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Testimony Before the State of Vermont
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Chair James, Co-Chair Campbell, Ranking Member Sibilia and Members of the Committee

I am Doug Robinson, Executive Director of the National Association of State Chief Information Officers (NASCIO). For the last twenty-one years I've served as the chief executive of this outstanding association. NASCIO is the collective voice of the nation's state and territorial chief information officers, chief information security officers and chief privacy officers. Its mission is to advance government excellence through trusted collaboration, partnerships and technology leadership. NASCIO conducts extensive research and surveys each year focused on the priority issues of the state chief information officer (CIOs) and is a national leader and advocate for technology policy at all levels of government.

I appear before you today to describe how state governments approach funding information technology and the operating and financial models of the state CIO organizations.

The majority of state enterprise IT agencies are structured in a similar fashion and operate as internal service providers to executive branch state agencies and other public entities on a chargeback basis, assessment, user fees or comparable model of delivering technology services. This model has been in place for decades with IT funded under basically a consumption model. The agencies are "customers" that consume data center, mainframe hosting, network, e-mail, cybersecurity, telecommunications, storage, cloud usage and other services under a published rate or pro-rated assessment method. These rates are set by the CIO office and published in an annual service rate catalog. There are also allocation and custom services offered to the agencies, such as project management and applications development delivered under an hourly rate model. In general, this describes Vermont's current approach under the Agency for Digital Services portfolio.

An additional aspect of this model is the use of federal funds by state agencies to pay the CIO agency for these services. The CIO agency must have a pre-approved federal cost

allocation plan, and all IT services must be allocated and accounted for under federal financial guidance for the use of grant funds. This complex financial and business environment presents a host of challenges that must be addressed by the enterprise IT organization, the agencies delivering programs and the state budget office.

The traditional models are changing. Many states advocate an approach that integrates consolidation and standardization of IT infrastructure functions that are common to, and shared by, agencies across state government, such as mainframe transactions, data and voice networks, e-mail service, enterprise software licenses and IT procurement, with strategic decision making that affects the use of IT to support state agency business processes. With the emerging "CIO as Broker" model, these organizations are also becoming more of a hybrid model with substantial services being delivered by private sector partners.

More than twenty years ago NASCIO conducted its first survey of state CIOs focused on IT funding options. The results from studies in 2003 and 2008 revealed that state IT enterprises were highly reliant on "traditional" funding methods (internal service funds), with the overwhelming majority of states indicating that they utilized traditional funding rather than alternative or innovative funding to support IT services and initiatives. However, the results also revealed a trend towards expansion and wider adoption of alternative and innovative funding models. Reflected in the comments from state CIOs at that time, there was a strong interest in moving from the full chargeback model for internal services and also a desire to leverage the assets and services of the private sector to support IT projects.

States have a wide variety of funding options available that are outside the "traditional" funding approach. NASCIO surveys and research have identified the following alternative funding methods used in the states:
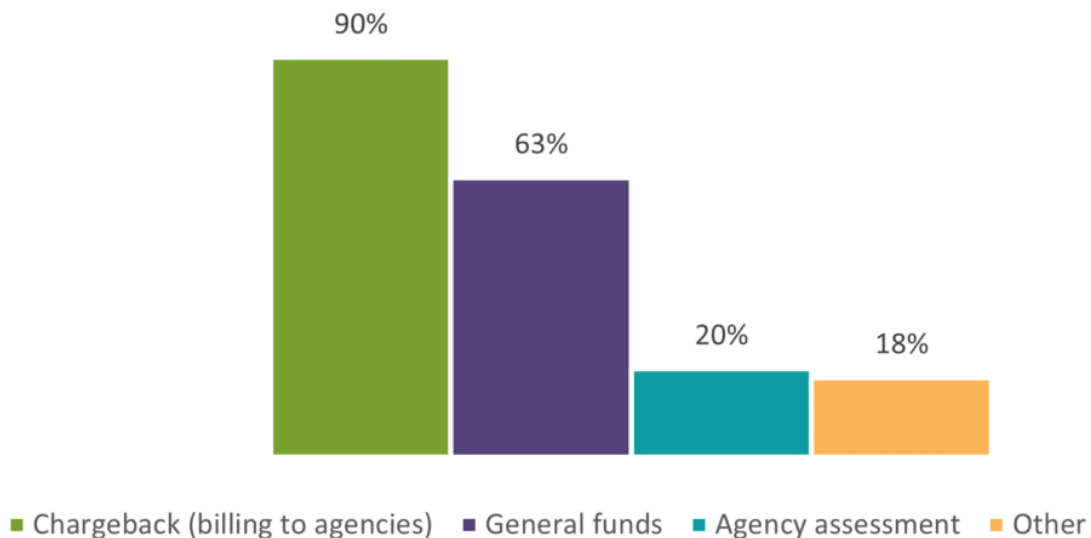
- Bonds for Information Technology
- Certificates of Participation
- Cooperative Purchasing Fees
- Data Sales
- Grant Funding
- Investment Funds
- Innovation Fund from Appropriation
- Leasing & Financing
- Modernization Fund from Appropriation
- Performance-Based Contracting

