of **Arizona**, which receives funds from some Native American tribes.

California uses public-public partnerships to fund locally administered programs. The projects (primarily in the public assistance programs) use a shared formula with federal, state and local funds.

As it relates to IT, **Georgia** is currently involved in two Public to Public Partnerships. The two are the **Urban Areas Security Initiative (UASI)**, a nonprofit Security Federal Grant Program and **Wireless Communities Georgia (WCG)**. The **UASI** program provides funding support for building and improving radio communications for nonprofit organizations in the metro-Atlanta area that are at high risk of international terrorist attack. While this funding is provided specifically to high-risk nonprofit organizations, the program seeks to integrate nonprofit preparedness activities with broader state and local preparedness efforts. It is also designed to promote coordination and collaboration in emergency preparedness activities among public and private community representatives, state and local government agencies, and Citizen Corps Councils. **WCG** provides funding to local Georgia governments to build wireless networks in their communities. Wireless connectivity allows users to access the Internet through personal computers, personal digital assistants and other wireless devices. Local governments are responsible for proposing, planning and implementing the wireless projects in their communities. The Georgia Technology Authority (GTA) manages the awards and monitors project implementation.

In late December of 2003, the state of **Illinois** became the first state in the union to successfully cross-certify with the Federal Government for e-authentication. This federal entity, known as the "Federal Bridge," paves the way for easier interaction between state and federal agencies. To illustrate this, a proof-of-concept project was adopted and implemented. This project began in October of 2003, and concluded in April 2004. Participants in this proof-of-concept were the state departments of CMS and EPA, and the Federal entities of EPA, GSA, and various third party contractors. This project proved that interaction between state and federal applications can be achieved via the Federal Bridge and Public Key Infrastructure.

The state of **Iowa** indicated that there are a number of cross boundary projects in which agencies collect and share data (Workforce Development and Revenue collaborating on the electronic collection of various taxes related to employment). The agreements are typically memoranda of understanding promulgated under the authority of Iowa Code Chapter 28E. The state also indicated that their executive branch computer disaster recovery facility was financed in this way.

Kansas said that several public-public partnership projects are either implemented or will be deployed. The first example is a collaboration on an off-site data recovery center with four major state agencies and the Legislative Branch. Smaller agencies will come aboard as the center is implemented. Both human and financial resources are being pooled by the partners in this project. The Department of Administration and the State Budget Office will implement a new financial management system for the state enterprise. All agencies will be involved with several of the larger agencies supplying financial resources for certain start-up costs. It is envisioned that the collaboration will include a pool of human resources as well as financial resources.

The state of **Maine** responded that their public-public partnerships involve the sharing of

infrastructure related to Public Safety communication, and the sharing of building, operations and maintenance responsibilities. The state also indicated that this method has been very successful with some local communities, and that state-to-state efforts have had good success within the region.

Maryland indicated that their Annapolis Data Center involves various inter-agency disaster recovery arrangements, interagency use of statewide fiber and other various cross-cutting major projects.

The Commonwealth of **Massachusetts** responded that their Information Technology Division has partnered with the University of Massachusetts to create the IT University. The program has just completed a successful pilot. UMass developed a custom curriculum consisting of three courses offered to 60 students at a discounted price. The schedule of instruction was also customized. The courses offered during this pilot were IT Project Management, Object Oriented Programming, and Java. A plan for expanding the curriculum and increasing student participation is being developed.

Michigan cited that their public-public partnerships involve:

1. MPSCS, an agreement with local units of government for radio services;
2. the Law Enforcement Information Network; and
3. local access to SOM contracts.

In the state of **Minnesota** the CriMNet program <www.crimnet.state.mn.us> has shared state and local funding, as well as cross-agency development. CriMNet is a state-level program that works with Minnesota state and local agencies to make accurate and comprehensive criminal justice information available to criminal justice professionals in law enforcement, the courts and corrections.

