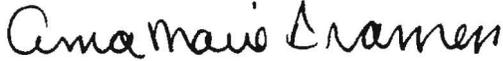


Memorandum

To : Mr. Ramon J. Hirsig
Executive Director, MIC:73

Date : June 24, 2010



From : Anna Brannen, Chief Information Officer
Technology Services Division, MIC:26

Subject : **Board Meeting Agenda – July 13-July 15, 2010**
Informal Issue Paper on a Centralized Revenue Opportunity System (CROS) Project

At the July 13-15, 2010 Board Meeting, I will be sharing an informal issue paper on the Centralized Revenue Opportunity System (CROS) Project.

Please place this item on the July 15, 2010 Board Meeting agenda.

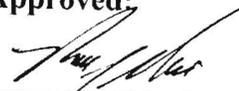
If you have any questions, please feel free to contact me at 916-445-8677.

AB:sjh
AB1006058

Attachment

cc: Ms. Diane Olson, MIC:80

Approved:



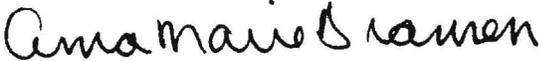
Ramon J. Hirsig
Executive Director

Item XX.X
07/15/10

Memorandum

To : Mr. Ramon J. Hirsig
Executive Director, MIC:73

Date : June 24, 2010

From : 
Anna Brannen, Chief Information Officer
Technology Services Division, MIC:26

Subject : **Board Meeting Agenda Item – July 15, 2010**
Centralized Revenue Opportunity System (CROS) Project Director CEA Request

Over the last several months, the Board of Equalization (BOE) has been examining its current automation systems in response to a number of recent events such as the lack of funding for the Return Processing Efficiency Project and increasing data center costs. I believe BOE is in a unique position to take advantage of lessons learned from other tax agencies and to enter into a contract to develop a leading edge tax system. I believe this system, titled the Centralized Revenue Opportunity System (CROS), would enhance business processes and automation for the BOE's registration, return processing, cashiering, collections, audits, and appeals functions. It would replace BOE's current automation systems - Integrated Revenue Information System and Automated Compliance Management System - implement a data warehouse, and expand eServices.

The CROS Project objectives would be to:

- Create a stable yet responsive and flexible infrastructure that provides the ability to quickly and easily add new taxes and fees, and make other changes (e.g., rate changes)
- Ensure data integrity and confidential data are protected from unauthorized access and use.
- Improve the collection of taxes and fees by utilizing a design that provides access to and exchange of current and complete information on tax and fee payer accounts.
- Expand external partnerships and capitalize on the development and implementation of successful models and applications.
- Improve and simplify the process for understanding, reporting, and paying taxes and fees.
- Provide tax and fee payers self-managed account capabilities.
- Make all relevant and appropriate information available online.

This project would align with BOE's business and technology strategic directions by providing a solution which supports better services to California's tax and fee payers.

Position Description (justification for CEA III level and how position will be used)

For your consideration, we are requesting to hire a Project Director for the CROS Project. As a Career Executive Assignment (CEA) III, the Project Director will have overall responsibility for all project activities and ensure compliance with BOE policies, standards, and strategic directives. The position and the project team are similar to the staffing model used by both

Franchise Tax Board and Employment Development Departments in their tax modernization and benefits based projects. The project team will be composed primarily of redirected staff and positions from the Sales and Use Tax, the Property and Special Tax, and the Technology Services Departments. In addition, BOE will likely acquire consulting expertise for project planning and management, document preparation, and procurement aspects of the project.

Under the administrative direction of the CROS project sponsors and upon consultation with programmatic experts, the Project Director will have broad authority for establishing or modifying BOE policies, practices, and procedures that are impacted due to changes required by the new tax system.

