
TRANSACTIONAL FUNDING MODELS FOR GOVERNMENT

A White Paper on Alternative Funding for Government Information Technology



Transactional Model Overview

As Secretaries of State explore available options to replace critical legacy business services systems during this economic downturn, there is an opportunity to defer a significant portion of the initial investment using a transactional funding model. Through this model, Secretaries of State contract with a vendor in a public-private partnership. In lieu of paying traditional upfront software license fees and implementation costs, the vendor absorbs initial project expenses in exchange for a nominal fee for online transactions. This model not only allows the agency to defer most of its initial investment, but provides stakeholders with additional services that are often unattainable through the agency's project budget for many years.

The initial duration of a transactional funding model is typically three to five years, enabling the vendor to recoup an upfront investment while continuing to enhance the business services system. Depending on the transaction fee structure, a jurisdiction may be able to forgo fixed maintenance and enhancement costs over the contract term.

Business Case

Currently, about one third of US Department/Secretary of State contract with vendors to provide a wide range of services through public-private portals funded through a transactional model. These portals consist of web sites and applications that grant access to filing and research services online. These sites ultimately increase jurisdictional revenues by not only improving services, but also expanding the timeframe they are available. Reference the "Transactional Model Cost/Benefit Analysis" overview on page 3 for a sample transactional model payment structure.

In a typical transaction model, a vendor would can assist the Secretary of State with marketing and promotion of online services, as well as soliciting users to complete government-based transactions online. In addition, the vendor would also work with each agency to enter into subscriber contracts enabling users to access government services in exchange for transactional and/or subscription usage fees. As such, the vendor typically funds most or all of the up-front investment and ongoing operational costs of the system. This self-funding business model reduces an agency's financial and technology risks, while obtaining additional revenues through shared fees generated from expanded eGovernment solutions & services.

Key Benefits of Transactional Funding:

- Eliminates need for a large capital expenditure
- Limits risk of large up-front investment
- Introduces new online filing services and adoption rates
- Promotes continuous investment in technology and services
- Reinforces vendor commitment beyond system go-live

About one-third of SOS offices use some form of a transactional model to fund key technology initiatives

Using the transactional model, most SOS offices have introduced all of its online filings and services without any legislative appropriation

In choosing to set its filing fees at or less than its paper fees, the Puerto Rico DOS has achieved 100% online adoption

The transactional funding model greatly reduces the sizable risks associated with new system development and implementation. The alternate payment structure incorporated into the transitional funding model ensures that Secretaries of State are well supported throughout the various system lifecycles. Since a vendor's investment recoupment is tied to the overall success of the project, Secretaries of State are assured that the vendor will remain committed long after the implementation of the system. If the system does not meet the expectations of the end user or stakeholders, the vendor is compelled to make the necessary changes in a timely manner. Effectively, a transaction funding model aligns the goals and objectives of the vendor and jurisdiction creating a mutually beneficial partnership.

Secretaries of State significantly benefit by providing real-time access through a customer-focused presence on the Internet. Stakeholders and citizens are provided a more convenient and more cost-effective means to reach critical business services. Most of the fee-based online services in this model are geared toward business users who support instant access to records and services.

Transactional Funding – Working Model

In 2009, the Commonwealth of Puerto Rico, Department of State implemented an enterprise filing solution using a transactional funding model as the sole funding source. With limited financial and technical resources available, the Department of State leveraged this model to bring many of its key services online. Moreover, the transactional model provided enough resources to enable backscanning of over 5 million document pages and indexing of active corporation records dating back over 100 years.

Since the portals inception, the Commonwealth of Puerto Rico has made no direct capital investments into the development, maintenance or enhancement of the system. Many of the Puerto Rico Department of State online services may not be available today had they relied on traditional funding methods.

Transactional Funding Model - Benefits & Risks

The following tables provide the key benefits and most common risk factors associated with a transactional funding model.

