The Funding Transformation

A NEW ERA FOR GOVERNMENT IT FINANCIAL SUSTAINABILITY

parsolvo

A GOVERNMENT TECHNOLOGY THOUGHT LEADERSHIP PAPER

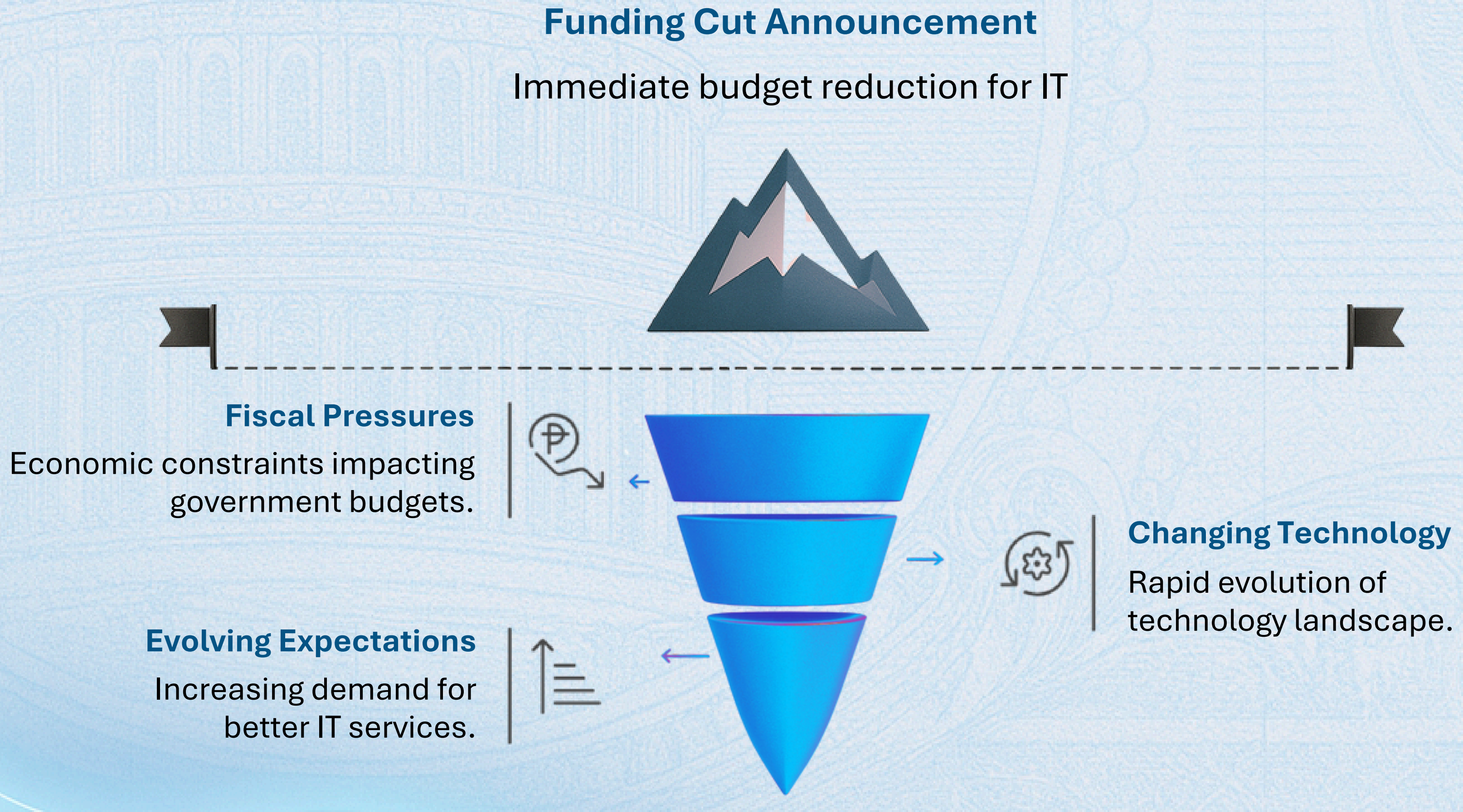
The New Post DOGE-Effect Reality

The conference room fell silent as the Chief Financial Officer delivered the news. IT services would be cut by 30% over the next two years. Federal technology grants that had sustained infrastructure modernization were ending. Meanwhile, agencies were requiring modernized services, better security, and faster innovation. For the assembled IT leadership team, it was clear: the traditional funding model for government technology was compromised.

