

*State of Hawaii*  
*Department of Taxation*

*Say Aloha to Improved Collections*

*Kurt Kawafuchi, Director of Taxation*

*FTA Annual Conference*

*June 11, 2007*



# *Agenda*

- Overview of Hawaii's Government
- Overview of Hawaii's Tax System
- Hawaii Revenue Trends
- Collection Strategy
- Strategies for Successfully Managing Large IT Initiatives

# Overview of the Government of Hawaii

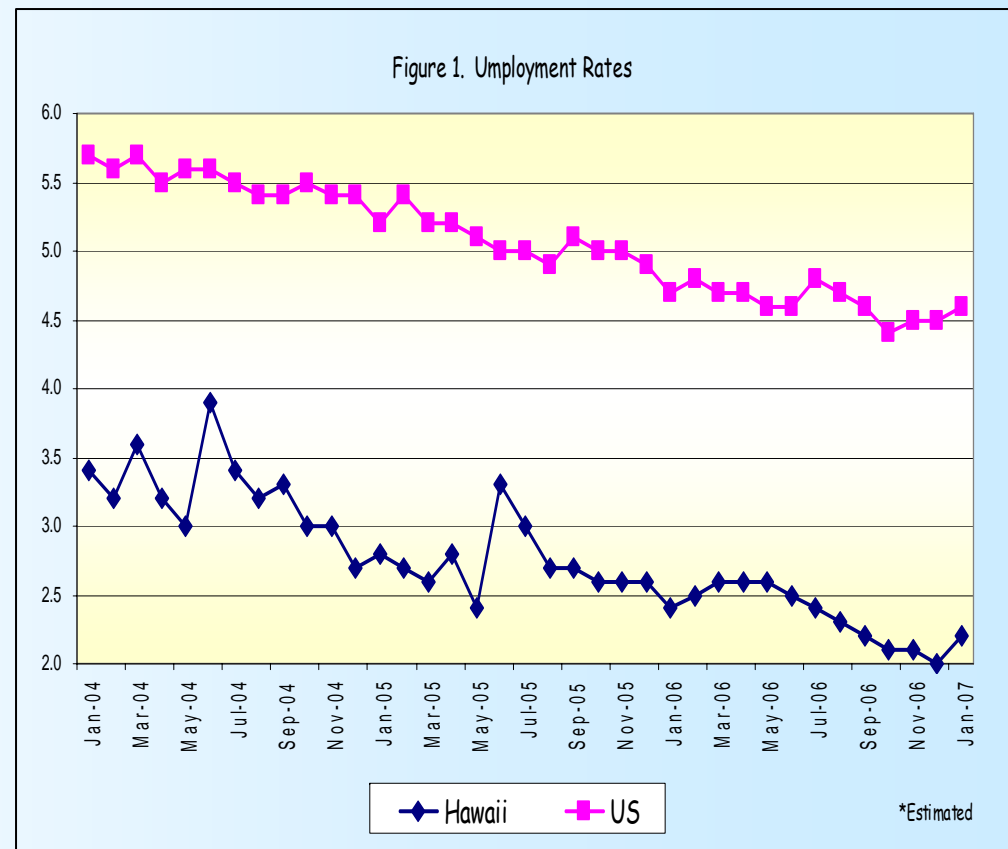


- On December 4, 2006, Governor Linda Lingle was sworn into office for her second term as Governor of Hawaii.
- Governor Lingle is the first Republican governor in 40 years. She is also the first woman governor in Hawaii.
- Since being elected, Governor Lingle has made diversifying Hawaii's economy and tax relief a top priority.
- The Lingle Administration's Tax Initiatives Included:
  - Indexing tax amounts for inflation
  - Increasing the Standard Deduction
  - Exempting food and medical services from excise tax
  - Adjusting Hawaii's income tax brackets

