

# Benefits (Performance) Funded Projects – A Tutorial



Caroline Rapking, Vice President, CGI  
June 9, 2009



# Agenda

- ◆ Types of Benefits (Performance) Funding
- ◆ Benefits Estimation and Measurement
- ◆ Case Studies of Various Performance Funding Projects

# Realities of today's environment



- ◆ Economic woe = Catch 22
- ◆ Government needs revenues and process improvement
- ◆ Government does not have the dollar it takes to increase revenue by ten dollars (or \$100)
- ◆ Government does not have the dollar it takes to improve processes in order to save 5, 10 or 15% in cost
- ◆ Government does not have the dollar it takes to find ten dollars of waste through fraud in some programs

# Performance-Funded Projects: On opportunity to build Public-Private Partnerships

- ◆ Requires partnership from both sides with aligned goals
- ◆ Applicable to larger technology projects or business process management contracts
- ◆ Requires open due diligence to estimate benefits and baselines
- ◆ Fair, conservative, auditable measurement process
- ◆ Benefits can pay for a wide variety of technical and operational upgrades
- ◆ Benefits can be achieved in as little as 3-6 months



# The “buzz-word puzzle” of non-traditional funding models – or “How to Get the Vendor to Pay”

- ◆ Five dominant models and our working definition:
  - ◆ **Performance-based** - Refers to vendor being paid as deliverables/service milestones are reached. Often broadly used as umbrella phrase to describe all models below.
  - ◆ **Cost Share-in-Savings**
  - ◆ **Fee for Service**
  - ◆ **Vendor capital investment**
  - ◆ **Benefits-funding.** Refers to vendors being paid as **technology and process investments lead to revenue benefits beyond an established baseline.**

# Cost Share-In-Savings -- Basics

- ◆ Projects “paid” through lowered cost and subsequent savings
- ◆ Business partner performs the work “for free” until savings are achieved
- ◆ Most common method is to appropriate/budget what the program would have cost, monitor against a baseline, and remit payment to the business partner when savings are achieved
- ◆ Carrot to multi-agency project? – shared savings

# Fee For Service -- Basics

- ◆ Business partner paid a “fee” for performing a specific service
- ◆ The “fee” can be based on a share of revenue collected or revenue “recovered”, or can be a flat fee per transaction
- ◆ Often called contingency based contracts
- ◆ Most commonly applied to business process improvement projects – not necessarily technology related

# Vendor Capital Investment -- Basics

- ◆ Business partner makes an upfront investment in the project, for example:
  - ◆ Purchase of assets
  - ◆ Takeover of leases
- ◆ The government benefits from an immediate reduction of cost or cash infusion
- ◆ Business partner repaid over time by performing services using the assets acquired – resulting in ROI
- ◆ Most commonly applied to “outsourcing” projects

# Benefits funding -- basics

- ◆ Traditional Projects paid through increased revenue
  - ◆ Fixed price, not revenue sharing
- ◆ Partnership arrangements between public and private sectors
- ◆ Governments receive revenue and capabilities quickly
- ◆ Incremental cost difference largely limited to interest and sequencing of projects

