Executive Summary

The objective of this business case is to support the retirement of the Central Data System (CDS). The system, which became operational in 1996, incurred approximate operating expenses of $25.4 million in fiscal year 1999. The case for the retirement of CDS estimates a project completion date of November 2000.

The Central Data System

CDS is a data routing system originally designed to support a multiple loan servicer environment. In support of Direct Loan's 4.5 million borrowers, CDS routes 1.8 million originations from Loan Origination and Loan Consolidation to Loan Servicing each year. In addition, CDS routes subsequent disbursements, adjustments, and cancellations for these borrowers. In 1997, the Department of Education decided to postpone implementing a multi-servicer environment but retained CDS as a means of keeping the alternative viable. Since that time, other non-router functions, such as Electronic Debit Account (EDA), have been added to the system.

Retirement Tasks

CDS has 12 basic functions. Five of these functions relate to routing information and can be eliminated since they are duplicated in other systems that support the Direct Loan Program. The remaining seven functions must be retained and will therefore be incorporated into the Loan Servicing and Loan Origination systems. Business functions supported by Student Financial Assistance and its current trading partners will not be impacted by the retirement of CDS.

Savings

Total net savings of $57.8 million (± 10%) are projected over four years from the retirement of CDS. This savings will be realized beginning with fiscal year 2000 and proceeding through fiscal year 2004. Figure 1 depicts the cumulative savings for each fiscal year from 2000 to 2004.

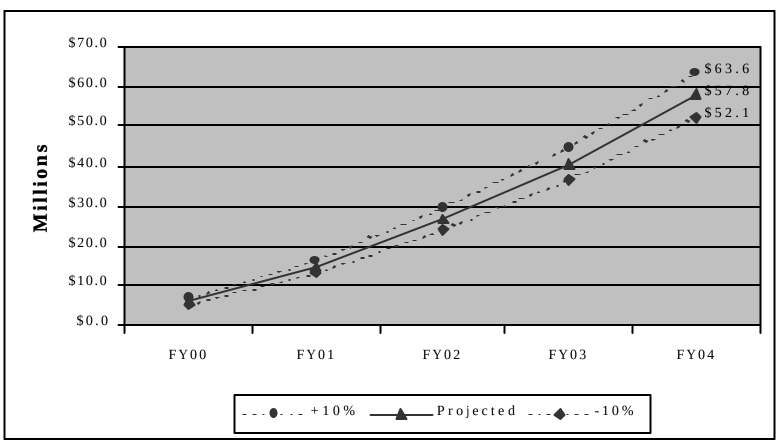


Figure 1–Cumulative Projected SFA Savings

The Modernization Partner team will build, and implement the retirement of CDS using a shared savings approach. Following implementation, the Modernization Partner will share in the savings obtained by SFA for a period of three years at a sliding scale of 45, 30, and 20 percent from fiscal years 2001 through 2003, with 100% of savings accruing to SFA in 2004, assuming the implementation takes place in November 2000. This investment shows a return on investment (ROI) of 3.7 to 1 or 370%.

Student Financial Assistance and Modernization Background

To improve student financial aid services nationwide, the Higher Education Amendments of 1998 established the Office of Student Financial Assistance (SFA) as the first federal Performance-Based Organization (PBO). SFA, as a PBO, is dedicated to providing outstanding customer service while simplifying, integrating, and reducing the cost of administering federal student financial assistance programs.

SFA is in the process of transforming from today's environment to the target structure as documented in the Modernization Blueprint, the Customer Service Task Force Report, and the Five Year Performance Plan. The structure illustrates the vision to deliver top-notch customer service – reaching customers, who in many instances, do not have computers – through partnership with schools and the loan industry, an empowered work force, and modern technology.

As part of SFA's transformation, the organization has realigned according to traditional commercial business segments in an effort to more effectively address the wants and needs of its customers. One of these new business segments, the Students Channel, is responsible for providing high-quality service to potential and current borrowers and for aiding recipients, while ensuring that students and parents understand their options to finance education. To accomplish this, the Students Channel must perform the following functions:

- Customer service and call center support
- Aid awareness
- Application processing
- Student credit management
- Loan servicing

In 1999, SFA selected Andersen Consulting and a core team of pre-existing contractors as its Modernization Partner. This group was charged with improving the service level provided by SFA, while reducing the overall cost of operations.

Central Data System Introduction and Background

In 1996, the Department of Education sponsored an initiative to use multiple loan servicing systems to support the Direct Loan Program. To do so, the Department undertook an effort to design, build, and implement CDS to manage the flow of transactions between multiple originator and servicing systems. In 1997, the Department decided to postpone the multiple servicer option for the foreseeable future. CDS was retained to keep the multi-servicer alternative as an option.

