

E-Govt's Financial Fits and Starts

The problem isn't persuading government to do it. It's finding ways to plan it, build it, and pay for it.

by Michael Finley

Published in *AMS Catalyst Magazine*, September 2001

It seems simple enough. Take all the line-forming, form-filling, paper-filing busy work of government, and put it all up on the Internet. Now, in order to report a pothole, pay your property tax, complain to an official or cast a vote, just log on and hit a few buttons. Goodbye bureaucracy, hello e-crazy?

From Singapore to Spitzenbergen, governmental bodies are responding as quickly as they can to citizens' demands that services be easier to access, 24-7-365. However, the shift to e-government is turning into one giant pain in the neck -- technology isn't the problem; money is. Everyone wants the convenience of e-government, but no one wants to write a check.

The Gartner Group has estimated project spending for e-government (including federal, state and local) will grow from \$1.5 billion in 2000 to more than \$6.2 billion by 2005 -- e-business-related hardware, software, and internal and external service. The cost worldwide over the next 15 years, however, is thought by some to meet or exceed the \$600 billion spent on Year 2000 corrections.

Citizens are of two minds -- they like the convenience and flexibility of interactive government, but they have shown no great interest in coughing up extra tax dollars for this purpose. Operating budgets have no treasure for e-government projects to raid. Capital budgets intended for bricks and mortar projects don't want to be bled by virtual reality.

The State of New York knows about bleeding. Over the course of five years it spent \$362 million on a computer system called "Connections" for tracking child welfare cases in the state. IBM Global Systems and Andersen Consulting (now Accenture) are blamed for a system that cost three times original estimates, and still doesn't work to anyone's satisfaction. "It's worse than a lemon," said Assemblyman William Parment. E-government administrators live in terror that their programs will suffer the fate of "Connections." And even if they don't, public failures make an already daunting political task much tougher.

E-government is turning out to be much more expensive than its early champions envisioned. Just because a state's department of motor vehicles allows online auto registration doesn't mean it can shut down its physical stations. The cost of creating and maintaining an Internet presence must be added to the existing cost structure.

Meanwhile, there is the high failure rate of all IT projects, in and out of e-government. Patricia McGinnis, CEO of Excellence in Government, puts the rate of projects that come in over budget, or come in too late to meet expectations, or just miss the boat

entirely in terms of usability at 80 percent. "There are always problems," McGinniss said, and sometimes they are really big, as with the UK Online project that recently reported overages of \$40 million, and required a last minute step-in by Microsoft.

Why so expensive? It's cheap enough for a regional forest service to put up a fire alert website. But mounting a comprehensive system of inputs and outputs that mirrors and in some instances supersedes in-line government structures is a mammoth expenditure, conducted with little assurance that emerging technological standards won't leave your effort in the dust. The web site administrator for a midsize Ohio city put it succinctly: "There are too many corners to see around them all."

If this sounds eerily similar to the confidence wall dotcom businesses piled into last year, good for you, because it's the same wall, the wall of reality, where money is still money, and just because a thing is virtual doesn't mean it's free.

"It is a really big problem," said Dominick Ianno, head of the Massachusetts E Government Task Force for the state's Office of Administration and Finance, which is just unveiling an ambitious statewide Internet portal at Mass.Gov . "We all know this is going to cost a ton of money, but no one knows where to go for the money."

"In Canada," said consultant Jiri Folta, of the Ottawa firm Fisher, Folta IRM Inc., which among other things assists agencies of the national government in going online, "the government has set aside \$250 million as seed money for e-government projects. Which is great, except that estimates are that government will need to spend \$3 billion in that period. And even that amount is a joke. The city-state of Singapore alone expects to spend \$3 billion in start-up costs. It will cost us much, much more."

Meanwhile, just below in the United States, it is considered progressive that Senators Joe Lieberman (D-Connecticut) and Conrad Burns (R-Montana) are pushing a bill setting aside the sum of \$250 million for pump priming over the next two years. S-803 has many goals -- establishing a Federal CIO, and a special E-Government Fund within the Treasury to disburse monies to qualifying projects.

The outlook for passage of S-803 in the Senate, and ultimately through both houses of Congress, is good. But government grants, especially at the modest level of the federal Lieberman-Burns bill, won't pay for very much. What mechanisms does that leave? Numerous ones, as the sidebar below attests. Beyond that, there new rules for budgeting are emerging, and new perspectives on the budgeting process. E-government projects are comparing notes, advocacy groups are drawing up guidelines, and IT consulting firms are chipping in with their ideas and critiques.