# Brief Overview of Hawaii's Economy

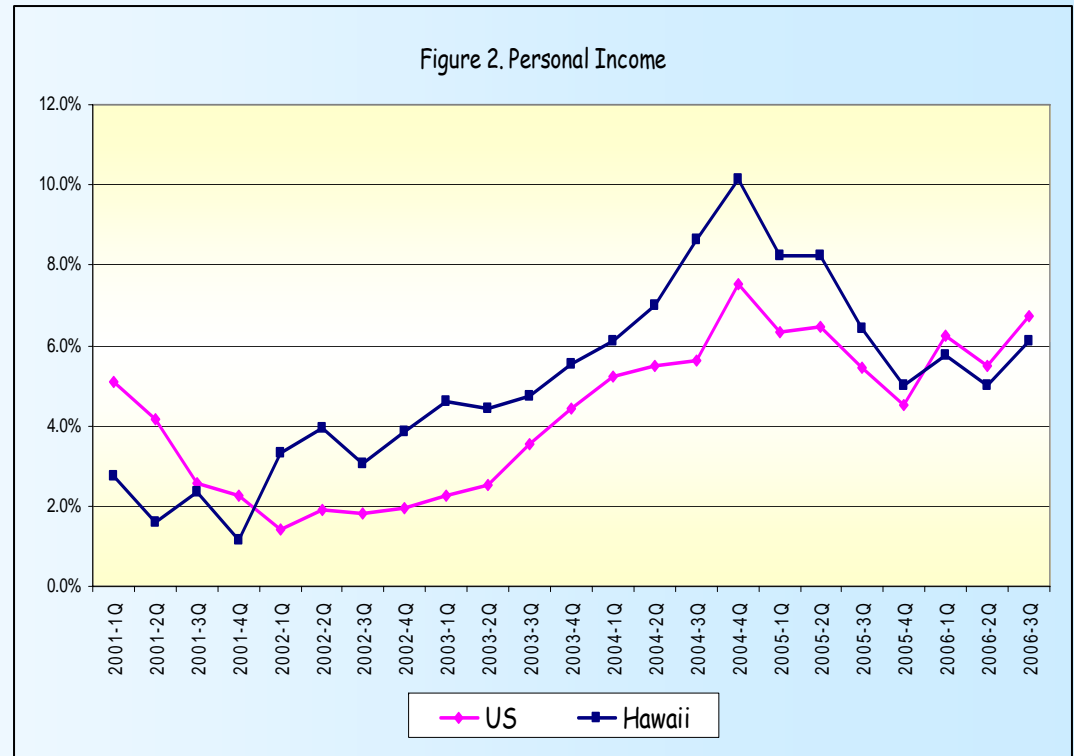
Hawaii's economy continues to be one of the strongest in the nation and the state continues to demonstrate financial health and fiscal discipline.

- Strong employment growth, rising personal income, and strong construction activity.
- Diversified economy into technology, life sciences, entertainment, and premium agricultural and aquaculture products.
- Continued Strong Job Growth Has Resulted in the Lowest Unemployment Rate in the Nation.