The state of **Nebraska** included the following examples:

1. The Public Safety Communications System, which will serve state agencies and the Nebraska Public Power District. The Public Safety Communications System is designed to integrate with regional communications systems.
2. The Statewide Distance Education Network, which involves cooperation between state government, the University of Nebraska, state colleges, regional Education Service Units, and local school districts.
3. The Intergovernmental Data Services System, which serves county government, judicial branch, the Department of Motor Vehicles, and the Department of Health and Human Services.
4. The Criminal Justice Information System (CJIS), which includes the Crime Commission, Nebraska State Patrol, judicial system, local law enforcement, local prosecutors, state and local correctional entities, and others.

New York described the following examples:

- As part of its New York Alert initiative (a notification system that provides customized alerts on emergency situations occurring throughout New York State), the State Emergency Management Office (SEMO) is hosting the backup servers of several higher education institutions inside their secure IT center. This provides a consolidated approach to security and maintenance, which saves the state money overall.
- The Office of the State Comptroller (OSC) is currently in the process of re-vamping and restructuring the IT systems that support the New York State retirement system. This system is intended to be accessed by both state and local employers, employees and retirees.
- The Integrated Justice Advisory Board (IJAB), a partnership between New York's major criminal justice and public safety agencies, is working on several major projects, including the IJAB portal, which will provide a single, common interface for access to multiple criminal justice applications.
- The Division of the Budget, Executive Branch, and the Office of the State Comptroller, a separately-elected official, are jointly developing a new central accounting system for the Comptroller and an enterprise financial management system for the executive, along with a system integrator. This joint project is overseen by a Governance Board consisting of the CIO, the first Deputy Budget Director and a Deputy State Comptroller. This is a multi-million dollar, multi-year project that crosses government jurisdictional lines.

The state of **New Jersey** said that public-public partnerships with other state agencies and branches of government, (e.g., the state's Judiciary) involves the development and expansion of the

state's fiber optic network infrastructure build-out to increase performance capacities/bandwidth and efficiencies, and to provide security enhancements.

The state of **North Dakota** entered into a contract with a 3rd party vendor that also is working on developing an application that will be shared with Minnesota and South Dakota.

The state of **Oregon** included these examples:

1. The public safety wireless communications system project (Oregon Wireless Interoperability Network Project) that will involve partnerships at the federal, regional, tribal, state and local levels.
2. The Oregon Geospatial Data Clearinghouse exists because of data collection, sharing and stewardship agreements (formal and informal) between federal, regional, tribal, state and local governments operating in the state.
3. The Oregon Explorer Portal is an imagery portal (geospatial data and imagery) available to the public. It involves a partnership between multiple jurisdictions across the state (passing the hat to purchase the imagery), the state's Geospatial Enterprise Office and Oregon State University.
4. The e-Permitting project involves the ability to charge a surcharge for building permits issued at the county level. Those revenues are passed to the state to pay for the implementation and operation of a statewide e-permitting system that will ultimately be available for use across all of Oregon (depending on voluntary adoption by local jurisdictions).

South Dakota stated that their public-public partnerships involve K-12 and a "State for Classroom Connections Project" that provides tablets to high school students, where the state pays one-third the cost and provides technical training and support.

Tennessee state government currently has partnerships with county and local governments for Geographic Information System (GIS) mapping and vehicle title and registration.

The state of **West Virginia** is currently consolidating all infrastructure support personnel into the Office of Technology. They estimate they are two-thirds complete at this time. They further indicated that this initiative is funded by the agencies participating in the consolidation through direct payroll charges to those agencies. Once the consolidation is complete they will implement **user based services fees** to cover the cost of our organization.

Wyoming is working with other state agencies to find funding sources for an Enterprise Communication initiative that will include the Wyoming Legislative Service Office (LSO).

STATES' PARTNERSHIPS WITH OTHER BRANCHES OF GOVERNMENT AND ELECTED OFFICES:

When asked if they have actively pursued projects with the legislative or judicial branches, elected offices or local governments, **twenty-two** states' indicated "**yes**", and **eight** indicated "**no**." Those that indicated "**yes**" were asked to describe those instances, and those that indicated "**no**" were asked if there is a statutory prohibition in their state. Responses included:

California has a major enterprise IT project that will be funded utilizing a funding plan that is designed to:

1. Equitably allocate costs across all benefited departments;
2. Meet the requirements for federal cost reimbursement; and
3. Minimize the use of the General Fund over the initial three years. They further indicated that initial financing will be through the issuance of short-term (two to three year) bond anticipation notes (BANs). General Fund loans will provide bridge financing until the BANs are issued. The General Fund loans will be repaid by the BANs and the BANs would be repaid through the selling of Certificates of Participation (COPs). The COPs will be repaid by departmental transaction fees, which will be initiated after each implementation wave is in production.