The Project Director will provide a single point of accountability to deliver the project in accordance with the project commitments. This position will have full authority over the project, with the power to make all decisions, subject to oversight by the project sponsors and BOE executive bodies, to manage and direct assigned project resources, and make decisions regarding the project direction.

The Project Director will be responsible for the creation of a structured change management approach that will be used to transition impacted individuals, teams, and the BOE organization from its current state to the desired future state. The plan will address ensuring an understanding of the change benefits and implementation strategy, training needs, and working with staff to alleviate any change related fears.

The Project Director will represent BOE in ongoing contacts related to the project with the Office of the State Chief Information Officer, Department of Finance, other state control agencies, and project stakeholders. This position is critical to the planning, directing, and implementation of the CROS Project which is essential to BOE in achieving its business objectives.

The proposed CEA position requires approval from the Department of Personnel Administration and the State Personnel Board.

If you have any questions, please feel free to contact me at 916-445-8677.

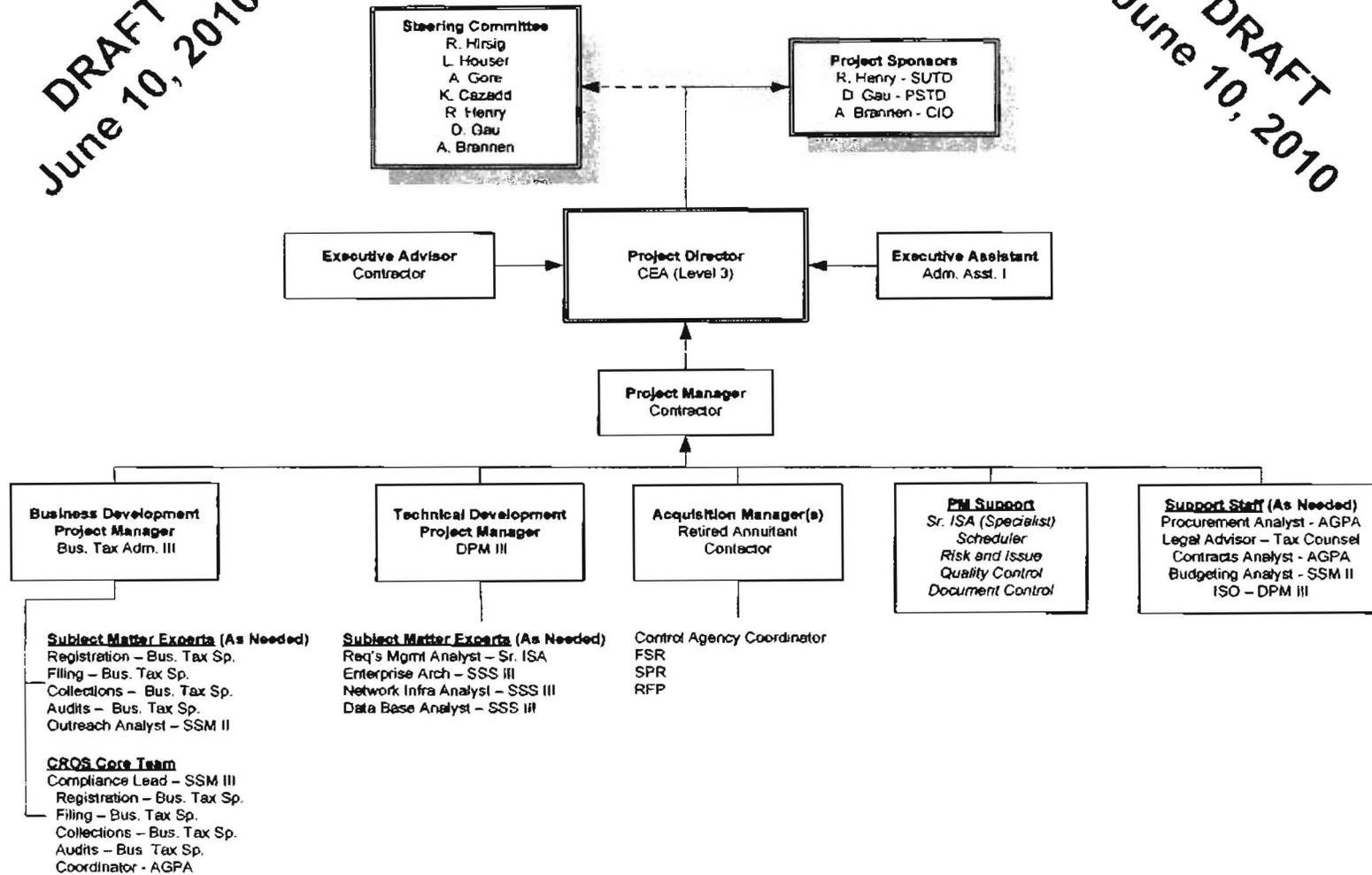
AB:mh:sjh
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Attachment