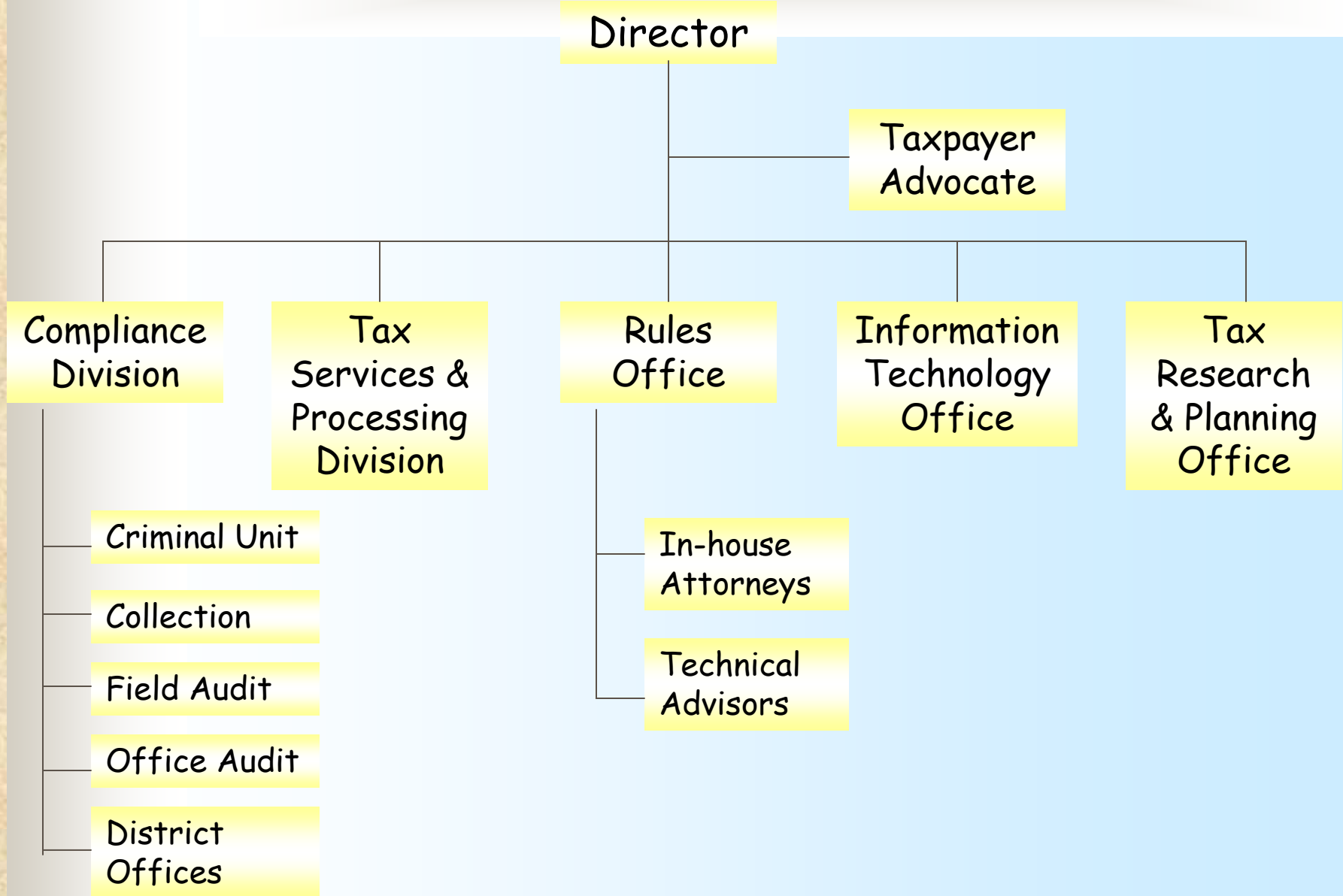


# Brief Overview of Hawaii's Economy

- Increase in military presence and the overall federal expenditures also directly benefit Hawaii's economy.
- The Growth in Personal Income is Healthy.
- Overall, the economic strength and financial condition of the State are excellent.