Delaware's Central IT agency for the state is responsible for the ongoing administration and support of many systems including those within the legislative and judicial branches.

The **Georgia** Technology Authority (GTA) is currently transforming the way information services are provided to Georgia agencies. For the Georgia Infrastructure Transformation 2010 (GAIT 2010) project, the state has embarked on a three-year transition. They are working with leading

infrastructure and network vendors in ways that are new for Georgia. Vendors will be required to bring funds to the table as part of a long-term solution for the state.

Illinois' state CIO has provided testimony to the House and Senate as well as the House Committee on Computer Technology.

The state of **Iowa** has built and maintain websites for elected officials on a fee-for-service basis. They have also collaborated with the Judicial Branch to web-enable the Iowa Court Information System servers located in all 100 county courthouses across the state and make much of the information publicly available. The executive branch service provider also hosts and maintains this service.

Kansas' Executive Branch is working with the Legislative Branch on two projects, in addition to hosting solutions for both the Judicial and Legislative Branches. The Division of Information Systems and Communications (DISC) that resides in the Executive Branch and is the central computing division for state government, hosts data center space for judicial and legislative devices and provides telecom connectivity. DISC is currently working with the Legislature on two pilot programs. The first is a digital media program that will provide streaming video of legislative meetings and digital reader boards throughout the statehouse. The other project is a pilot project for the legislative e-mail systems.

The state of **Maine** has lease purchase authority on communications equipment and tower construction for public safety.

Maryland's state CIO's office staffs IT operations and projects undertaken in the governor's office. Various initiatives exist between state and county/municipal governments including statewide fiber infrastructure use, wireless interoperability and messaging consolidation. Currently there is no involvement with legislative or judicial branches.

The Commonwealth of **Massachusetts** indicated a healthy amount of collaboration and communication among IT professionals in the various branches of government. ITD supports various governance groups that have ongoing participation from the other branches and non-executive government entities. These groups have been active participants in the IT Strategic Planning process currently underway. Funding strategies are among the various topics of discussion.

The state of **Michigan** provided examples that include:
1. The Child Support Enforcement System;
2. The Wide Area Network (WAN) services for the Judicial Branch; and
3. The WAN consolidation at local government facilities.

The state of **Minnesota** has **no statutory prohibition** against pursuing projects with the legislative or judicial branches, elected offices or local governments.

Missouri is currently trying to partner with all branches to support a comprehensive content/records management initiative.

Nebraska's examples included:
1. The Statewide Distance Education Network
2. The Statewide Public Safety Communications System
3. Enterprise e-mail and collaboration
4. Intergovernmental Data Services
5. The Nebraska Information System (ERP implementation)

New Jersey indicated their state judiciary by law can/does: "... take a portion of all **court fees** to go to the Court Technology Improvement Fund for purpose of offsetting the Judiciary Information Technology ..." costs. And some of these court fees are thus helping to pay for the expansion of our fiber optic network infrastructure.

New York's state CIO meets periodically with key members of the Legislature to gain support for innovative IT initiatives, and that Legislative support is crucial to obtaining funding authorization. The CIO also chairs the CIO Council, consisting of the state agency CIOs, as well as representatives from local governments to gain an understanding of, and support for, innovative IT funding initiatives.

The state of **North Dakota** responded that all of their joint projects have been funded through the normal appropriation process using general and federal funds. They also indicated that there is no statutory language prohibiting the state from using innovative funding practices in conjunction with

the legislative or judicial branches, elected offices or local governments.

The states of **Oklahoma** and **Oregon** also indicated there is no statutory prohibition baring the state from pursuing projects with the legislative or judicial branches, elected offices or local governments.

For **Texas,** data center consolidation is a consumption-based model instead of an asset-based model. That approach provides for more accurate measurement of growth and new projects and will remove the spikes and valleys from that aspect of agency IT budgets, while consolidation ensures state-of-the-art technology and greater security for participating agencies.