cc: Ms. Mitzi Houston, MIC:26

DRAFT
June 10, 2010

DRAFT
June 10, 2010



- For Information
- For Discussion
- For Decision Making

BOARD OF EQUALIZATION
INFORMAL ISSUE PAPER

Centralized Revenue Opportunity System (CROS)

Issue

The Board of Equalization (BOE) is embarking on a significant automation project which will ultimately replace its two current automation systems – the Integrated Revenue Information System (IRIS) and the Automated Compliance Management System (ACMS). In addition, the project will expand online taxpayer services and provide an enterprise data warehouse. This project will impact virtually all processing areas within the organization. The new technologies and tools will provide increased efficiency and will augment revenue production while incorporating “best practices” to drastically reengineer how work is performed at BOE.

BOE’s legacy systems are technologically unmanageable and cumbersome, significantly hindering the agency’s ability to efficiently and effectively implement, administer and evaluate its tax and fee programs. In particular, the systems have become antiquated and are at the end of their useful lives; do not have the capability to easily adapt to new or expanding requirements; and cannot adapt or take advantage of emerging technologies. For example, IRIS does not allow for simultaneous system changes required to implement new tax and fee programs or to incorporate enhancements to existing programs or protocol – ultimately resulting in substantial revenue delay or loss for the state. Additionally, the programming language is outdated and it is becoming increasingly difficult to find staff, or contractors, to maintain the systems.

A replacement of the legacy systems will significantly improve the BOE’s ability to provide services to taxpayers, respond more timely to implement new tax and fee programs or statutory changes, and thereby accelerate revenues. Additionally, the integration of a data warehouse will provide a single enterprise repository of BOE internal data and external data that can be queried without impacting the online transaction system. Implementing best practices and efficiency tools to collect revenues is futile without a nimble and robust integrated tax system and data warehouse.

Background

BOE’s current automation systems were developed in the 1990s. The hardware and software which supports these systems is dated and more costly to maintain than newer technologies. Additionally, because BOE’s systems have required continuous modifications over the last ten years, there has also been a significant, and steady, increase to the costs, staffing resources and time involved to make changes, enhancements or maintain these systems.

During the past year, BOE has been legislatively mandated to implement several new tax and fee programs or other proposed statutory changes such as:

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1. 1% sales and use tax rate increase
2. ABx4-18
3. Fuel Tax Swap
4. Cost of Collection Recovery Fee – proposed
5. Oil Severance Tax – newly proposed program

Each of these statutory changes or new programs will or has required thousands of programming hours to modify the existing automation systems. There are several reasons for this. First, any new implemented tax program uses the same computer components as our existing tax programs. These components exist within both IRIS and ACMS and are in use by all of BOE's 20+ programs. Multiple programming changes are difficult to accomplish because our programming components are tightly integrated. Any changes to the components can potentially disrupt our existing tax programs. This is a design problem typically associated with legacy systems which results in significant delays in making changes or implementing new tax and fee programs. Currently, implementing a new tax and fee programs can take as long as ten months to complete in BOE's antiquated automation systems. Given the state's ongoing fiscal crisis and the Legislature's ever increasing interest in implementing statutory changes that impact revenues in the various existing tax and fee programs administered by BOE, these timeframes are unacceptable.