# Benefits Estimation and Measurement

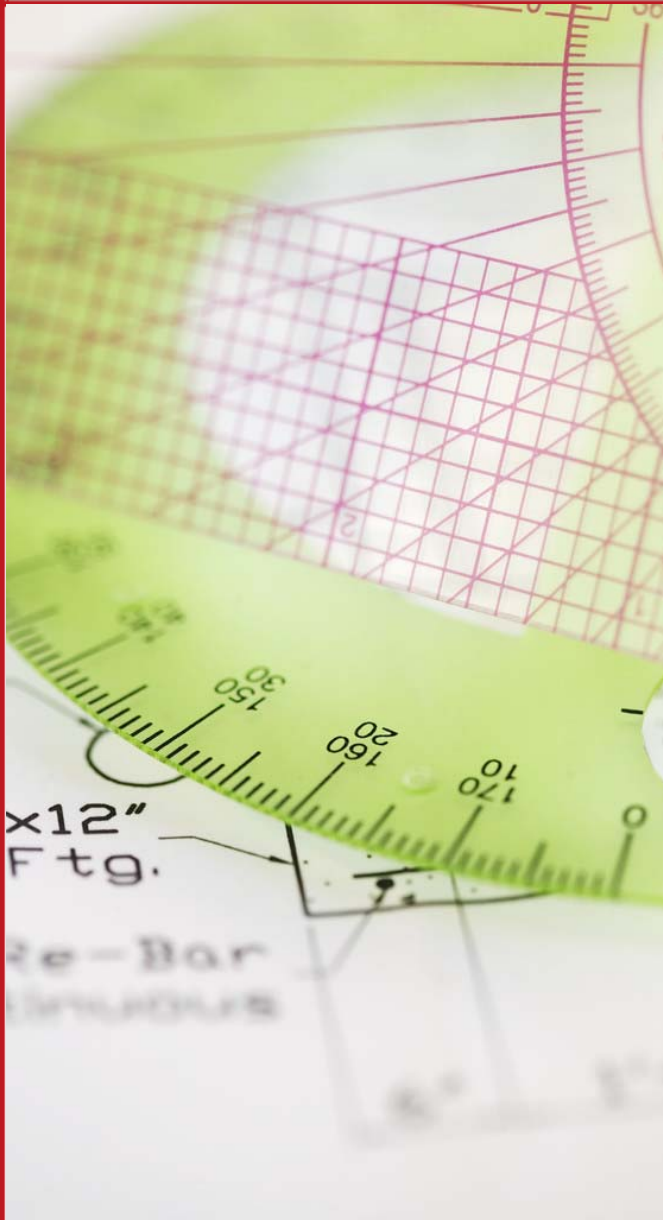


# Benefits Estimation Versus Measurement

- ◆ Benefits Estimation
  - ◆ Based on detailed analysis
  - ◆ Derived from programmatic changes that will be proposed for the project
  - ◆ Calculated by extrapolating from baseline data from similar governments and implementations
  - ◆ Intended to be conservative and achievable
- ◆ Benefits Measurement
  - ◆ Requires a more detailed analysis
  - ◆ Needs to be defensible to external scrutiny
  - ◆ Will provide periodic measures of the specific increases in revenue/decrease in cost or cost recoupment due to the project



# Guiding Principles for Estimating Benefits



- ◆ Financial benefits most typically come from overall increases in revenues, not necessarily just from collection of “old” debt
- ◆ Improvements in audit and collections often drive benefits-funded programs
- ◆ Often a happy by-product is that these projects also produce significant efficiencies in operations that can be utilized within the organization to improve service delivery

# Evaluating the performance benefits range

- ◆ Desirable to fund the project within its lifetime
- ◆ Important measure of success
- ◆ Highlights the critical importance of the early wins to begin benefits
- ◆ These projects typically require business process reengineering in conjunction with technology improvements