The Commonwealth of **Virginia** stated that while other branches of government and localities are not obligated to use VITA (as executive branch agencies are), many do use VITA as a "**vendor of choice**" for specific services, most notably in the data center and telecommunications. VITA is looking to leverage the capabilities of its consolidated, transformed infrastructure to, in essence, invite such customers to enjoy and build on the improved economies of scale the partnership provides. Particular interest by these customers has been shown in the back-up and recovery services VITA can offer via its two new data centers. VITA is also beginning to look at shared services opportunities among local governments, most notably in the "back-office" technology that supports local E-911 centers.

In **Wyoming**, the state has been working with the legislative branch to find funding for GIS/US Census issues.

Section III: Decision Making Frameworks

States often use established criteria to assist in developing the appropriate IT funding strategy. When states were asked if they utilize decision-making frameworks, processes or decision models to assist in developing IT funding strategies, **eleven** states indicated "**yes**," and **twenty** indicated "**no**."

Those states that **indicated** "**yes**," were asked to describe or provide links to copies of any decision making frameworks, processes or decision models their state employs to match the appropriate funding method(s) with a proposed IT project, and/or track the progress of the funding initiative. Decision making frameworks, processes or decision models provided included:

The state of **Georgia** stated that planning and budgeting processes are through the state's Office of Planning and Budget (OPB). Georgia provided a link to their state's OPB budget process overview: <www.opb.state.ga.us/media/2115/ga_budget_cycle.pdf>.

The state of **Illinois** employs an Information Technology Governance (ITG) process to enforce Enterprise Architecture (EA) standards. These are two frameworks used to aid in determining the funding needs:
The ITG process is located at:
<www.illinois.gov/governance>.
The EA framework is located at
<www.standards.illinois.gov>.
The EA framework requires a log in, and a special read only account has been established. The user name is "guestofstate" and the password is "illinois".

Indiana conducts periodic benchmarking for all rates. They also have templates they use for all RFP's and a fixed process for RFP's.

The state of **Kansas** has three major devices to assist and then develop appropriate IT funding strategy. The first is the Kansas Information Technology Office (KITO). KITO was established after the Legislature passed Senate Bill 5 in 1998. It provides IT project management oversight of IT projects over $250,000 and provides methodology on every aspect of project management including usage of labor and budget. The second is the Three-year IT Plan. It is updated annually and includes agency plans for IT projects and their budgets. The third is a tool with a more wide-range look at IT. It is the Kansas Information Technology Architecture. It includes long-range technology needs including emerging technologies and sunset-ins technologies.

The state of **Maryland** employs a process to match appropriate funding methods with proposed IT projects. The State Information Technology Master Plan (ITMP) provides the framework. During the budget cycle, agencies submit agency-based ITMPs and compliant information technology project requests (ITPRs) to the Department of Information Technology (DoIT). DoIT reviews ITPRs for goodness of fit with the overall state plan. ITPRs include proposed fund types and amounts. The Maryland Department of Budget & Management Office of Budget Analysis reviews ITPR funding sources, among other decision-point elements, for projects subject to the approval of the DoIT Secretary. Maryland policy planning links include:
<http://doit.maryland.gov/policies/Documents/policyplanning/FY2010StateITMP.pdf>
<http://doit.maryland.gov/policies/Documents/policyplanning/2010itmpguidelines.pdf>
<http://doit.maryland.gov/policies/Documents/policyplanning/fy09itprguidelines.pdf>

Michigan's Department of Information Technology employs a rate development questionnaire and base financial model to capture relevant data for analysis of proposed enterprise IT services.