In addition to statutory changes, BOE is increasingly experiencing frequent and recurring requests for statistical data or quantitative information from its current programs by Board Members and staff, BOE management, Department of Finance, Legislative Analyst Office and the Legislature. Due to the state's ongoing fiscal crisis, BOE has experienced a significant increase in the number of requests for data relating to new initiatives, statutory changes or potential tax programs. Additionally, the need to analyze BOE data and utilize external data in a productive manner is critical to the success of BOE programs. The IRIS and ACMS systems were not originally designed to generate this type of information or to produce ad hoc reports of this nature. As a result, BOE has developed a number of other methods and ancillary systems to respond to these information requests. Extracts from IRIS and ACMS are stored with data received from external agencies in data marts and reports are created by staff utilizing desktop applications. The difficulty in accessing BOE internal data and the ability to only perform one-source data matching is cumbersome and often detrimental in responding timely to requests and performing program analysis. Furthermore, requests still require programming expertise and are expensive and time consuming to perform. The BOE does not have the business intelligence tools required to provide the end user access to the information that is required to complete necessary business processes in a timely and cost effective manner.

BOE spends almost \$11 million annually with the Office of Technology Services (OTech) solely for the operation of its automation systems requiring the use of a number of unrelated and disparate software systems. The main products that BOE uses at OTech are ADABAS and NATURAL, which are produced by Software AG. The current Software AG contract will expire in 2011. OTech anticipates that the new contract will contain significant cost increases due to a pending dispute between the state and Software AG related to existing contracts and licensing. Software AG filed a lawsuit against the state which will take some time to be resolved. Due to this situation, in FY 2011-12, OTech expects a significant increase in ADABAS and NATURAL costs.

Discussion of the Issue

As noted above, BOE's current automation systems no longer allow BOE to effectively administer its tax and fee programs and falls drastically short of positioning BOE for the future. BOE is in a unique situation to be able to take advantage of lessons learned from other revenue agency's recent successes that have solved similar technological and programmatic issues by utilizing a revenue based contract strategy to deploy cutting edge technology in developing their new tax systems. A key aspect for the retention of revenues and enhancing the collection of taxes and fees is the ability to utilize the most efficient collection tools and for staff to have access and be able to exchange current and complete information.

Over the last two years, BOE has developed long range business and strategic plans which have included a technology component. A factor that is key to achieving our long range goals is to create an expanded and responsive tax infrastructure by moving to a functional organizational structure and creating a taxpayer-centric automation system. As changes and improvements to current systems and structures are made, BOE will continue to safeguard the rights and confidentiality of taxpayers. BOE will use a systematic approach to change and be more responsive to the needs of the taxpayers. To meet these goals and in keeping with its strategic plan, BOE will:

1. Create a stable yet flexible state-of-the-art technology infrastructure using industry best practices;
2. Create a system that can respond timely, effectively, and efficiently to new tax and fee programs and changes to existing programs to maximize revenue for the State.
3. Enhance the internal controls of the IT systems to ensure that data integrity is maintained and confidential data are protected from unauthorized access and use.
4. Continually evaluate the agency's external and internal environments and introduce new or enhanced technology, in a timely manner, as changing needs and expectations are identified.
5. Expand external partnerships and data sharing with other governmental entities and organizations wherever possible; explore, use and share "best practices" that capitalize on the development and implementation of successful models and applications.
6. Ensure that essential information and tools needed by employees to perform efficiently and successfully are provided and are accessible.
7. Provide relevant tax and fee program information in a timely manner to state and local entities, and to other BOE stakeholders.
8. Be diligent in identifying ways to improve and simplify the process to ensure greater compliance with the statutes and that ensure tax and fee payers understand their reporting and payment obligations.
9. Achieve program objectives at the lowest possible costs.
10. Provide taxpayers the ability to retrieve and enter their tax information easily, online or in a variety of formats, how they want it, and when they want it.
11. Make all relevant and appropriate information available through online applications.
12. Ensure the centralized governance of data and the utilization of data warehousing technology, such as extract, transform and loading tools and business intelligence tools to generate reports ranging from executive overviews to detailed transactions.
13. Implement the technology infrastructure that enables BOE to realize its vision.