- IT Procurement Assessments
- Public-Private Partnerships
- Share in Savings with Vendors
- User-fee Revenue

In our 2023 national survey of state CIOs, we asked the respondents (n. 50) to describe how the CIO organization is funded. Ninety percent of states are using an internal service fund or chargeback at least partially, while a sizable portion (63 percent) are now using general funds as well. For those states that use a chargeback billing model, the percentage of total revenue that comes from chargeback has changed with about three fourths of states (that have chargeback) indicating they get over half their funding from this model.

This is a major shift from the prevailing full chargeback model from a decade ago. Only eight states reported that 100 percent of their revenue comes from a chargeback model (billing agencies), and most states are taking a hybrid approach today. A smaller portion (20 percent) have an agency assessment approach, and other funding sources include federal funding, grants, data sales and directly appropriated funds.

How is the CIO organization funded? (Select all that apply)
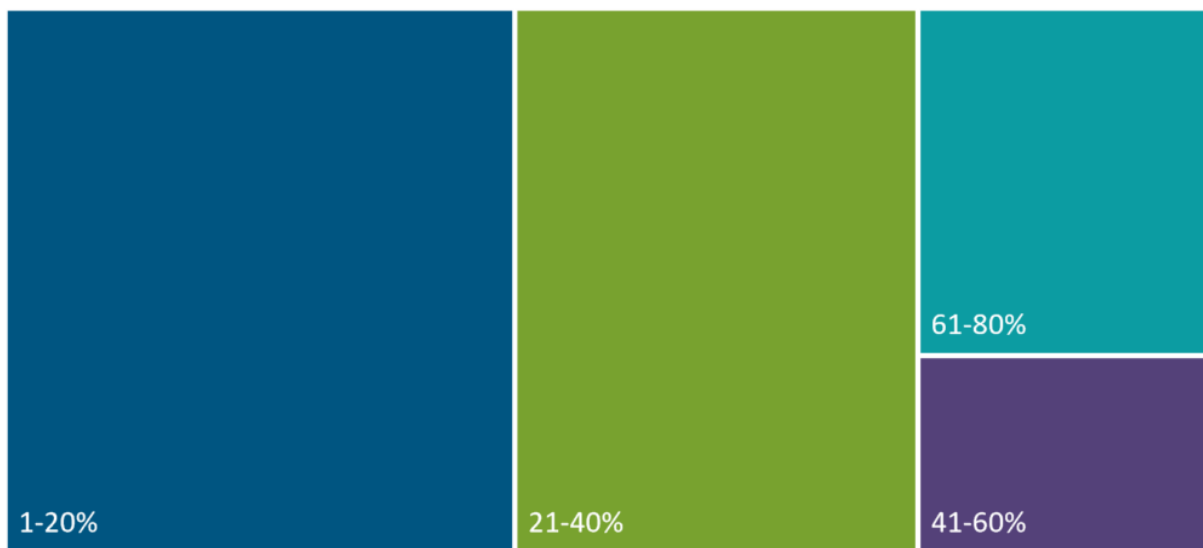

Source: NASCIO 2023 State CIO Survey

Another aspect of the state CIO financial model is the percentage of operating revenue comprised of pass-through federal funds from agencies. For some state CIOs, federal funds are a significant portion of revenue. And, because agencies may be using federal funding to

support program delivery, the state must follow federal financial management mandates and appropriately allocate both direct and indirect costs. Almost half of the 2023 survey respondents (46 percent) said federal funds make up less than 20 percent with an additional third of respondents asserting it made up 21 – 40 percent. Only about 17 percent of states said federal funds make up 41 – 80 percent of their revenue.
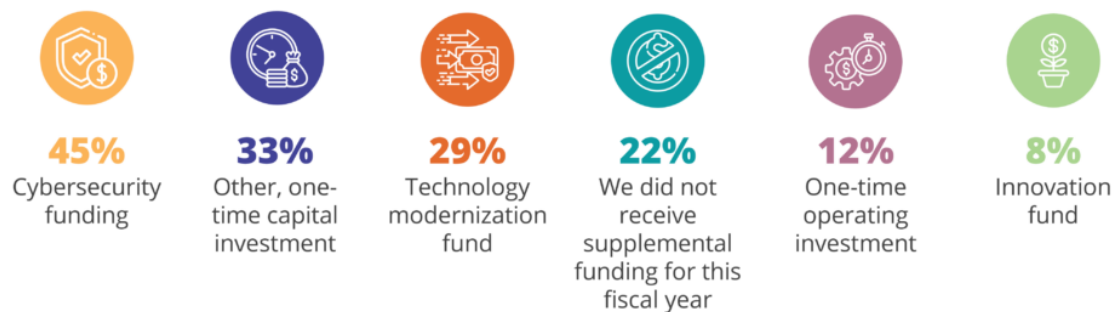
Of your operating revenue, what percentage is made up of pass-through federal funds from agencies?