This scene plays out in state capitals and city halls across America. The convergence of fiscal pressures, changing technology landscapes, and evolving service expectations has created a funding crisis that threatens the very foundation of government IT operations. Yet within this crisis lies an opportunity—a chance to evolve how technology services are funded, delivered, and valued within government.

"MOST COST ALLOCATION PLANS WERE BUILT BEFORE CLOUD. AGENCIES ARE LOSING 5–15% OF IT BUDGETS ANNUALLY."

Government IT Funding Crisis: Unveiling the Depths



An Erosion of Traditional Funding Models

To understand where we are headed, it helps to see where we began. Historically, agencies purchased and managed IT directly from providers using their own budgets. To drive greater efficiency and accountability, the State created Central IT and adopted a chargeback model, where agencies now obtain technology services through Central IT rather than sourcing them independently. For decades, this model has promoted transparency and ensured fair allocation of costs.

But digital transformation has shattered this simplicity. Today's government agencies don't just need basic telecom, desktop, and data center services; they need sophisticated cloud platforms, advanced analytics capabilities, mobile applications, and robust cybersecurity. The Department of Health needs real-time data integration for public health monitoring. Transportation requires IoT sensors and predictive analytics for infrastructure management. Human Services demands secure portals for benefit delivery. Each agency's technology needs have become as unique as their missions.

YOU DON'T HAVE A **BILLING PROBLEM** YOU HAVE A **DATA PROBLEM**

The funding model hasn't kept pace with this evolution. Agency IT budgets remain flat or declining while service demands exponentially increase. Federal grants have shifted focus, often requiring matching funds that states struggle to provide. Most critically, the traditional model creates a disconnect between consumption and cost. Without modern systems to enable transparent and fair cost allocation, Central IT cannot hold agencies fully accountable—leaving agencies with little incentive to optimize consumption or prioritize adoption of Central IT services.

This disconnect manifests in numerous ways. One midwestern state discovered their email system had 50,000 active accounts for an organization with only 30,000 employees—years of departed staff whose accounts remained active because no one was charged for them. Another state found dozens of development servers running 24/7 for projects that had ended months earlier. Without financial accountability, waste becomes inevitable. Hidden opportunities may lie in Federal Cost Recovery.

Hidden Opportunities May Lie in Federal Cost Recovery

While IT leaders focus on the challenge of shrinking budgets, many overlook a significant opportunity: federal cost recovery. Most state and local governments receive substantial federal funding through various grant programs. These grants allow—and in many cases require—recipients to charge appropriate indirect costs for support services, including IT. Yet many government IT organizations fail to capture these reimbursements.

Unclaimed Federal Funds

IT costs not reimbursed

Implement Chargeback Models

Increased IT Funding

Reduced burden on state funds

Associate costs with consumption

Show IT costs relation

Maximize federal reimbursement

The root cause is structural. Traditional IT chargeback models don't create the documentation and cost allocation mechanisms necessary for federal reimbursement. When IT services are charged back exclusively with a focus on recovering internal funds, there's no clear way to associate costs with specific agencies or programs. Federal auditors require detailed documentation showing how IT costs relate to grant-funded activities. Without proper cost allocation systems, this documentation becomes impossible to provide.

Consider the magnitude of this missed opportunity. A typical state government might receive hundreds of millions in federal grants annually. Federal cost principles generally allow IT costs to be charged to these grants as indirect costs. Even at conservative recovery rates, this could represent millions in additional IT funding. Yet without proper chargeback mechanisms and documentation, these funds go unclaimed.