Over the past three years, the Direct Loan Program and its supporting systems have undergone a number of regulatory modifications and enhancements. Additionally, a number of new features, such as EDA, have been added in support of the program. To sustain these modifications, CDS was enhanced beyond its original scope.

In support of the objectives documented in the Modernization Blueprint, the Modernization Partner, in conjunction with SFA resources, has identified CDS as a component of the Direct Loan system infrastructure that may be retired without negatively affecting the program. It is expected that the retirement of CDS will have the following benefits:

- Reduced operating costs
- Fewer redundant edits and associated errors
- Simpler system balancing, which improves employee morale through less reconciliations and less errors to resolve

CDS Interfaces and Processes

As shown in Figure 2, CDS has 12 main processes. It also conducts approximately 1,800 edits. The system routes information through its interfaces with seven other systems; Figure 2 illustrates the interfaces CDS has with PEPS, EDA, LockBox, LO, LC, LS, and FARS.

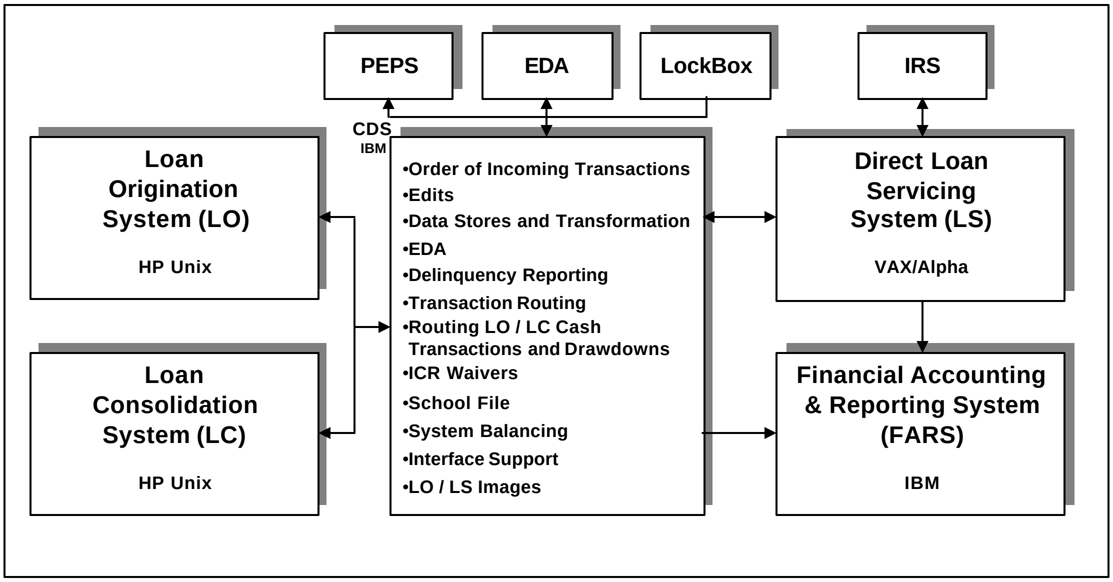


Figure 2–CDS Current Functions

These interfaces are used to update the Direct Loan Servicing System with information on loans, participants, disbursements, payments, and consolidations. CDS also edits borrower information, such as social security number, date of birth, and address changes as well as editing transactions for validity. System balancing of financial information is also routed through CDS.

CDS Retirement

Duplication of inter-system edits will be drastically reduced in the proposed system environment. This proposed retirement will support the same set of business objectives at reduced processing and maintenance costs. Additionally, the use of data warehousing will provide Direct Loan partner schools with delinquency data.

The proposed approach will:

- Retire redundant CDS functions to reduce costs
- Move retained functions to the Direct Loan Servicing System and Loan Origination System
- Implement a Data Warehouse for better, more flexible reporting capabilities
- Communicate implementation plans and train affected SFA and contractor staff

Five of the 12 main CDS processes are being retired because of duplication in other Direct Loan systems. These are:

- Edits
- Transaction Routing
- ICR Waivers
- System Balancing
- LO / LS Images

Several functions will continue to be required and will be moved to existing systems as indicated in Figure 3.

