

University of Northern Colorado
ERP Project
Board of Trustees Update
December 17, 2004

BACKGROUND:

The May 2004 final Charting the Future report, approved by the Board, included an identified need to invest in an integrated information system. As part of the preliminary “due diligence” the Board directed the administration to include the possibility of outsourcing information technology services. UNC worked with the Governor’s Office of Innovation and Technology (OIT) and an independent technology consultant to evaluate the available options, including outsourcing. The outcome of this work was a case for implementation of an enterprise resource planning system (ERP) presented to the Board in October.

UPDATE:

During the last two and half months, UNC has been working with OIT as well as the Colorado Community College System, Colorado State University, and Colorado School of Mines to collaboratively procure the most favorable ERP system. Although Oracle/PeopleSoft and SAP are the market leaders for general ERP systems, there are several niche players for the higher education market. The higher education market requires some specialized modules including student information systems (admissions, grades, etc.) and financial aid. The leading higher education ERP system is a SungardSCT solution called Banner.

Negotiations with SungardSCT appear to be culminating in a very favorable sole source option for UNC and other Colorado schools. We expect the Colorado School of Mines to acquire Banner; the community colleges are still in the decision process. There are several reasons justifying sole source procurement:

- Banner is currently implemented in nine institutions within Colorado. SungardSCT is already developing the necessary programming to implement the College Opportunity Fund stipend funding mechanism. Any other ERP would have to be modified (at an additional cost).
- The negotiated prices for software and services have been on a “most favored customer” basis due to collective buying power and are very attractive.
- UNC’s current finance package was developed by a company later acquired by SCT and standard upgrade paths have already been

developed and tested for conversion to Banner. This will allow for a relatively short-term and inexpensive implementation of the finance module.

UNC anticipates contracting with SungardSCT prior to the end of December. Final negotiations are underway and the procurement must be approved by the State Controller; approval of Banner, already installed in other colleges, should not be problematic.

FINANCING OPTIONS:

The administration would like to present the Board with financing options for discussion at the next Board meeting.

The ERP Project budget is \$7.1 million during implementation (January 2005-February 2007) with an additional \$700K to cover maintenance for a full five fiscal years. The expected 26 month implementation period allows for retirement of the mainframe prior to expiration of its maintenance in March 2007. Following is the project budget, by fiscal year:

University of Northern Colorado ERP Project Budget

	FY 05 Jan 05 - Jun 05	FY 06 Jul 05-Jun-06	FY 07 Jul 05-Jun-06	Project Sub-total	FY 08 Jul 05-Jun-06	FY 09 Jul 05-Jun-06	Five - Year Total
Project Costs:							
Hardware	186,667			186,667			186,667
Software	1,574,056			1,574,056			1,574,056
Vendor Services	478,511	1,146,279	677,768	2,302,558			2,302,558
Sub-total	2,239,234	1,146,279	677,768	4,063,281			4,063,281
Project Oversight	115,000	363,597	275,000	753,597			753,597
Short-term Staff /Training	144,200	874,283	351,167	1,369,650			1,369,650
Maintenance	199,122	343,187	353,895	896,204	365,032	376,614	1,637,850
Total Project Costs	2,697,556	2,727,346	1,657,830	7,082,732	365,032	376,614	7,824,378
Sources of Funding:							
Technology Reserves	358,322	1,509,335	1,532,830	3,400,487			3,400,487
Operating Funds	100,000	410,000	125,000	635,000	365,032	376,614	1,376,646
Additional Funds Needed*	2,239,234	808,011	-	3,047,245	-	-	3,047,245
Total Sources of Funds	2,697,556	2,727,346	1,657,830	7,082,732	365,032	376,614	7,824,378

* For purposes of comparing financing options, the additional funds needed are shown in the first two years. If no financing was used, the technology reserve cash outflows could be front loaded, spreading the additional funds needed to late FY 06 and FY 07.

Of the \$7.1 million total implementation period cost, \$3.4 million would come from existing technology reserves. Actual reserves available include \$400K more than the \$3 million estimated in the business case presented to the Board in October. An additional \$635K would come from administrative operating funds over the

three fiscal years of implementation. In addition, the ongoing maintenance costs would be funded from administrative operating savings due to the ERP implementation. To fund the remaining \$3,047,245 the Board can either use one-time funds to pay as we go, or use financing options to extend the payment period.

The advantage of financing is that the university retains more cash flexibility during FY 05 and FY 06 for other funding priorities and uncertainties. The disadvantage is that it costs more.

No Financing: One-time funds including contingency/unbudgeted revenue and funding identified for Charting the Future initiatives could be used to “pay as we go”. Based on anticipated cash flows, the present value cost (3% discount rate) of this method is \$3,023,791.

Five Year Financing: Alternatively, UNC could finance the \$3,047,245 over five years. Preliminary inquiries with financing organizations suggest that two possibilities exist – 60 monthly payments and five advance annual payments. Because only \$187K of the \$3,047,245 is hardware, interest rates are expected to be higher than currently available for pure equipment financing. The present value cost of monthly payments for five years at 5.0% and 6.0% rates respectively is \$3,205,154 and \$3,283,704. The present value cost of five annual advance payments at 5.4% is \$3,183,559. The university has not yet requested formal financing bids, but informal rate inquiries are in the ranges identified.

Comparative Cash Flow

	No Financing	Five-Year Financing		
		Monthly Payments*	Monthly Payments*	Annual Payments
		6.0%	5.0%	5.4%
FY 05	2,239,234	349,053	340,614	674,908
FY 06	808,011	704,925	688,046	674,908
FY 07	-	706,941	690,063	674,908
FY 08	-	706,941	690,063	674,908
FY 09	-	706,941	690,063	674,908
FY 10	-	353,471	345,042	-
Total	3,047,245	3,528,272	3,443,891	3,374,540
Present Value	3,023,791	3,283,704	3,205,154	3,183,559

* Monthly financing calculations assume vendor payments escrowed until due

Using no financing will require about \$1.7 - \$2.0 million more in FY 05 and FY 06 cash outflows than five-year financing. Five-year financing requires a greater total cash outlay of about \$330K- \$480K with a present value cost of \$160K -\$260K more.