

## Fiscal Year 2009-10 Capital Construction Request

### Revenue

#### Lottery Back Office System Migration

#### PROGRAM PLAN STATUS

2010-034

Approved Program Plan?  Date Approved:

Information technology projects do not require a program plan.

#### PRIORITY NUMBERS

Prioritized By	Priority	
DeptInst	3 of 8	
OSPB	N/A of 44	OSPB recommends that all cash projects be funded, but also assigned cash priorities.

#### PRIOR APPROPRIATION AND REQUEST INFORMATION

Fund Source	Prior Approp.	FY 2009-10	FY 2010-11	Future Requests	Total Cost
CF	\$0	\$2,940,000	\$0	\$0	\$2,940,000
<b>Total</b>	<b>\$0</b>	<b>\$2,940,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,940,000</b>

#### ITEMIZED COST INFORMATION

Cost Item	Prior Approp.	FY 2009-10	FY 2010-11	Future Requests	Total Cost
Land Acquisition	\$0	\$0	\$0	\$0	\$0
Professional Services	\$0	\$2,500,000	\$0	\$0	\$2,500,000
Construction	\$0	\$0	\$0	\$0	\$0
Equipment	\$0	\$300,000	\$0	\$0	\$300,000
Miscellaneous	\$0	\$0	\$0	\$0	\$0
Contingency	\$0	\$140,000	\$0	\$0	\$140,000
<b>Total</b>	<b>\$0</b>	<b>\$2,940,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,940,000</b>

#### PROJECT DESCRIPTION / SCOPE OF WORK

The Department of Revenue (DOR) is requesting cash funds spending authority from the State Lottery Fund for phase two of a two-phase project to replace the State Lottery Division's back office computer system. The project replaces the existing system with a new system in order to avoid possible computer system failure and loss of revenue. This year's request for Phase II will complete the purchase and installation of the new system. Phase I was approved by the CDC as an emergency supplemental on September 22, 2008, and began the process of replacing the existing system.

The department says the manufacturer of the existing Getronics Wang system will not provide service or support for the system after the contract expires June 30, 2009, and that it will take a minimum of six months to implement a new back office system. The back office system is the in-house system used by the division to manage critical business functions such as billing, inventory, and sales data tracking. An online vendor manages the direct sale of lottery tickets to retailers. The costs for parts and support are rising rapidly and there are no known alternative service providers for the existing system, says DOR.

The project will migrate the business functions of the existing system to a new system to allow the division to operate the lottery more efficiently and effectively. According to the division, this project creates operating budget savings of \$7.4 million between FY 2008-09 and FY 2010-11. The new system will have the added capacity to:

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- manage the retailer database, including the licensing and verification process;
- incorporate an internal control system function;
- launch new games;
- keep the Scratch ticket inventory; and
- manage data in order to query and report on lottery activities.

### PROJECT JUSTIFICATION

The department says customer service and support for the division's computer system will not be provided after June 2009, which could result in possible computer system failure and a loss of as much as \$31.7 million in sales and \$8.9 million in proceeds. The division says the existing system is antiquated and has exceeded its normal life expectancy by more than 15 years.

The division cites several concerns about the existing system. The internal control system is managed by the outside vendor rather than the division. The division says this is a conflict of interest because the vendor is self-regulating rather than the division regulating the vendor's sales and receipts. Also, the existing system does not have the capacity for expansion so the division cannot launch new lottery games. According to the division, new lottery games such as Keno could result in an additional \$49.9 million in annual proceeds.

The division also says the projected lack of service and support may lead to a system outage and estimates that a system failure that lasts for seven days would result in a 5 percent loss of total sales for one year, or \$25.3 million. If the system fails, players may not be able to cash winning tickets, the division may not be able to confirm how much each retailer owes for ticket sales, and Colorado may not be able to participate in Powerball.

### PROGRAM INFORMATION

Proceeds of the State Lottery Fund are used by municipalities and counties for parks, recreation, and open space purposes, including the acquisition, development, and improvement of parks land. The fund also provides supplemental assistance to school districts for capital expenditures to address immediate safety hazards or health concerns.

In FY 2007-08, the State Lottery Division reported \$505.8 million in ticket sales, of which \$122.3 million in proceeds were allocated for State Parks (\$12.2 million), the Conservation Trust Fund (\$48.9 million), Great Outdoors Colorado (\$53.1 million), and the State Public School Fund (\$8.1 million).

### LEED CERTIFICATION INFORMATION

The project is not required to comply with the provisions of Senate Bill 07-051 regarding LEED certification because it is an information technology project and does not involve the renovation, design, or construction of a physical facility.

### PROJECT STATUS

Phase I of the project was approved September 22, 2008, as an emergency supplemental request. According to DOR, work began on Phase I on October 1, 2008.

### SOURCE OF CASH FUNDS

The source of cash funds is the State Lottery Fund. The current balance of the fund is \$525.0 million. The estimated

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FY 2008-09 fund balance is \$591.8 million and the unencumbered and unallocated balance of the fund at the beginning of FY 2008-09 was \$32.3 million.

#### STAFF QUESTIONS AND ISSUES

Responses to questions were incorporated into the project write-up.

#### IMPACT ON OPERATING BUDGET

	1st Year	2nd Year	3rd Year	Total
Personnel Services	The project has no impact on state operating costs.			
Maintenance				
Utilities				
Supplies/Equipment				
Other				

#### PROJECT SCHEDULE

	Start Date	Completion Date
Request for Proposal / Contract Negotiation	May 2008	October 2008
Development & Implementation	November 2008	May 2009
Independent Verification & Validation	October 2008	June 2011
System Testing	November 2008	April 2009
Roll Out	May 2009	November 2011