61-80%

1-20%   21-40%   41-60%

Source: NASCIO 2023 State CIO Survey

As described previously, a growing trend is the state CIO agency receiving funding outside the traditional chargeback or assessment revenue. A question about supplemental funding for the current fiscal year revealed that cybersecurity funding was the most prevalent with 45 percent of the states reporting this category, while other sources included technology modernization funding as well as one-time capital and operating investments.

Has the CIO organization received supplemental funding for the current fiscal year? (select all that apply)

45%	33%	29%	22%	12%	8%
Cybersecurity funding	Other, one-time capital investment	Technology modernization fund	We did not receive supplemental funding for this fiscal year	One-time operating investment	Innovation fund

Source: NASCIO 2023 State CIO Survey

Finally, one survey question asked the state CIOs what the ideal funding model would be for their organization. While responses varied somewhat, the most prevalent response was that an ideal model would be a hybrid of chargeback and general funds. This approach would address the most common complaints from agency customers about high bills because CIO overhead charges are embedded in all the rates for services. Many CIOs like the structure and transparency of the chargeback model with the flexibility and innovation that comes from general funds. As one CIO explained, *"Ideally, we would have a hybrid funding model with appropriations for services that are universally needed (ERP, network, licenses, security, disaster recovery) and a chargeback model for optional services."*

The hybrid model could be useful for innovation and growth as one CIO put it, *"(We should have) chargeback for services, but a general fund allocation for innovation, research and development and similar activities would help IT be much more proactive."*

Over the years, the prevalence of the chargeback model has constrained the ability of states to adequately fund modernization of legacy systems and introduce innovation. It's difficult for the CIO organization to build a reserve, contingency or sinking fund dedicated to enhancements and modernization. This has emerged as a significant financial, technical and programmatic challenge to the states' ability to deliver effective and efficient services. The results of our 2022 national survey of state CIOs classified more than half of their IT systems as "legacy" with the majority of this identified group considered mission or business critical.

These challenges prompted states to create separate technology modernization or innovation funds. This is not new as some of these efforts can be traced back to the 1990's. As listed below, the rationale for this action varies, however all are designed to make more strategic and coordinated investments in modernizing systems:

- Make <u>strategic</u> investments to replace or upgrade technology

- Provide financial support for projects that utilize technology to address critical needs

- Address the lack of capital funds from the agencies

- Improve digital services and citizen experience

- Accelerate the deployment and adoption of enterprise or program-wide (shared) IT systems and services

- Address a critical security risk

- Modernize a business process

- Support migration to cloud services

- Generate cost savings through modernization

- Improve resiliency, operational efficiency and/or risk reduction

- Facilitate research, prototyping and piloting of emerging technologies

Although these modernization efforts vary in scope and details, they are typically created by legislative action and seed funded with a general fund appropriation. In essence, this describes the Vermont Technology Modernization Special Fund. There are a few distinct approaches to how the funds have been established: a dedicated technology modernization fund available to all agencies in the executive branch; a directed fund targeted at certain agencies or systems; a bond funded approach; a fund supported by fees or assessments; and a fund supported by grant dollars from external sources.

Over the years, the structure of technology modernization funds have varied, however the most common approaches can be described as:

- **Recurring Funds:** Under a legislative appropriation, states have established a specific fund to support IT modernization projects. Fund has a multi-year horizon. May require a direct or in-kind match from the agency.

- **One Time Funds:** States have created a modernization fund directed at targeted opportunities for investment: public safety, corrections, human services or court modernization. May require a direct or in-kind match from the agency.

- **Capital Investment Funding:** Based on an enterprise-wide strategy focused on creating systems that are interoperable and involve shared services and applications.

- **Revolving Funds with Loans:** IT modernization funds are provided to agencies as a loan with a required repayment schedule

- **Competitive Funding:** Agencies compete for modernization/innovation funding under a solicitation model. Agencies are invited to pitch projects to a governance body. May require a direct or in-kind match from the agency.

In closing, as you consider the future of IT funding in Vermont, remember this: technology is no longer a back-office function—it is the backbone of modern government. Sustainable, strategic funding models are essential not just to keep technology running, but to fuel innovation, improve citizen services and defend against ever-evolving cyber threats. The role of the state CIO is no longer just technologist; it's that of a broker, a communicator and a catalyst for change. Funding models should be as adaptive and resilient as the digital government you aim to build.

Thank you for your time today. I look forward to answering your questions.