To accomplish these objectives, it is essential that BOE replace its current automation systems by deploying new technologies to ensure that a new state of the art centralized revenue opportunity system is acquired and deployed. This will allow BOE to respond quickly and efficiently to new laws and evolving business needs. The BOE's clients and employees expect and deserve a system that:

- Is robust and nimble
- Can adapt easily to changing organization and business environments
- Has the ability to access to more data
- Utilizes the most advanced technologies
- Increases the use of and streamlines automated processes
- Allows for joint program applications
- Is driven by and developed to address businesses needs

In order to realize this vision, a qualified and competent vendor with proven experience and a track record of success in providing large tax system solutions must be engaged to partner with BOE in building the new systems. BOE will utilize a procurement approach pioneered by the Franchise Tax Board (FTB) for large IT

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procurements. FTB's approach was to focus the procurement on the business or programmatic problems that the state was experiencing and allowing the vendor community to propose innovative solutions to those business problems. As a result, the winning vendor, shared in the benefits (increased revenues) that their solution provided. One of the important components of this model was that the state did not have to provide upfront funding to develop and implement the new systems. The vendor received payments when the solution provided the proposed benefits.

The contract award will be made using the state's procurement laws and procedures which provide for open and fair competition. Based on the needs of BOE and a desire to work cooperatively with the vendor to achieve the best value solution, the procurement process will use a revenue-based approach as provided in SB 954 and PCC Sec. 12101.5 d. Although this form of procurement is sanctioned, it has only been used on a small number of large contracts. As such, the procurement process will involve added complexity, therefore additional steps will be necessary to educate and communicate the process and progress of the procurement.

The CROS project team will be composed primarily of redirected staff and positions from the Sales and Use Tax, the Property and Special Tax, and the Technology Services Departments. In addition, it is anticipated that BOE will acquire consulting expertise for project planning and management, document preparation, and procurement aspects of the project. Due to the state's current fiscal situation, BOE does not propose at this time to seek budget augmentations prior to contract award. BOE expects that the new system will generate significant new benefits which will allow the contract to be funded from the additional new revenues generated above the departments' current revenue baseline.

A consultant report completed in December 2009 on the implementation of an enterprise data warehouse indicated that the BOE could potentially increase ongoing revenues by \$150 million annually. The BOE will utilize this report in conjunction with its own internal analysis to identify new revenue to fund the replacement of IRIS and ACMS.

Proposed Critical Time Frame Overview

The following is BOE's preliminary time frame for the project's major milestones prior to development of the new system.

Pre Procurement Phase

- Establish revenue estimates and compensation model – September 2010
- Complete project charter – December 2010
- Complete Feasibility Study Report – December 2010
- Receive project approvals – February 2011

Procurement Phase

- Establish pool of qualified vendors – Mar/April 2011
- Request for Information Meetings (RFI)– May 2011
- Complete Request for Proposal (RFP) – July 2011
- Release RFP to vendor pool – July 2011
- Receive final bid proposals – January 2012
- Receive control agency approval – May 2012
- Issue intent to award – June 2012
- Sign Contract – July 2012

Preparation

- Prepared by: Larry Bergkamp
SUTD Department, Tax Policy Division

Current as of: June 24, 2010

Ver. 6-23-10