The state of **Minnesota** provided two links to their decision making processes:

1. The State IT Master Plan, which is a long-term strategic plan developed with agencies, available at: <www.state.mn.us/portal/mn/jsp/content.do?subchannel=-536891230&programid=536910285&id=-536890276&agency=OETweb>
2. The governance process, which involves both business and IT leaders at agencies, available at: <www.state.mn.us/portal/mn/jsp/content.do?subchannel=-536891222&programid=536910207&id=-536891215&agency=OETweb>

New York state agencies are required to submit "Plans to Procure" to the state CIO for all technology procurements to ensure that the proposed procurements are consistent with statewide IT strategic goals and objectives. Agencies must also submit Annual Technology Plans delineating plans for IT procurements and upgrades in the coming

year. These plans enable the state CIO to identify opportunities for aggregate buys or centralized contracts, leveraging the state's total buying power to provide best value to the state; reference the following links:
<www.budget.state.ny.us/guide/bprm/h/h300.html>
<www.budget.state.ny.us/guide/bprm/h/h300a.html>

The state of **Oklahoma**'s Information Services Division uses an ROI model to evaluate IT projects and the funding of those projects.

Texas' Project Delivery Framework provides a structure for the consideration and development of major IT projects, requiring development of a business model and completion of carefully structured phases through the evaluation of the final product. The framework can be found on Texas' Department of Information Resources Website, at <www.dir.state.tx.us>.

In **Utah**, all projects for future fiscal years are submitted to the Department of Technology Services for project viability. The governor's office then ranks projects in priority order.

Washington's decision-making processes are found in the state's 2009-11 Operating Budget Instructions, Section 12: Information Technology Portfolios and Decision Packages, available at <www.ofm.wa.gov/budget/instructions/operating/2009-11/sec12.pdf>

Section IV: Additional Funding Methods and Resources

States were asked if they have used, are using, or are currently considering a funding method, practice, or process that was not addressed in the survey, or is an improvement or innovation to other funding models. State responses included:

Alabama recently required the winner of their Next Generation Network contract to offer the contract's pricing plus one-half of one percent to public schools (K-12) and state colleges and universities. The additional one-half of one percent is used to defray the cost of creating the contract, which was in excess of $200,000.00. Additionally, the cost of IT planning, policy making, enterprise purchasing contracts, and information security awareness and compliance services are recouped with an Enterprise Information Technology Charge, which is calculated based upon the number of employees in each agency. This charge has been approved by the U.S Department of Health and Human Services, Division of Cost Allocation, as being OMB circular A-87 compliant. Alabama is one of two or three states doing this.

The state of **California** provided a link to their statutory authority to use an innovation fund. <www.leginfo.ca.gov/cgi-bin/waisgate?WAISdocID=8236305149+1+0+0&WAISaction=retrieve>

Maryland uses Reimbursable Fund appropriations providing for spending authority to be granted to an agency backed by cash from another agency. After fiscal year end, revenue transfers happen to transfer the cash in a lump sum from the sending agency to the receiving agency.

The state of **Washington** has an Information Technology Funding Pool, and that Funds in the Information Technology Funding Pool are under the joint administration of the Department of Information Services (DIS) and the Office of Financial Management (OFM). DIS reviews information technology proposals and works jointly with OFM to determine the projects to be funded and the amounts and timing of the release of funds.

STATES' IT FUNDING ADDITIONAL RESOURCES:

States were asked to provide any links to studies, empowering legislation or other resources that could be of benefit to state CIOs in planning for innovative or alternative funding methods. Responses included:

Alabama's Pricing Catalog may be viewed at: <http://isd.alabama.gov/services/services.aspx?sm=b_a>

Maryland's State Finance and Procurement Code 3-410.2 established the Major Information Technology Development Fund used for funding IT development projects within the parameters of the statute.

Michigan:

- Michigan Compiled Laws (MCL) 18.41 EO 2001-3 – Creation of the Michigan Department of Information Technology
- MCL 18.1261 (5) PA 431 – Authority for lease-purchase of equipment through the Department of Management and Budget
- MCL 18.269 PA 431 – Authority for Centralized Services
- MCL 18.33 EO 1994-15 – Authority to develop unified and integrated structure for information processing systems and related services for all executive branch agencies.
- MCL 18.1691 EO 1995-10 – Planning and effecting a unified and integrated structure for information processing systems and related services for all executive branch agencies.