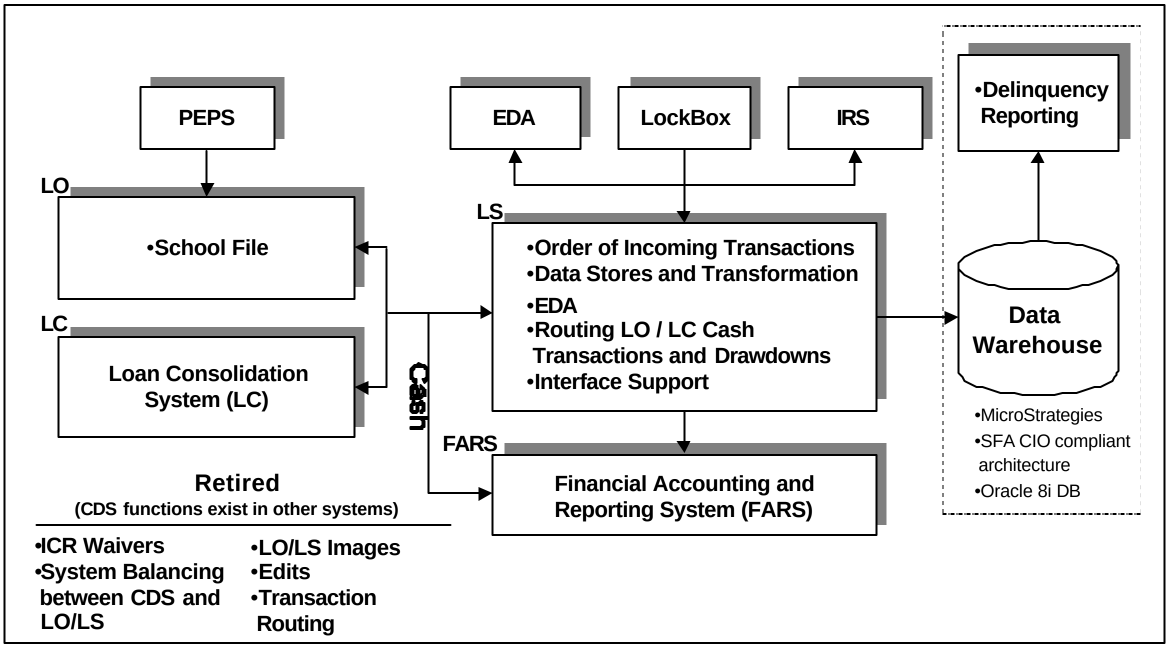


Figure 3–Servicing Systems Future Functions

The systems that will have the new functionality are:

- Direct Loan Servicing System (LS) modified to include:
  - Order of Incoming Transactions
  - Data Stores and Transformation
  - EDA
  - Routing LO/LC Cash Transactions and Drawdowns
  - Interface Support
- Loan Origination System (LO) modified to include:
  - School File – updates and maintenance
- Data Warehouse to provide access for:
  - Delinquency Reporting

Current Versus Future SFA Costs

Cost savings for the retirement of CDS are calculated from the baseline costs in fiscal year 1999. In fiscal year 2000, cost reductions are derived from the elimination of deliverables and the subsequent reduction of task orders and key personnel due to moving to the Virtual Data Center (VDC). The ongoing deliverables, task orders, key personnel, and VDC costs in fiscal years 2001-2004 can be attributed to functions transferred to other Direct Loan systems.

Based on current estimates and available data, the Modernization Partner estimates that ongoing costs associated with retained functions will be $9.7 million for fiscal year 2001 and set at $8.2 million per year for fiscal years 2002 through 2004. Consequently, the savings are $17.2 million per fiscal year to SFA prior to the payments to the Modernization Partner. An itemization of the estimated cost savings by fiscal year is shown in Table 1.

Table 1–CDS Retirement Savings

	Operating Costs*	FY99	FY00	FY01	FY02	FY03	FY04	Totals
	Deliverables	$10.8	$5.5	$3.2	$2.7	$2.7	$2.7	
	Task Orders	7.7	6.0	2.3	2.0	2.0	2.0	
	Key Personnel	3.1	3.9	2.7	2.5	2.5	2.5	
	VDC	3.8	3.8	1.5	1.0	1.0	1.0	
	Total Operating Costs	$25.4	$19.2	$9.7	$8.2	$8.2	$8.2	
	Savings		$6.2	$15.7	$17.2	$17.2	$17.2	$73.5
Modernization Partner Shared Savings %			0%	45%	30%	20%	0%	
Modernization Partner Shared Savings $			$0.0	$7.1	$5.2	$3.4	$0.0	$15.7
Projected Net Savings to SFA			$6.2	$8.6	$12.0	$13.8	$17.2	$57.8
All dollar figures are in millions								
*Operating costs represented in current dollars								

Baseline–FY99

Baseline numbers were taken from the Current Environment Assessment. These numbers are actual expenditures for fiscal year 1999 and will be used as a basis of comparison for costs and savings estimates throughout the CDS retirement project.