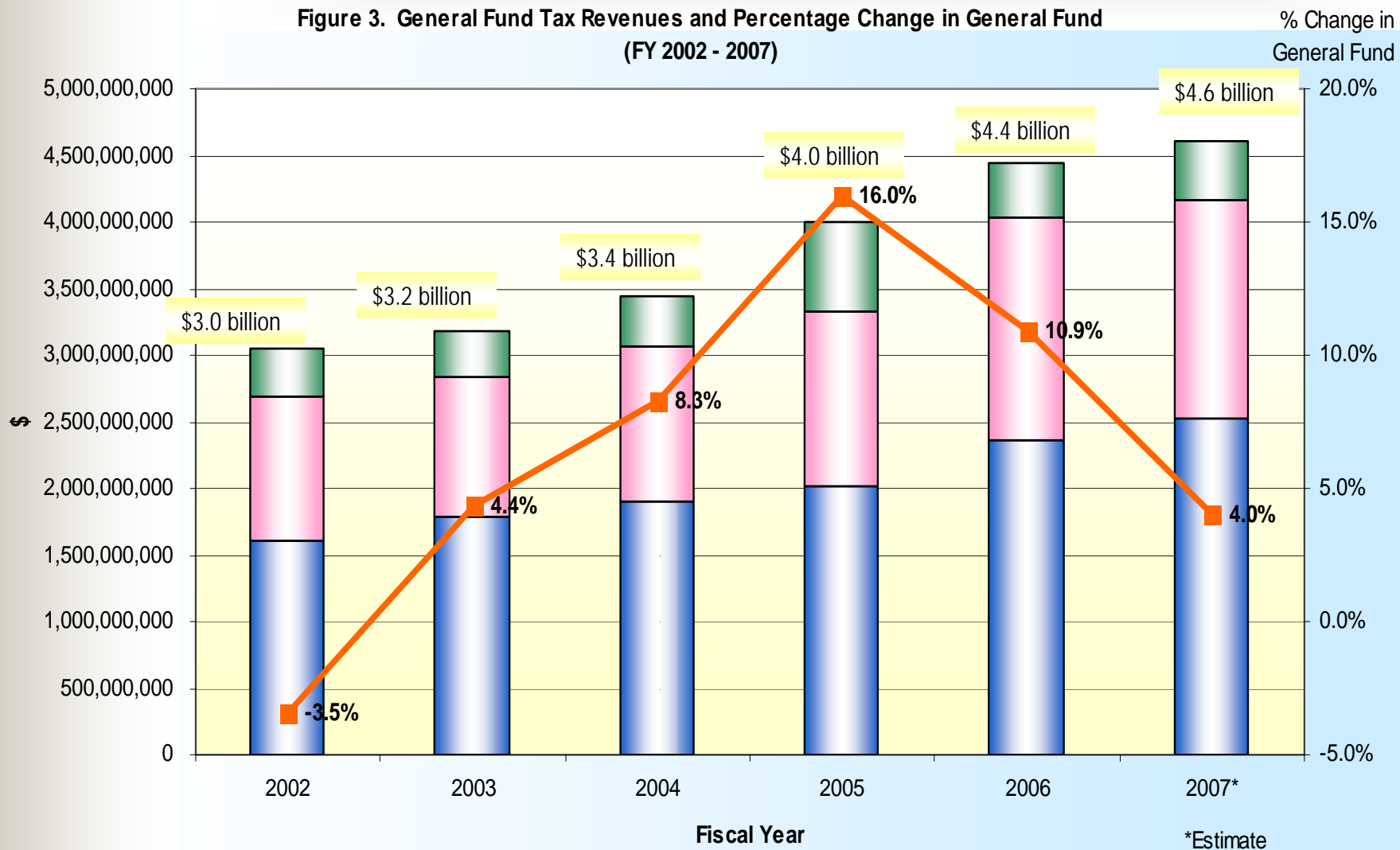


# Hawaii's Department of Taxation



# Hawaii's Tax Revenue

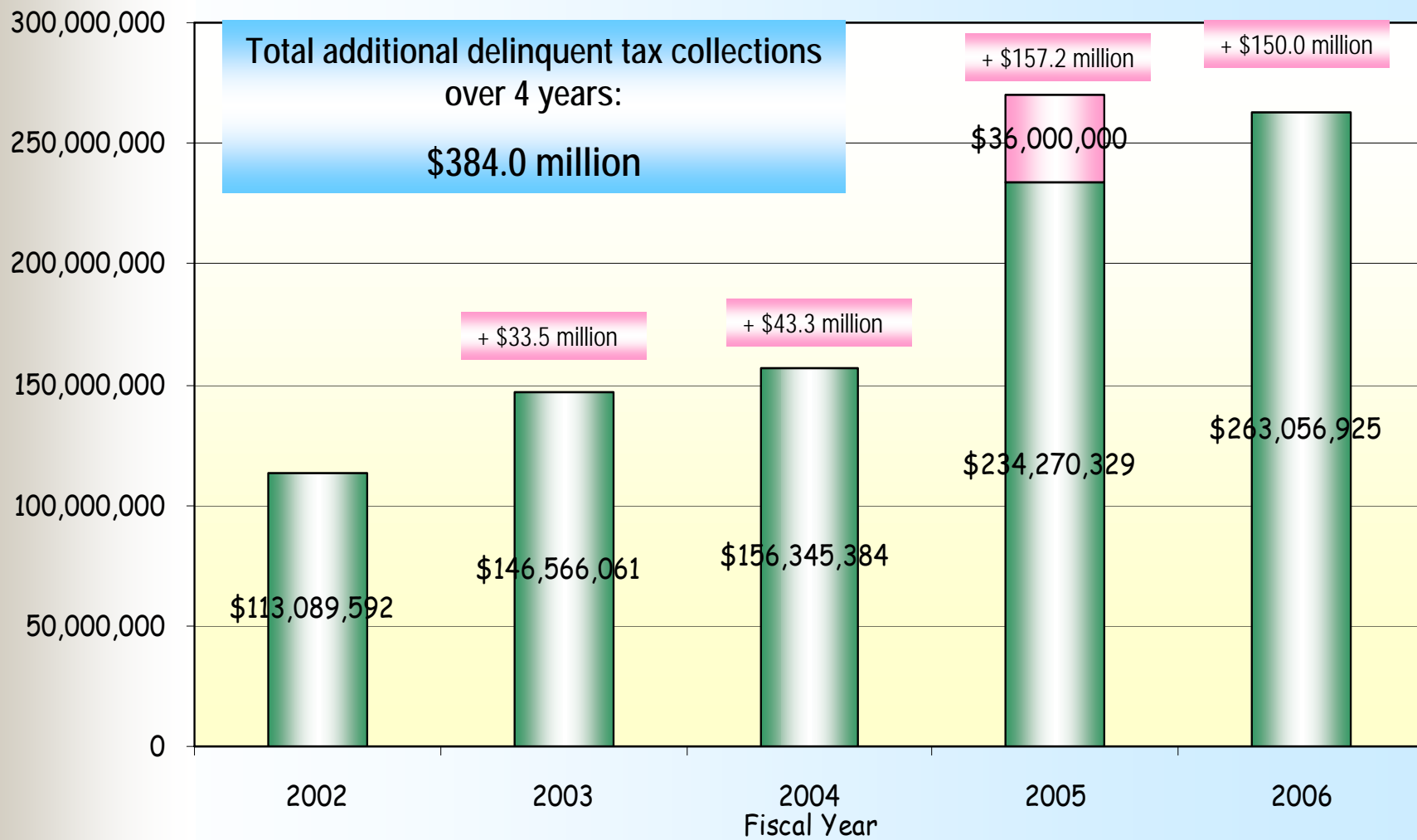
Figure 3. General Fund Tax Revenues and Percentage Change in General Fund (FY 2002 - 2007)