Minnesota – Link to the Office of Enterprise Technology's 2008 IT funding options study, entitled "IT Funding Strategies for the 21st Century": <www.state.mn.us/portal/mn/jsp/content.do?subchannel=-536894334&programid=536915745&sc3=null&sc2=null&id=-536894133&agency=OETweb>

New Jersey – New Jersey Statewide 9-1-1 Enhanced Emergency Telephone System, 52:17C1-16. Full text with June 1999 Amendments: <www.nj.gov/911/statute.html>

Virginia – The Virginia Information Technologies Agency (VITA) IT Infrastructure Partnership Webpage: <www.vita.virginia.gov/itpartnership>

Washington:
2007 Information Technology Work Group Report:
<www.leg.wa.gov/documents/joint/itwg/ITWG_FinalReport_113007.pdf>
2009-11 Budget Instructions – Information Technology Portfolios and Decision Packages:
<www.ofm.wa.gov/budget/instructions/operating/2009-11/sec12.pdf>
2008-2014 State Strategic Information Technology Plan:
<http://dis.wa.gov/news/publications/IT_Strategic_Plan_2008.pdf>

Section V: Conclusion

Continued strain on the U.S. economy and greater competition for state revenues will undoubtedly drive state CIOs towards wider adoption of innovative and alternative funding models as ways of closing the funding gap for IT related projects. States will also continue to explore techniques that make their "traditional" funding dollars go farther by adopting unique ways of leveraging or stretching those dollars. Funding opportunities in the areas of partnerships, both public-private and public-public will also be gaining wider adoption and be utilized in a variety of creative ways, including the use of outsourcing and leasing and financing options, and increased adoption of **user-fee** revenue.

With greater demands at the federal level for states to increase their focus on disaster recovery and cyber security initiatives, and pressure for states to rebuild their IT infrastructure to prepare for ever increasing business demands, states will be compelled to increase their efforts to identify funding streams to pay for these expanding expectations. As states seek to consolidate networks and balance those initiatives with federal funding cost compliance, as well as preparing for federal mandates such as implementation of the Real ID Act, state CIOs will find themselves at the forefront of coordinating current and future demands on their states' IT enterprises and driving IT innovation in their states.

Appendix I – State Contact Information

For those readers that wish to contact state participants in this survey for additional information on IT funding methods or other information provided, the primary contact information for each state's central IT department has been provided below. Please be sure to reference this report and the name and date of the survey from which the information was provided, ***NASCIO's Survey on Innovative Funding for State IT*, September 2008**. [**Note:** If you have difficulty obtaining access to state participants and require assistance, please direct questions to Drew Leatherby, NASCIO Issues Coordinator at dleatherby@amrms.com or (859) 514-9178.

ALABAMA
Office of the Chief Information Officer
Information Services Division
Department of Finance
64 N Union Street, Suite 200
Montgomery, AL 36104
Phone: (334) 242-3433

***ARIZONA**
Office of the Chief Information Officer
Government Information Technology Agency (GITA)
100 N 15th Ave., Suite 440
Phoenix, AZ 85007
Phone: (602) 364-4770

CALIFORNIA
Office of the Chief Information Officer
Office of the Governor
1325 J Street, Suite 1600
Sacramento, CA 95814
Phone: (916) 319-9223

***DELEWARE**
Office of the Chief Information Officer
Department of Technology and Information
801 Silver Lake Blvd.
Dover, DE 19904
Phone: (302) 739-9629

GEORGIA
Office of the Executive Director and Chief Information Officer
Georgia Technology Authority
47 Trinity Avenue
Atlanta, GA 30334
Phone: (404) 463-2340

ILLINOIS
Office of the Chief Information Officer
Governor's Office
100 West Randolph Street
Chicago, IL 60601
Phone: (312) 814-2121

INDIANA
Office of the Chief Information Officer
Indiana Office of Technology
100 N Senate Ave., Rm. N551
Indianapolis, IN 46204
Phone: (317) 232-3172

IOWA
Office of the Chief Operating Officer
Information Technology Enterprise
Department of Administrative Services
Hoover Building, Level B
Des Moines, IA 50319
Phone: (515) 281-5061

KANSAS
Office of the Chief Information Technology Officer
Division of Information Systems and Communications
Department of Administration
900 SW Jackson Street, Suite 751S
Topeka, KS 66612
Phone: (785) 296-3463