Deliverable Costs

In fiscal year 2000, the cost of deliverables are reduced by $5.3 million due to savings associated with moving the IBM to the VDC in November 1999. The combined cost of deliverables will be reduced to $3.2 million for the remainder of fiscal year 2001 and $2.7 million for fiscal years 2002 through 2004. A number of existing deliverables will be retained and transferred to Loan Servicing. Contract alterations will be required to accurately reflect retained functions.

Task Orders (system enhancements and maintenance)

In fiscal year 2000, expenditures on development task orders will be reduced by $1.7 million. This is due to expectations for fewer development efforts based on the retirement of CDS. The total cost associated with the issuance and delivery of task orders will be reduced from $6.0 million in fiscal year 2000 to $2.3 million for fiscal year 2001 and $2.0 million for fiscal years 2002 through 2004. During each of the fiscal years 2001 through 2004, $1 million will be used for enhancements to FARS, and $1 million will be used for supporting functions moved to Loan Servicing.

Key Personnel

It is expected that charges associated with key personnel will be reduced from $3.9 million in fiscal year 2000 to $2.7 million in fiscal year 2001 and to $2.5 million for fiscal years 2002 through 2004. This is due to a reduction in the number of key resources needed to support the retained functions.

The $3.9 million in fiscal year 2000 represents the maximum allowable costs for key personnel. Historically, actual costs have been lower than the maximum due to staffing variables such as temporary vacancies.

Virtual Data Center

Following the retirement of CDS, the VDC costs are expected to be reduced from $3.8 million in fiscal year 2000 to $1.5 million in fiscal year 2001 and to $1.0 million for fiscal years 2002 through 2004. The remaining costs primarily support the FARS accounting system.

Shared Savings

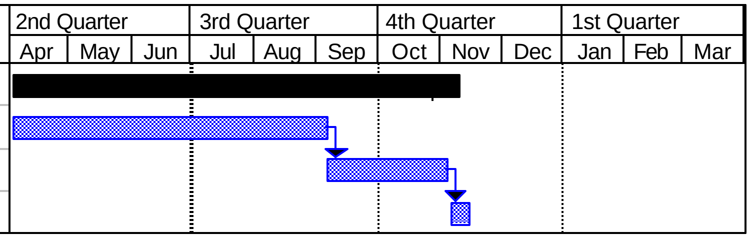
The Modernization Partner will build and implement the retirement of the Central Data System using a shared in savings approach. Following implementation, the Modernization Partner will share in the savings obtained by SFA for a period of three years at a sliding scale of 45, 30, 20, and 0 percent from fiscal years 2001 to 2004. This investment shows a return on investment (ROI) of 3.7 to 1 or 370%.

CDS Retirement Schedule

The process of retiring CDS must begin in early April 2000 to be fully implemented by November 2000. Tasks associated with CDS retirement will be scheduled to coordinate with existing system release dates and the peak disbursement season for Direct Loans, as shown in the CDS Retirement Schedule in Table 3.

Table 3–CDS Retirement Schedule

ID	Task Name
1	**CDS Retirement Schedule**
2	Detail Design and Build
3	Testing
4	Implementation



Assumptions and Risks

The following assumptions have been made regarding the retirement of CDS:

- The project will commence in early April 2000. Delays in starting this project may result in future scheduling conflicts.
- While CDS is being retired, functions existing on the IBM platform and exclusively outside CDS remain intact. These include: LockBox, DCS, NSLDS, FARS, and Mega-record.
- No attempt has been made to significantly enhance the existing systems while eliminating CDS.
- Existing transaction layouts in support of the Direct Loan trading partners will not be altered.
- MicroStrategy software licenses and seat charges are included.

Potential risks in retiring CDS have been identified:

- The current schedule for the Loan Origination system , Direct Loan system, and Central Data System includes releases in July 2000, October 2000, and February 2001.
- In addition, migration activities, including the VAX to Alpha upgrade and the planned relocation to the Virtual Data Center, are currently scheduled between August and November 2000.

All of these dates and activities will be reviewed during the Detail Design phase and may require refinement. However, late implementation will impact the timing of cost savings realization.

Next Steps

Contract

An interim Task Order should be issued by April 14, 2000 to authorize the Modernization Partner to begin the detailed system design for the retirement of CDS.

This Task Order will allow work to begin while a shared-in-savings contract is drafted and executed.

Freeze CDS Functionality

To conserve valuable resources during the retirement of CDS, all future enhancements to the system should be frozen, effective immediately. This freeze will include all proposed and previously approved releases.

Requested enhancements should be reviewed by the development team in light of the decision to retire CDS. It may be more appropriate to support these functions on alternative Direct Loan systems.

In any case, emergency fixes may be needed to support the ongoing processes conducted by CDS until its full retirement and will be coordinated appropriately.