General Excise
  Net Individual Income
  Others
  Percentage Change in General Fund

# Hawaii's Tax Revenue

Figure 4. Delinquent Cash Collections (FY 2002 - 2006)



# Collection Strategy

- Bottom up strategy
  - Meet with compliance chief and senior collectors to brainstorm strategies to collect more delinquent taxes.
- Investing in new technology
  - Implementing a collection system known as Integrated Tax Information Management Systems (ITIMS) Collection System, or ICS.
  - ICS was an excellent investment. The ICS case management system enabled the collectors to organize cases and focus on their accounts better.



# Collection Strategy

- Investing in new technology (continue)
  - ICS is extremely helpful for the junior collectors, who work on a large number of accounts (cases where the balance is under \$10,000). Since the implementation of ICS, the junior collectors had worked about 17,000 cases.
  - Collectors are now keeping current with the various worklists, which is something that weren't achievable when things were done manually.
- The ICS enabled the collectors to work more efficiently, and facilitated their collection efforts, such as: mailing notices, serving levies and filing liens.

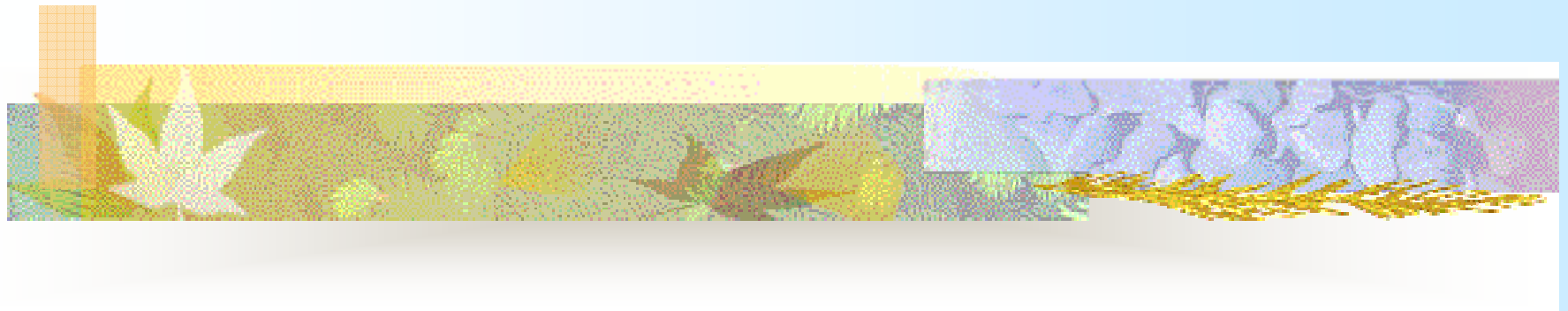


# Collection Strategy

- Improved customer service
  - Delinquent taxpayers can work with agents in all offices (Oahu and district offices) to find out the status of their delinquent account(s) because of the integrated system.
  - Department of Taxation's employees can read the history notes, correspondences, and legal actions taken pertaining to certain taxpayers.
  - Better service encourages more compliance.