MAINE
Office of the Chief Information Officer
Office of information Technology
Department of Administrative and Financial Services
36 Anthony Ave., Suite 101
Augusta, ME 04330
Phone: (207) 624-7568

MARYLAND
Office of the Secretary
Department of Information Technology
45 Calvert Street
Annapolis, MD 21401
Phone: (410) 260-2994

***MASSACHUSETTS**
Office of the Chief Information Officer
Executive Office for Administration and Finance
One Ashburton Place, Room 804
Boston, MA 02108
Phone: (617) 626-4448

MICHIGAN
Office of the Director and Chief Information Officer
Department of Information Technology
111 S Capitol Ave., 8th Floor, Romney Bldg.
Lansing, MI 48913
Phone: (517) 241-5146

***MINNESOTA**
Office of the Chief Information Officer
Office of Enterprise Technology
658 Cedar Street, 4th Floor
Saint Paul, MN 55155
Phone: (651) 556-8007

***MISSOURI**
Office of the Chief Information Officer
Information Technology Services Division
301 W High Street, Room 280
Jefferson City. MO 65101
Phone: (573) 526-7746

MONTANA
Office of the Chief Information Officer
Information Technology Services Division
Department of Administration
P.O. Box 200113
Helena, MT 59620
Phone: (406) 444-2700

NEBRASKA
Office of the Chief Information Officer
Network Services
P.O. Box 95045
Lincoln, NE 68509
Phone: (402) 471-3717

NEW JERSEY
Office of the Chief Technology Officer
Office of Information Technology
P.O. Box 212
Trenton, NJ 08625
Phone: (609) 984-4082

NEW YORK
Office of Chief Information Officer
Office for Technology
P.O. Box 2062
Albany, NY 12220
Phone: (518) 408-2140

NORTH DAKOTA
Office of the Chief Information Officer
Information Technology Department
600 E Boulevard Ave., Room 103
Bismarck, ND 58505
Phone: (701) 328-1000

OKLAHOMA
Office of the Deputy Director of Information
Information Services Division
Office of State Finance
2209 N Central Ave.
Oklahoma City, OK 73105
Phone: (405) 522-4026

OREGON
Office of the Administrator and Chief Information Officer
Enterprise Information Strategy and Policy Division
Department of Administrative Services
955 Center Street NE, Room 470
Salem, OR 97301
Phone: (503) 378-3175

RHODE ISLAND
Office of the Chief Information Officer
Division of Information Technology
Department of Administration
One Capital Hill, 4th Floor
Providence, RI 02908
Phone: (401) 222-4444

SOUTH DAKOTA
Office of the Commissioner and Chief Information Officer
Bureau of Information and Telecommunications
700 Governors Drive
Pierre, SD 57501
Phone: (605) 773-4165

***TENNESSEE**
Office of the Chief Information Officer
Office of Information Resources
Rosa L. Parks Ave., Suite 1600
Nashville, TN 37243
Phone: (615) 741-7951

***TEXAS**
Office of the Chief Technology Officer and
Executive Director
Department of Information Resources
300 W 15th Street, Suite 1300
Austin, TX 78701
Phone: (512) 463-9909

UTAH
Office of the Chief Information Officer
Department of Technology Services
1 State Office Building, 6th Floor
Salt Lake City, UT 84114
Phone: (801) 538-3298

VIRGINIA
Office of the Chief Information Officer
Virginia Information Technologies Agency (VITA)
11751 Meadowville Lane
Chester, VA 23836
Phone: (804) 416-6004

WASHINGTON
Office of the Chief Information Officer
Department of Information Services
P.O. Box 42445
Olympia, WA 98504
Phone: (360) 902-3500

WEST VIRGINIA
Office of the Chief Technology Officer
Governor's Office of Technology
1 Davis Square
321 Capital Street
Charleston, WV 25301
Phone: (304) 558-8100

WYOMING
Office of the Chief Information Officer
2001 Capital Ave., Room 214
Cheyenne, WY 82002
Phone: (307) 777-5840

* = States whose funding models were highlighted in NASCIO's 2003 report on innovative funding, "*Innovative Funding for Innovative State IT: New Trends and Approaches for State IT Funding*."