BENEFITS

- Improved Services: replaces limited, aging technology with a system capable of achieving the agency's mission to improve efficiency, accuracy and accessibility of critical business services functions
- Focused Investment: the majority of the system is paid for by those stakeholders that will benefit most from the enhancements the new system will provide
- Scalable System: the agency will be able to bring additional services online - and integrate other business areas including business and professional licensing under one application
- Vested Vendor: the vendor's opportunity to recoup its investment is intrinsically tied to the long-term success of the system
- Marketing & Promotion: vendor may help organize *and fund* marketing initiatives to inform citizens and business about the new technologies and services available

RISKS

- Financial Stability of the Vendor: while few vendors are fiscally capable of investing in a transactional funding model, it is critical for the jurisdiction to check the financial health of potential partners
- Vendor Lock-In: some jurisdictions consider a five year vendor relationship a potential negative. States actually benefit more by selecting a committed vendor with strong subject matter knowledge to help the jurisdiction maximize the return on its infrastructure investment
- Legislative Resistance: many State agencies are concerned they have little or no flexibility to modify service fees when developing a transactional model. Using a proven business case from many other successful state agency models can provide substantial justification
- Company Registrar pays too much for the system: aware of its typical filing and service needs, the jurisdiction works with the vendor to construct an arrangement that fairly compensates the vendor for the level of services it provides

Transactional Model Cost/Benefit Analysis

The following US jurisdictions have implemented some form of a transactional model to augment funding for their technology and services needs: Alabama, Arizona, Arizona, Colorado, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Maine, Michigan, Montana, Nebraska, New Mexico, Oklahoma, Puerto Rico, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, and West Virginia. Transactional fees are set by a control board which considers the statutory filing fees and filing volume to develop an estimate on available revenue for technology investment. While highly effective, many of these Secretary of State projects are limited to funding a small number of online filing and service needs only. Given the relatively low volume, most jurisdictions are simply unable to leverage this model to fund both a back-office and online Business Services system. There are higher volume jurisdictions like Massachusetts, however, that was able to implement both an online and back-office application using an online transaction fee.

A higher volume Secretary of State, like Puerto Rico, should expect the total Business Services system price to fall somewhere between \$3M and \$8M for a traditional funding model. This estimate would include: analysis, conversion, implementation, documentation and training. As far back as 2000, the California Secretary of State allocated \$28 million to its business services project. Smaller jurisdictions such as Minnesota and Oklahoma each spent over \$2.5 million. The following section highlights how a high volume jurisdiction can forgo an upfront investment using a transactional funding model.

Benefits of Online Services

- *Eliminates Processing Backlogs*
- *Reduces Processing Costs*
- *Improved Filing Data Accuracy*
- *Provides 24/7 Access*
- *Improves Staff Utilization*
- *Users Obtain Instant Filing Date*

Most SOS offices can expect online adoption to exceed 80 percent by simply setting online filing fees equal to, or less than, paper fees



Transaction Model Fee Structure

The fee structure that best meets the needs of different agencies will vary and is directly related to the specific technologies and services that agency offers. Secretaries of State using transactional funding models have charged between three (3) to fifteen (15) percent of the filing fee as a convenience charge for online services.

When establishing pricing for paper and online filing, the filing office has a number of options available. A jurisdiction may choose to add the convenience charge onto the standard filing fees. Many jurisdictions have found that the most successful model is to set similar pricing for both the online and paper services. If online filing fees are significantly higher than paper filing fees, the jurisdiction may not be able to achieve the online adoption rate desired. As such, some Secretaries of State have made online filing fees cheaper than its paper counterpart. While this requires a jurisdiction to absorb the convenience fee paid to a vendor, these jurisdictions believe that the convenience *and accuracy* of fully electronic services exceeds the cost to the jurisdiction.

By adopting nominal fees for the highest volume filing types, most jurisdictions are able to fund a system designed to handle all of the agency's business services needs, including Business Entity, UCC (Secured Financing), Notary/Apostille, and Trademarks. These filing fees, typically carried over a five to six year contract term, include all maintenance and support of the system. The recommended convenience fees are highlighted in the box to the left. For a high volume jurisdiction, these recommended convenience fees would be generally sufficient to fund the implementation and support of a complete online and back office business services solution.

When determining which model would work best, each agency must consider a variety of factors, including: final transactional fees, fee eligible filings/services, total contract duration and other details to maximize the system's potential to meet its expectations.

Suggested Convenience Fees:

UCC 1: \$2-5 per filing

Business Entity Creations & Amendment Filings: \$5 - \$15 per filing

Business Entity Annual Reports: \$10 - \$15 per filing

Summary

As jurisdictions struggle with decreasing revenues, Secretaries of State must remain competitive with other jurisdictions to provide the best services to existing and potential businesses. Next to retaining valued employees, a Secretary of State's most important investment includes new technology to enable its agency to become even more accessible and business-friendly by bringing most services online. A transaction funding model is a fiscally responsible approach to enhancing business services and solutions that allows government to accelerate the positive transformation of the relationship between government and the constituents it serves.

Budget reductions and shortfalls are a certainty for many government agencies today. A transaction funding model can provide the best opportunity for a jurisdiction to maintain and expand existing service offerings.

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