Building a Sustainable Funding Framework

Define Service Catalog

Establish clear service offerings with costs.

Implement Automated Billing

Use systems to track and bill usage.

Align Incentives

Encourage efficient resource use.

Foster Feedback Loops

Drive innovation through cost awareness.

The solution requires a fundamental shift in how IT services are funded and accounted for. By implementing transparent chargeback models that clearly associate costs with federal programs, IT organizations create the documentation trail necessary for federal cost recovery. Agencies can then include these IT costs in their indirect cost rate proposals and cost allocation plans, maximizing federal reimbursement while reducing the burden on state funds. Building a Sustainable Funding Framework.

The path to financial sustainability begins with recognizing that IT services are not free goods but valuable resources that require proper economic models. Leading government IT organizations are adopting consumption-based funding frameworks that mirror those used in the private sector. These frameworks share several key characteristics that distinguish them from traditional funding models.

First, they establish clear service catalogs with defined costs. Rather than providing vague "IT support," organizations define specific services—email accounts, storage capacity, help desk tickets, application hosting—each with associated rates. This transparency helps agencies understand what they're paying for and make informed decisions about consumption.

Second, they implement automated measurement and billing systems. Manual processes that once consumed weeks of staff time are replaced by platforms that automatically track consumption, calculate charges, and generate invoices. This automation not only reduces administrative burden but also provides real-time visibility into costs and usage patterns.

Third, they align incentives between IT providers and consumers. When agencies pay for what they use, and the costs are justified, they become partners in optimization. The agency that previously requested maximum resources "just in case" now carefully considers actual needs. The IT organization that previously had no incentive to improve efficiency now benefits directly from optimization efforts.

The transformation extends beyond mere billing mechanics. Successful chargeback frameworks create feedback loops that drive continuous improvement. When agencies see their monthly IT bills, they ask questions: Why did costs increase? Are we using resources efficiently? Could we achieve the same outcomes more economically? These conversations, impossible under traditional funding models, become catalysts for innovation and efficiency.

The Implementation Journey

Transforming IT funding models requires careful orchestration of technical, financial, and organizational changes. The most successful implementations follow a deliberate path that builds capability while managing risk and resistance.

The journey begins with stakeholder alignment. IT funding transformation touches every part of government—from agency program managers to central finance offices to elected officials. Early engagement helps build understanding and support. Leaders must articulate not just what will change, but why change is necessary and how it benefits all parties. The narrative shifts from "IT needs more money" to "together, we can build a sustainable model that maximizes federal reimbursement while improving service delivery."

With stakeholder buy-in established, organizations can begin designing their new funding model. This design phase requires answering fundamental questions: What services will be charged? How will rates be calculated? What allocation methods ensure fairness? How will federal compliance be ensured? The answers must balance technical accuracy with practical simplicity. A model that's theoretically perfect but impossibly complex will fail in implementation.

Pilot programs prove invaluable during implementation. Rather than transforming funding for all agencies simultaneously, organizations typically start with willing early adopters. These pilots reveal practical challenges and generate success stories. When the Department of Transportation reduces IT costs by 20% through better consumption management, other agencies take notice. When the Health Department successfully increases federal cost recovery, finance officers become advocates.

Technology enablement follows design decisions. Modern billing platforms automate the complex calculations and allocations that once required armies of analysts. Integration with existing financial systems ensures smooth operations. Self-service portals empower agencies to monitor and manage their consumption. Real-time dashboards provide visibility that drives accountability.

Perhaps most critically, successful implementations invest heavily in change management. New funding models require new behaviors, skills, and mindsets. Training programs help agency staff understand cloud economics and cost optimization. IT teams learn to think like service providers rather than technology maintainers. Finance professionals adapt to consumption-based models that differ from traditional government budgeting.

