

TO: The Joint Fiscal Committee

FROM: Kaj Samsom, Commissioner, Department of Taxes

DATE: November 8, 2017

SUBJECT: Annual Report on the Tax Computer System Modernization Fund

The Tax Computer Modernization Fund (CMF) was created in 2007 for the purpose of creating a funding mechanism to modernize the old legacy systems used by the Department of Taxes. There have been revisions to the statute and the use of the funds over time, but the primary goal remains the same. Currently, this fund is replenished by “benefits” of the new VTax system. Eighty percent of the current benefits are used to pay the vendor (FAST Enterprises, LLC) and the remaining 20% goes to the General Fund in a lump sum transfer in June.

The VTax Project is beginning to wind down. The fourth and final conversion was successfully completed on November 3, 2017. This phase included the smaller tax types that had not been brought into VTax, including cigarette, land use change tax, solid waste, telephone personal property tax, and a few others. The previous conversions included the major tax types (corporate and business income, personal income, and trust taxes). The Department has now stopped using the mainframe and is administering all tax types on one platform.

The VTax Project was originally priced at \$28.6M over a 6-year period. The “benefits based” financing arrangement required Tax to measure the increased revenue generated from the new system and to put that revenue into the CMF. 80% of that revenue would be used to pay the vendor based on a project schedule and the availability of revenue. If the system did not produce benefits, then payment to the vendor would be delayed until benefits were produced.

To date, the VTax system has created \$11.6M in benefits. \$9.3M has been paid to the vendor, and \$2.3M has been generated for the General Fund. There were also payments to FAST of \$11.3M in cash, generated from the CMF from previous benefit program that were considered early payments. The remaining amount due to vendor on the VTax project is \$5.6M and is scheduled to be paid over the next 2 years. In the process, the Department used funds in the CMF generated from previous CMF projects to achieve an early payment discount of \$1.3M, essentially reducing the overall cost of the project from \$28.6M to \$27.3M.

The Department is currently reviewing proposals to upgrade its scanning equipment. The current scanning software is about 20 years old and is the last older legacy system used at Tax. The accuracy of the older scanner software causes errors when reading return data that results in delays in refunding, errors in billing, and more administrative time and cost to fix the errors. If we can move forward with this scanning project, we hope to use the CMF to fund the project related one-time costs (ongoing costs would be built into the Tax operating budget).

Currently, there is \$1.25M in the CMF that is not committed to the VTax project. We believe this will be sufficient to pay the one-time costs for the scanning project.

To date, we have spending authority remaining to pay additional \$2.4M out of the CMF for the VTax project. To complete the VTax payment schedule, Tax would need another \$4.3M in spending authority and about \$1M in spending authority for the scanning project. The Department will request \$5.3M in spending authority to complete both projects during the upcoming 2018 legislative session.

VTax Project: 2014-2017

Enhanced Revenue	(through 9/30/2017)	\$	11.63M
------------------	---------------------	----	--------

Distribution:

FAST Benefit Payments		\$	9.3M
GF Transfer	(through 6/30/2017)	\$	1.8M
FAST non-benefit payments		\$	11.3M
Discount Achieved		\$	1.3M

CMF Balance:

Current Balance		\$	1.8M
-----------------	--	----	------

Encumbrances:

Earmarked for vendor		\$	Paid current
Earmarked for GF transfer	(6/18)	\$	550,000
EDMS Project		\$	950,000
Remaining Balance		\$	300,000