# *Strategies for Successfully Managing Large IT Initiatives*

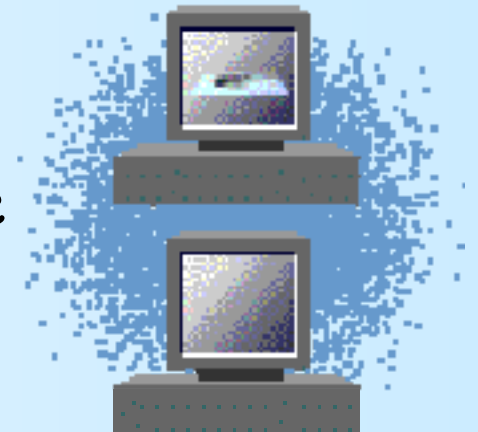


The Importance of Partnership

# *Building Strong Partnerships:*

## *The Underappreciated Element of Successful IT Projects*

- Advancements in technology are helping to reshape tax administration and position us to meet the challenges of tomorrow.
- The right technology is an important element of a successful project; but perhaps more important is an effective team to achieve the departments goals and objectives.
- Our transformation of tax administration in Hawaii was ultimately about people; the people we serve and the people of the Department of Taxation.

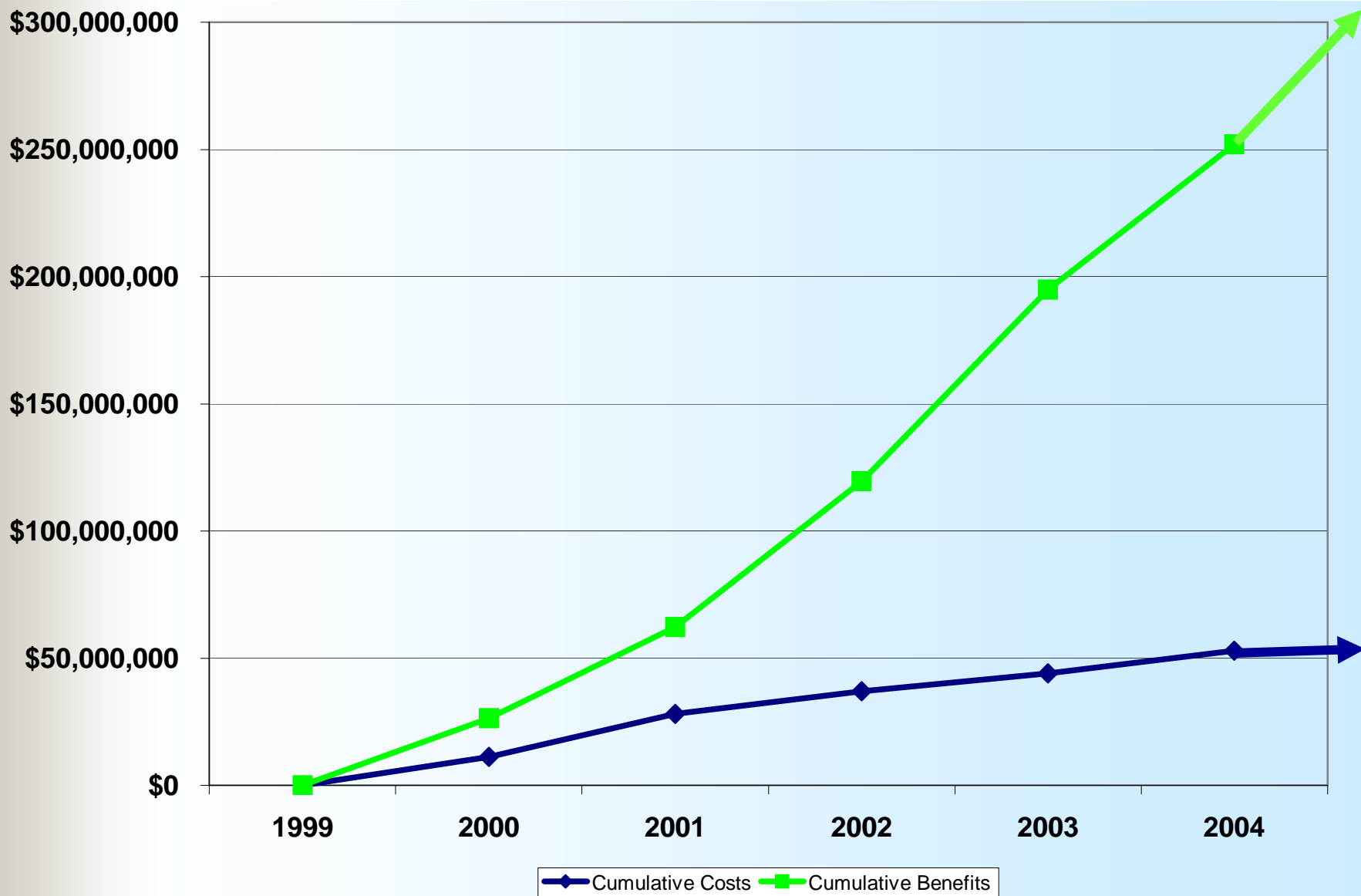


# *Hawaii's Five Year Transformational Success Story*

- Our long term effort to improve tax administration in Hawaii has been very successful
- In five years over efforts have more than paid for themselves
  - \$250 Million in new revenues have been delivered
  - We have been able to achieve a 475% return on investment for Hawaii
- Our new "Integrated Tax Information Management System" project or ITIMS has had a positive impact on all aspects of tax administration at the Department of Taxation



# *ITIMS Provided a Significant Return on Investment to Hawaii*



# *ITIMS Overview*

- Our ITIMS Project was about transformation - in terms of technology, but also how we interacted with our taxpayers
- The scope of this effort included:
  - Replacing our aging IT Infrastructure
  - Enhancing the quality of taxpayer assistance
  - Improving our audit and collection compliance programs
  - Re-engineering our front-end payment and tax return processes
- Tax administration is a complex business; guiding our organization through a transformation to a better way to serve stakeholders is very challenging



# *Develop Your Vision of the Future*

- Think 5 years ahead and re-imagine the future
- Translate your Vision into a document that outlines how your organization will operate to your goals and objectives
- Establish champions for this vision with your organization
- Include your top leadership in championing your vision
- Work with your IT business partner to make sure there is a common understanding of the vision



# *Characteristics of Major Transformational Projects*

- They are large and large means complex
- They require skills on both sides to develop and implement
- Not everybody will think that change is good
- There will be rough patches...continuing to share the vision helps focus the team
