

Virginia Department of Taxation Benefits Funding

Public/Private Partnership With American Management Systems

FTA Conference
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June 16, 2003

History

- 1993 Legislative Audit Report Criticized TAX for Failure to Modernize
- Attempts to Obtain Traditional Funding Failed
- Learned Of California Benefits Funding
- 1996 Virginia Legislation Passed
- 1997 RFP Issued
- July 1998, Signed Contract With American Management Systems (AMS)
- Raised \$151.1 Million Since Project Inception

The Project

- Complete Overhaul of Technology Platforms and Business Processes
- 6-Year Performance Period
- 11-Year Payback Period
- \$153 Million Budget Includes:

Hardware/Software

Maintenance

BPR/Organizational Design

SW Design and Development

Legacy System Replacement

Emp. Training/Knowledge Transfer

Change Mgmt/Transition Assistance

Equipment Refreshment

The Project (continued)

- System Functionality
 - Fast -Track Projects (throw away)
 - Replace Legacy Taxpayer Accounting System
 - Replace Data-Capture Technology With Imaging and ICR/OCR
 - Image Retrieval of All Returns & Correspondence at Desktops
 - Customer Relationship Management and New Telephony
 - Agency-Wide Case Management System w/Off-line Functionality
 - New Collections System
 - Auditors' Toolkit/Audit Selection System (Data Warehouse)
 - Replace LAN (Central Office and District Offices)
 - Remote Connectivity (VPN) for Home-Based Employees
 - Replace Mainframe Technology with Client Server
 - All New Desktop Hardware/Software
 - New WEB Applications for Electronic Filing/Payment
 - Integrate WEB Applications with Other State Agencies

Benefits Funding Methodology

- Intercept a Portion of Tax Revenue Stream
- Establish Audit/Collection Baselines (3-Year Lookback)
- Incremental Revenue Attributed to Project Above Baseline is Deposited into Technology Partnership Fund
- Measurement Methodology Approved by Oversight Group (DPB,DOA,Internal Audit,SFC,HAC)
- Set Aside Normal Payment Rules:
 - Vendor Issues Invoices Upon Acceptance
 - If Funds Available - TAX Pays Invoice
 - If No Funds - Invoice Accrues Interest
 - Invoices Paid on FIFO Basis
- Payment Risk Shifts To Vendor (Final Payment Was Expected to Occur 1-2 Years After Project Completion)
- Interest Expense (Now Projected @ \$1.7 million)

Where Does The Money Come From?

- New Collections Tools (\$93.9 M)
 - Score Accounts By Risk of Nonpayment (STRATA)
 - Collections Case Management System Eliminates Manual Steps in Enforcement Process
- Audit Productivity/Audit Selection Tools (\$47.8 M)
 - Auditor's Workbench Reduces Data Capture and Computational Burden of Performing Field Audits
 - Reduce False Positives In Audit Selection
 - Select Audit Candidates With Higher Liabilities
- Write-Off Lien Program (\$8.7 M)
 - Reactivate Written-Off Accounts and Perform Lien Searches

Differences From Traditional Funding Model

- Time Required To Agree on Revenue Baselines
- Contract Complexity/Terms & Conditions (Termination for Convenience/Limitation on Liability/Transfer of Title/Revenue Milestones)
- Due Diligence Period for Vendor (Pre-bid Associations)
- Additional Time/Expense to Jump Start Revenue Stream (Fast Track - First Full Year)

Differences From Traditional Funding Model (continued)

- Oversight Approvals (Measurement Methodology)
- Traditional Payment Rules Set Aside
- Performance Period is Separated From Payment Period
- Split Revenue Between Vendor and Client (90/10)

Advantages

- Could Not Pay For Project Without Benefits Funding
- Fast Track Period Strengthened Relationship With Vendor
 - Produced Early Wins/Tangible Products
 - Gained Experience With Project Management/Testing/Training
 - Early Involvement With Wide Group of Employees
 - Built Project Momentum
- Vendor Becomes Dependent Upon Client
 - Nonpayment Risk Influences Vendor Behavior
 - Vendor Must Help Organization Make Changes To Use Tools
 - Vendor Depends on Client's Employees to Use New Tools as Intended
 - Vendor Seeks Employee Involvement
 - Vendor is Flexible With Implementation Issues

Disadvantages

- Project Takes Longer (1 Year Devoted to Revenue Stream)
- Less Competition (Most Vendors Will Not Accept The Risk)
- Implied Risk Premium Included in Price
- Added Oversight
- Longer Procurement Period
 - Due Diligence Period For Vendors
 - Revenue Measures Must Be Developed/Negotiated/Approved
 - Procurement Bureaucracy Must Get Comfortable
- Advantages Far Outweigh Disadvantages

Financial Results Thru April 2003

(in millions)

Revenue Generated		\$151.1
Pledged to AMS	\$136.0 (90%)	
Available to TAX	\$15.1 (10%)	
Invoices Paid To AMS		\$108.1
Interest Paid To AMS		\$1.1
Balance Available for Invoices		\$26.8
Average Revenue per Month		\$5.0