A Cure for the Pain

Many government CIOs give up after turn-downs from the conventional funding sources --- general operations and capital funds. That may be a gargantuan mistake, as creative solutions are available, if you can get the right heads together.

For openers, instead of buying new equipment or software, consider leasing it instead. Most transactions called leases are actually installment purchases, but true leases can be negotiated. IT vendors are very sensitive to the funding predicament state, local and federal agencies face, and many are willing to help carry the cost for a while. Some vendors will go even further, offering capital leases that finance the cost of an installation upfront, and stretching out payments over time.

An even more extreme example of vendor cooperation is benefits-funding, by which a contractor essentially eats the upfront cost of a project and gets paid in fees when it is up and running. Government budgeters have been exploring creative benefits-finding projects in other realms for years, and it is only just now finding its way into e-government plans. California's Franchise Tax Board was one of the first to enter into small benefit-finding projects with IT consulting groups.

VATAX, the revenue agency for the state of Virginia, is working with AMS to create a complete online tax store, bolstering its audit and collection programs, as well as nonrevenue-producing programs like basic tax processing and customer relationship management tools. The unusual arrangement follows VATAX's inability to finance its system along conventional budget channels.

"We think this is the biggest current benefits-funded e-government program underway anywhere," said Bob Schultze, VATAX Assistant Commissioner and Partnership Program Director. Word is, however, that AMS is charting an even bigger benefits-funded program for the State of Arizona.

The upside of benefits-funding, Schultze said, is low initial cost for the sponsor, and the potential for steady future revenue for the service provider. But as with every other aspect of e-government, no one is quite sure which projects will succeed and which ones will fail, with the cost of failure being potentially fatal.

In another example, Montgomery County, Maryland worked with EDS to create and maintain a system to flag motorists running stop red lights. Under the agreement, EDS funds the installation of automated equipment to snap pictures of scofflaw cars -- and takes a cut from each ticket paid.

And Accenture is having success in a share-in-savings student aid project for the Department of education. Accenture is funding the project today, with hopes of recouping its investment when the project is up, running, and charging fees.

So it is possible to find an IT partner willing to shoulder some or even all of the financial burden. But don't be too quick to offload that risk, because while you don't want your vendor being a pig in the later stages of a deal, you don't want them to go out of business midway, either. That's what happened to clients of GovWorks, a dotcom firm created in 1997 to help cities and states port services online, but which crashed and burned last year with so many other tech startups. GovWorks had created a Ticketmaster-like paradigm, whereby people paying for fees online paid a small surcharge for the convenience of paying online. The few cents each transaction

generated weren't enough to overcome the mountain of debt GovWorks accumulated. If you don't believe it, see the feature film documentary [Startup.com](#).

Steven Kelman, professor at Harvard's John F. Kennedy School of Government, said that GovWork's failure doesn't signal the end to creative funding of e-government projects. "Another company, Atlanta-based EzGov, is pursuing a similar model that, for whatever reason, is doing better than GovWorks." EzGov is succeeding by entering into specific transactional relationships with clients like Ohio's Summit County, California's Riverside County, and the State of Massachusetts.

Advertising is an issue some e-sites have experimented with, to mixed results. It still strikes most people as inappropriate for the public sector to be involved in that way with the private. But other public-private experiments have been more successful. Newton-based Imagitas may have the hottest funding idea yet. The firm creates free web-based utility pages for government clients.

A project underway with the United States Postal Service, to be called [movers.gov](#), will be a full-service site that visitors about to move from one location to another can access from the main USPS site. Once at the site, visitors can do much more than just change their address with the Post Office; they can order local and long-distance telephone service, subscribe to the newspaper of their choice, register to vote, sign up for various services, even buy boxes for the big move. When visitors contract for a product or service, Imagitas is paid a few cents by the seller. Zero investment for USPS, with a giant gain in usefulness to customers.

"To me," said Kelman, "Imagitas represents the most creative e-government application to date."

Finally, there is an area of e-government that citizens never know about, the "back-shop" of government procurement. Long hobbled by endless regulation and paperwork, the business of government ordering all the things it needs to govern -- a \$2 trillion economy -- constitutes a bonanza in taxpayer savings.

"Government still tends to see e-government as a tech problem and not as a business problem," said Folta. "This means that the bulk of a project's cost may not go to IT people, but to research, training, citizen education, new laws and policies, and an overhaul of civil service structure."

Mark LaVigne of the Center for Technology in Government (CTG), the granddaddy of e-government advocacy groups, said that the biggest gap facing administrators is that they lack the tools to compare the old roped-queue systems with new Internet-based ones. "Too often we don't even have a firm idea of what the non-electronic system cost, so it is hard to compare anything."