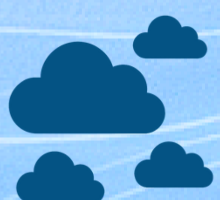
CRAWL

Capture foundational IT costs accurately.

WALK

Integrate chargeback and optimize shared services.

RUN



Reinvest savings into modernization, AI, and security.

Overcoming Resistance and Building Momentum

Resistance to IT funding transformation is natural and predictable.

Agencies accustomed to "free" IT services bristle at new charges. Finance officers worry about budget predictability. IT staff fear becoming bill collectors rather than technology professionals. Addressing these concerns requires empathy, communication, and demonstrated value.

The key to overcoming resistance lies in focusing on mutual benefits. Agencies gain transparency, control, and the ability to optimize costs. Finance organizations obtain the documentation necessary for federal cost recovery. IT departments secure sustainable funding while building stronger partnerships with their customers. When all parties understand how they benefit, resistance transforms into support.

Success stories accelerate adoption. One southwestern state began its transformation with just three pilot agencies. Within six months, these agencies had reduced IT costs by 15% through consumption optimization while increasing federal cost recovery by $2 million annually. Word spread quickly, and soon other agencies were requesting inclusion in the program. What started as a pilot became the standard operating model within two years.

Communication strategies prove critical throughout the journey. Regular updates celebrate successes and acknowledge challenges. Town halls provide forums for questions and concerns. Executive dashboards demonstrate progress against goals. Most importantly, leaders consistently reinforce the vision: a sustainable funding model that enables the government to deliver better services to citizens.

The Future of Government IT Finance

As government IT organizations master consumption-based funding and federal cost recovery, new possibilities emerge. The same frameworks that enable basic chargeback can evolve to support sophisticated financial strategies. Dynamic pricing models can incentivize adoption of preferred platforms. Commitment-based discounts can reduce costs for predictable workloads. Innovation funds can be created from optimization savings.

The implications extend beyond IT. As government masters the economics of technology services, it becomes better positioned to leverage emerging capabilities. Artificial intelligence, machine learning, quantum computing—all require sophisticated understanding of consumption economics. Organizations that build this capability today will be ready to adopt tomorrow's innovations.

More fundamentally, sustainable IT funding models change the relationship between technology and government missions. When IT organizations operate as true service providers with transparent economics, they become strategic partners rather than cost centers. Technology investments can be evaluated based on mission impact rather than budget availability. Innovation becomes possible when funding is predictable and sustainable.