- Goodwill and good practice are essential
- The contract is a guide, but things change
- In the end, success depends on people



# *Our Formula for Success:* *Building a Strong Partnership*



- Our approach has been to build a partnership with our IT Vendor which builds upon our respective core competencies
- Each tax department brings strengths to any transformation - it is important to create a partnership that utilizes the strengths of the department with a Vendor who can bring in their unique capabilities
- Also implied in this approach is that we, as the tax administrator we need to create the right environment for a successful project

# *Effective Partnering*

- We did not view our role as simply one of providing oversight on our vendor's progress on achieving contracted deliverables
- Our staff jointly developed all major deliverables
- While achieving deliverables was critical; establishing a joint commitment to achieving project objectives was a key element to our success
- At the end of the day...it is all about people
- People with the talent and desire to achieve a common set of objectives



# *Our Recipe for a Successful Project*

- It is critical that the leadership of the Department makes the success of your project your prime priority
- Find a way to invest the time to regularly engage with the project team and your business partner: **Your action will mean more than your words**
- Establish both formal and informal communication strategies
- Never let yourself believe that other pressing issues are a higher priority



# *Our Recipe for a Successful Project (cont.)*

- Establish a true partnership relationship with your vendor business partner
- Create a relationship built upon mutual goals of success
- Share your definition of success
- Have reasonable expectations
- Discuss the status of the project continually...be open and honest about the good and the bad...tell your partner the truth
- Work together to resolve issues



# *Our Recipe for a Successful Project*

- In reviewing your project schedule make sure it is realistic and doable...get input from across the organization
- Plan for the unexpected
- Be realistic about the commitment you must make to be successful
- Take the time to ensure that the plan is being executed...don't let problems build
- Bottom Line: You must be actively involved
- Your job is to facilitate success by creating an environment for that success





# Thank you

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