"Some services will never be conducted online, like pothole paving and garbage collection. But online systems have a role even with them, allowing citizens to call and report potholes, or problems with collection. Budgeters need to have numbers for these new processes, and measurement can be very hard."

The best thing e-government has going for it is that citizens expect it to be in place. They don't always want to pay for it, but you'll be in bigger trouble if don't do it than if you do. And in technology, as well as in politics, where there's a will, a way will be found. It delivers the goods to citizens in ways that will eventually -- not today, and maybe not tomorrow, but someday -- save money.

Meanwhile, there may be a silver lining to all this aggravation. The challenge of financing e-government is so fundamental, and so different in kind from conventional budgeting, that some believe it will sweep away the myopic short-termism that has characterized government planning for good.

Sidebar:

Pennies from Heaven

Funding sources you might not have thought of:

- Lease, Don't Buy -- Capital leasing takes the sting out of initial costs,
- Pay Per Do --- A surcharge of a few cents on every transaction goes to pay down the installation.
- Benefits-Funding -- Your IT vendor foots the bill upfront, and gets paid in service fees later.
- Advertising -- If you can avoid conflicts of interest, third parties can underwrite your service.

Sidebar

E-Govt Funding Do's and Don'ts

Suggestions for beleaguered budgeters, culled from advocacy group manifestoes, include:

- Don't think of e-government as "automation." E-government is not just a vending machine. Done right, it's a fundamental transformation of how government works.
- Set aside old thinking. Traditional budgeting is single-year or biennial, and is evaluated program by program, and evaluated on a standard cost-benefit basis. E-government sprawls across time spans, by definition needs to be evaluated across program boundaries, and delivers benefits (convenience, speed, "customer" satisfaction) that can't be measured in dollars.
- Underestimating is no bargain. Trying to come in on the conservative side has helped fund a few programs, but the higher eventual cost of these projects has undermined confidence for projects that followed.

- Work with elected officials. Instances of incoming officials torpedoing e-government projects were frequent when websites functioned as information brochures, and politicians scurried to have their mugs plastered on the homepage. But as e-government has deepened, conservatives and liberals alike have shown respect for the process.
- Focus on relationships. The Center for Technology in Government points to maintaining communication between the IT team, funding sponsors, and the citizenry to keep all sides apprised of expectations and progress. Once these relationships fray, they are hard to knit.
- If you find something that works, nail it down. Certainty is the missing ingredient in e-government planning. Meet with projects in other states and agencies. Imitate those that succeed. As workable standards emerge, rush to embrace them.

Sources: The Center for Technology in Government, New York State Forum for Information Resource Management, The Council for Excellence in Government, The Harvard Policy Group on Network-Enabled Services and Government

The Bottom Line

E-government stops gasping for air when it is perceived as a business, not just technology transfer. Governmental groups have been most successful when they have redefined their budgeting process, allowing more creative perspectives. Or just follow Oracle's advice: *Think big ... start small, and scale fast!*

Resource Boxes

- <http://www.ctg.albany.edu/>... **The Center for Technology in Government**, the oldest of the e-government advocacy groups. Check out their toolbox for e-government planning.
- <http://www.excelgov.org/>... **The Council for Excellence in Government**, a leader in e-government advocacy, among other issues.
- <http://www.govexec.com/>... **Government Executive** is a great site on all topics relating to public administration, not just e-government.
- <http://pti.nw.dc.us/> ... **Public Technology Institute**, a non-profit technology organization for all cities and counties in the United States
- <https://www.nascio.org/> ... **National Association for State Chief Information Officers**; formerly NASIRE
- <http://www.nysfirm.org/>... **New York State Forum for Information Resource Management**, part of the Rockefeller Institute of Government. Check out NYSFIRM's study, "Investing in Technology: Funding Options and Choices for the IT Champion in State and Local Government"
- <http://www.ksg.harvard.edu/stratcom/hpg/index.htm>.. **The Harvard Policy Group on Network-Enabled Services and Government**, John F. Kennedy School of Government, Harvard University, "Eight Imperatives for Leaders in a Networked World"

- <http://www.ezgov.com/>... **EZGov**, a provider of government payment software.
- <http://www.govonesolutions.com/> ... The new owner of GovWorks, **eOne Global** is a leader in providing payments to governmental bodies online.
- <http://www.imagitas.com/>... **Imagitas** creates channels of communication for government agencies that allow citizens to access specific information and services they need, when they need them.

Bio:

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