Practitioner-led FinOps assessments

Chargeback frameworks delivering transparency

Cloud cost savings potential

Capture and tag IT spend

Transform data into transparent billing

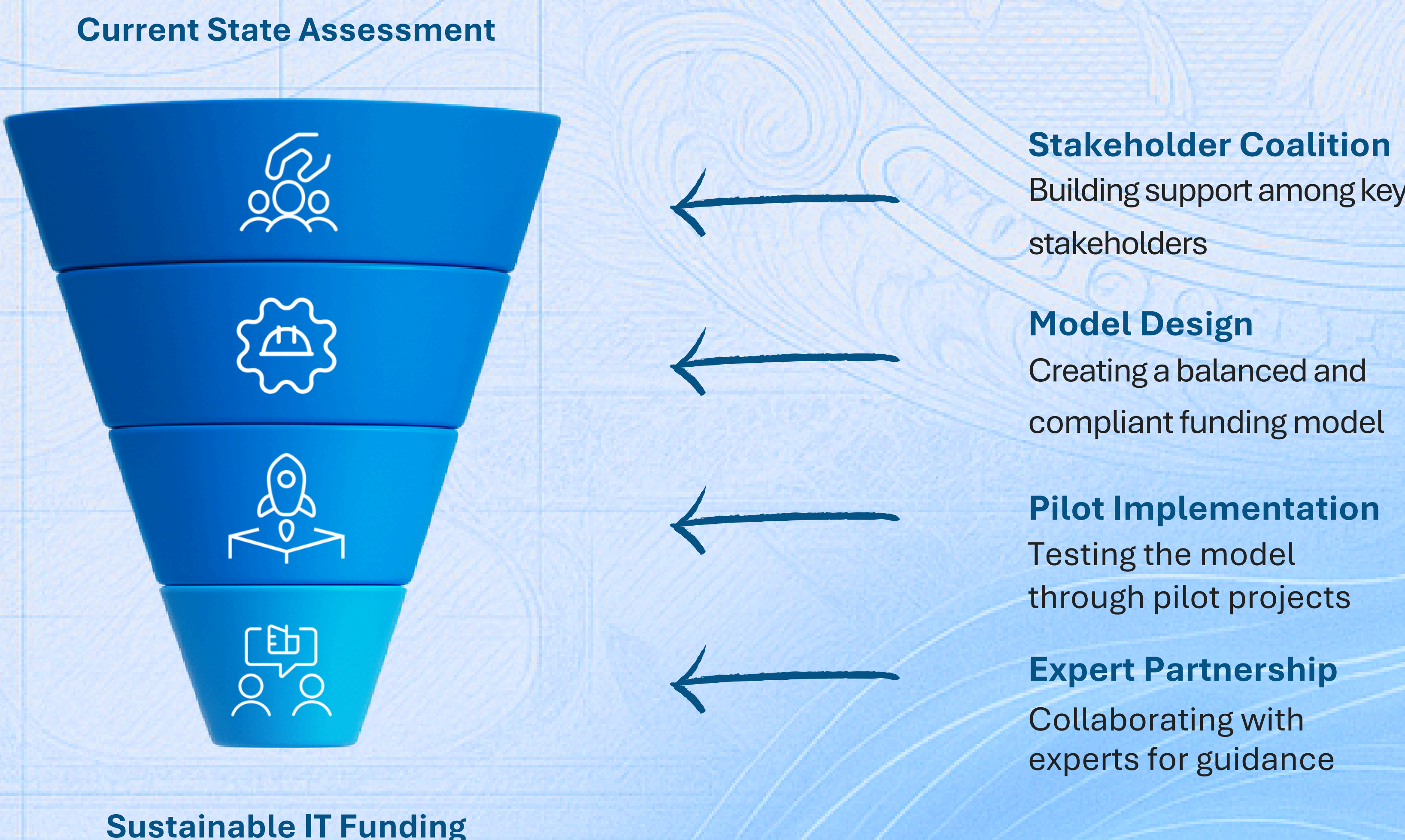
Recover 10–30% in IT spend

How to Take Action

For government leaders ready to transform their IT funding models, the path forward is clear. Begin by assessing your current state—understanding existing funding sources, documenting service costs, and identifying federal reimbursement opportunities. Build a coalition among stakeholders who will champion and support the transformation. Design a funding model that balances simplicity with compliance requirements. Implement gradually through pilots that demonstrate value. And partner with experts who have navigated this journey and understand the government's unique challenges.

The status quo—declining agency IT budgets, ending federal grants, and growing service demands—is unsustainable. But within this challenge lies opportunity. By embracing modern funding models that create transparency, enable optimization, and maximize federal reimbursement, government IT organizations can build sustainable foundations for the digital future.

Transforming IT Funding Models



The transformation won't be easy. It requires technical changes, process redesign, and cultural evolution. But the alternative—continued erosion of funding while service demands grow—is far worse. For visionary leaders ready to act, the tools, techniques, and expertise exist. What's needed now is the courage to begin.

Join the Leaders Turning Data into Dollars

about parsolvo

For over five years, Parsolvo has partnered with state and local governments to transform IT financial management. Our team combines deep government expertise with proven methodologies that have generated millions in savings and cost recovery for our clients. We understand that government IT faces unique challenges, and we've developed purpose-built solutions to address them.

Start Your Cost Recovery Assessment

Book a 30-minute Strategy Session