# Guiding Principles for Benefits Measurement

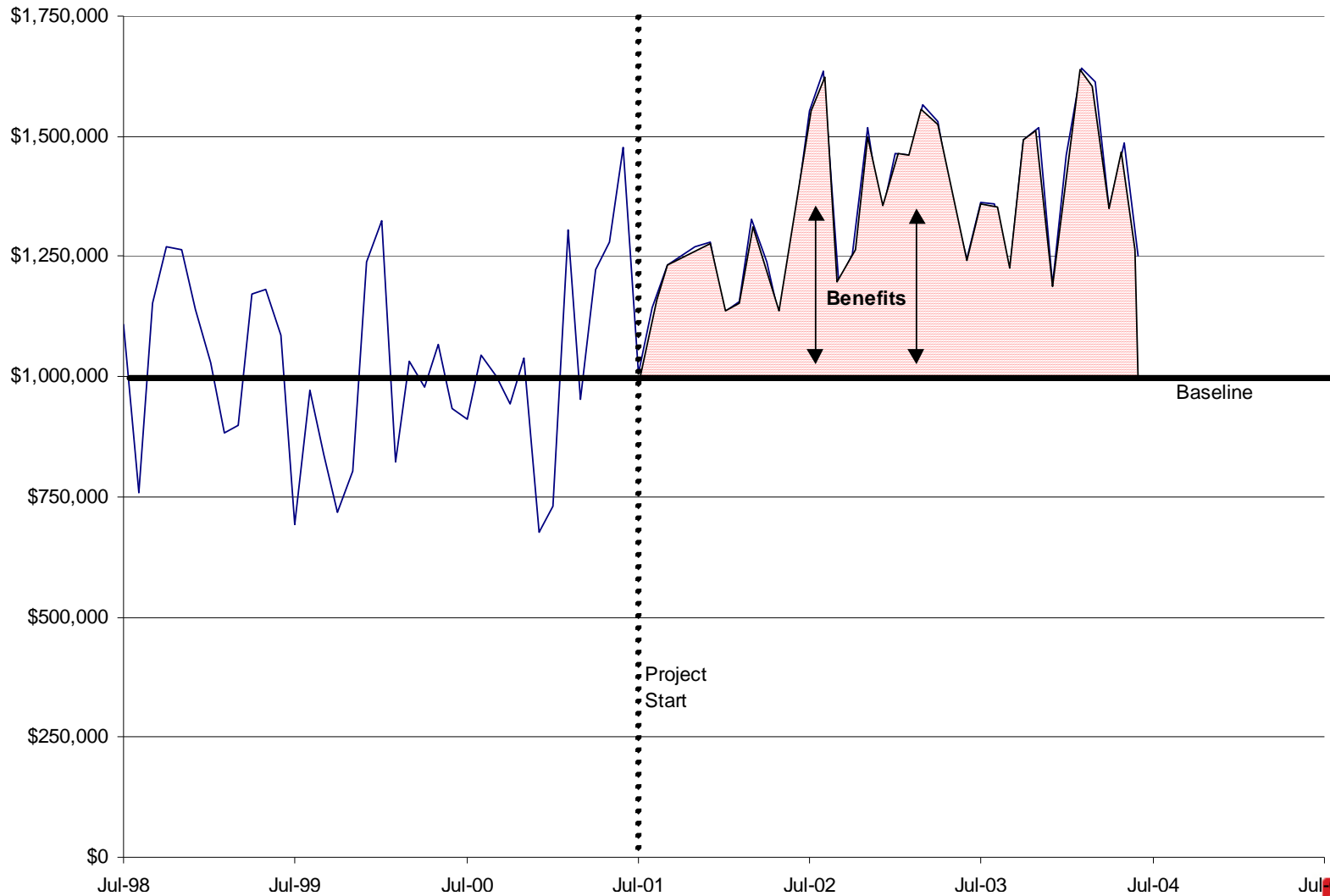


- ◆ Government departments by their very nature, are very much in the public eye
- ◆ When a Government agency undertakes a benefits funded project it must be able to withstand the highest level of public scrutiny
- ◆ The benefits measurement methodology must therefore be a clear, conservative, defensible depiction of identifiable benefits
  - ◆ So easy to understand, even a legislator can understand it

# Measurement Methodology Development

- ◆ Process to measure benefits or savings:
  - ◆ Document high-level methodology for each revenue stream, expense stream, or fraud control area
  - ◆ Develop detailed strategy based on the high-level approach
  - ◆ Develop programs as necessary to calculate baselines
  - ◆ Calculate monthly (at a minimum) benefits/savings after first implementation
  - ◆ Make payments as appropriate based on agreed to method
- ◆ Measurement methodology should be:
  - ◆ Flexible
  - ◆ Accountable
  - ◆ Appropriate
  - ◆ Understandable
  - ◆ Conservative

# Benefits Measurement Approach



# Case Studies



# Case Study – Benefits Funding

## Virginia Department of Taxation



### Client Situation

- Poor public image – critical state auditor report
- Aging infrastructure
- Lack of efficiency
- Inflexible, obsolete tax administration software tools
- Severe budget constraints

**Unable to support customer-centric vision for revenue and collections management**

### End State Vision and Strategy

- Seven-year program to re-engineer all business processes, applying technology where appropriate
- Integrated end-to-end program strategy:
  - Internet and channel management
  - Budget, financial, revenue mgmt systems
  - Org. design, change management, & training
- Benefits funded through improved collections:
  - Risk/behaviour modelling and development of decision analytics via Strata
  - CACS-G for collections case management

**New customer-centric practices reinforced with next generation technology**

### Partnership Progress To Date

- Over \$231 million in recovered revenues and continue to accrue
- More than 50% of all new businesses register on-line
- \$4.5 billion in payments received on-line
- 96% of refunds issued in 12 days or less (99% of electronic returns)
- 11 national and state awards, incl. FTA, NASCIO, and Governor's Technology Award

# Case Study- Benefits Funding

## Hawaii Department of Taxation



State of Hawaii

Department of Taxation

Our mission is to administer the tax laws for the State of Hawaii in a consistent, uniform, and fair manner.

Hawaii is Open for Business

### Client Situation

- Aging technical infrastructure
- Need to re-engineer DOTAX to achieve the following goals
  - Be more taxpayer-centric
  - Allow taxpayers to more easily comply with tax laws
  - Improve return and payment processing time
  - Treat taxpayers fairly and consistently
- Budget constraints - system must fully pay for itself

### Outcomes

- ITIMS **exceeded all of its expectations** and has enabled tax administration in Hawaii to dramatically improve
- **Benefits achieved within 4 months** of project start
- New systems successfully implemented:
  - Tax processing system
  - Collections case management system
  - Audit selection system
  - Electronic filing for tax returns
  - Imaging of tax returns
- **Reorganised department** to better serve the public
- Project benefits: **\$252 Million**. Benefits no longer being tracked, but continue to accrue daily

**ITIMS was the most successful large IT project in Hawaii State Government**

# Case Study – Share in Savings

## State of Indiana Medicaid Spend Management



### Business Problem

- Rigid procurement code and practices
- Narrow spend visibility
- Employee training/knowledge base not standardized
- Medicaid cost containment desired
- Multiple, high-level Medicaid-based procurements requiring cross-agency coordination
- Supplier abuses through hidden fees and no performance metrics

### Phase I:

- Created over **\$205 million savings** over the life of the contracts on an annual baseline of \$541 million. Expected annual savings of 11%
- Helped enact code changes allowing more procurement flexibility
- Delivered seven customized training modules
- Developed Compliance and Savings Monitoring tool



### Phase II: Indiana Family and Social Service Administration (FSSA)

- Delivered end-to-end procurement for high profile programs including health IT projects and Medicaid service provider agreements
- Increased performance metrics and standards for suppliers
- Expected annual savings of **\$12M (6-9%)**

# Case Study – Fee For Service Commonwealth of PA Medical Assistance Program

## Client Description

- The Commonwealth of Pennsylvania Medicaid Program known as the Medical Assistance (MA) Program enrolls approximately 67,000 participating healthcare providers
- These healthcare providers render services to over 1.7 million individuals
- Annual expenditures exceed \$15 billion

## Business Situation

- The Department of Public Welfare (DPW) wanted to identify and recoup more overpayments to providers by augmenting the auditing work of the Bureau of Program Integrity
- Wanted to engage a company to audit inpatient, outpatient and professional claims to determine if they were reimbursed properly according to the DPW's MA regulations.

## Solution

- Clinical Auditing staff perform reviews of inpatient medical records for DRG validation and medical necessity and reviews of outpatient and professional claims for overpayments based on reimbursement rules.
- CAS 5.0 claims auditing software, powers audits and identifies and tracks improperly paid claims leading to an efficient and effective process.



## Business Result

- **Identified more than \$40 million recoveries for recoupment over the past 3 years**
- **Automated the offset adjustment process** of provider overpayments through an interface that was created between CAS 5.0 and the Department's MMIS vendor
- **Enhanced provider relations and minimized provider burden** through a Provider Call Center operated and managed by our qualified staff