

Revenue Collections System Enhancements

FY2022 Request: \$0
Reference No: 61803

AP/AL: Appropriation

Project Type: Information Technology / Systems / Communication

Category: General Government

Location: Statewide

House District: Statewide (HD 1-40)

Impact House District: Statewide (HD 1-40)

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Estimated Project Dates: 06/30/2020 - 06/30/2025

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Brief Summary and Statement of Need:

This project will upgrade the Tax Revenue Management System (TRMS) to the most up-to-date version. Simultaneously, a module will be added to the system to replace the aging Child Support Services Division’s (CSSD) case management system, NSTAR. By combining these two initiatives, the contractor is able to offer more favorable pricing and lower lifecycle costs including annual maintenance and operations of the system. It is anticipated that this investment will break-even over the first 5 years of implementation. The result will be more effective tax audits which return money to the general fund, and automation of manual tasks which reduce the need for staffing in Child Support.

Funding:	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>	<u>FY2026</u>	<u>Total</u>
1002 Fed Rcpts	\$15,529,400						\$15,529,400
1005 GF/Prgm	\$10,000,000						\$10,000,000
Total:	\$25,529,400	\$0	\$0	\$0	\$0	\$0	\$25,529,400

<input type="checkbox"/> State Match Required	<input checked="" type="checkbox"/> One-Time Project	<input type="checkbox"/> Phased - new	<input type="checkbox"/> Phased - underway	<input type="checkbox"/> Ongoing
0% = Minimum State Match % Required		<input type="checkbox"/> Amendment	<input type="checkbox"/> Mental Health Bill	

Operating & Maintenance Costs:

	<u>Amount</u>	<u>Staff</u>
Project Development:	0	0
Ongoing Operating:	0	0
One-Time Startup:	0	0
Totals:	0	0

Prior Funding History / Additional Information:

The contractor currently has 9 employees living and working in Anchorage. Implementation of a combined project (Child Support and Tax) will increase the Contractor's Alaska based staffing to 30 positions during system implementation, which equates to money spent on private sector Alaskan salaries and circulating through the Alaskan economy.

Project Description/Justification:

If each project were completed on its own the pricing would be as follows:

CSSD NSTAR Replacement: \$25.0 Million+

Tax Division Version 12 Upgrade: \$5.0 Million

Total: \$30.0+ Million

The contractor is offering a nearly \$5.0 million discount below their ordinary pricing for pursuing both projects (total cost of \$25.5 million).

Over a 5-year period, it is anticipated that this project will result in efficiencies and enhanced revenue collections that far exceed the cost.

The Child Support Services division will be able to eliminate 28 office assistants through attrition. Once implemented, savings of \$1.9 million in staff costs will be achieved in perpetuity.

The Tax division will achieve numerous benefits by more effectively and efficiently auditing taxpayers and identifying instances of fraud and tax evasion.

Tax Revenue Management System - Version 12 Upgrade:

Sophisticated tax collection agencies must keep up with changes in technology to ensure that they are collecting every dollar of tax revenue due. Large national and multi-national private sector entities, including oil and gas corporations, cruise lines, and mining companies deploy teams of taxation experts in an attempt to minimize tax liability to the maximum extent possible. Technology is the best way to ensure that every dollar owed is paid. Thus, implementing the latest version of the system provides a net financial benefit to the state.

The system upgrade provides the State with several improvements that will bolster the Tax Division's performance, security, and outcomes.

Enhanced Security:

The Tax Division oversees 25 tax programs covering over 35,000 returns and more than \$1.0 billion in annual revenue. As such, the security of taxpayer information is of paramount importance. New features include user tracking to see who has viewed taxpayer banking information and more stringent security roles to ensure only authorized employees are able to view confidential information. The Internal Revenue Service (IRS) publication 1075 requires stringent data security measures and a data breach could cost the State millions of dollars in regulatory fines. Enhanced security features contained in the Version 12 upgrade should be considered a loss mitigation effort.

Enhanced Analytics and Fraud Prevention:

Auditing returns is an important function of any tax collection agency. Instances of tax evasion and fraud are costly, and it is important to make a good faith effort to eliminate underpayment of tax liability. The Version 12 upgrade comes with new data analytic modules to ensure accurate and complete tax payments. These analytics include a Key Performance Indicators (KPIs) function that will enable Management to timely identify and monitor taxpayer trends, audit trends, and collection trends.

The system's proprietary algorithms are specially developed to identify and flag potentially fraudulent activity based on historical tax information. This feature enhances the Tax Division's ability to identify and eliminate fraud and tax evasion. It also ensures that the State receives every dollar of tax it is owed. It is anticipated the increase in revenues associated with enhanced fraud protection will allow the State to pay for the upgrade and still retain more funds than otherwise would be possible under the current tax system version.

Operational Efficiencies:

The Version 12 upgrade will allow tax return filings and payments via a variety of mobile devices. This is likely to reduce the number of paper returns the Tax Division receives, all of which require manual scanning and data entry. This is also likely to increase the amount of electronic payments by taxpayers which reduces check processing resources. Fewer manual tasks free up more time for audit and recovery work, which in turn nets revenue back to the State. Additionally, the upgraded system will allow automated cross-tax-type analysis for single taxpayers, which currently requires manual processes. Another new function is the State programmers will have access to the system's coding, which could reduce the need for specialized programming services that often require significant financial investment when major tax code changes are made by the legislature.

Child Support Module:

The Child Support Services Division's (CSSD) case management system is over twenty years old. This system (NSTAR) is a legacy system built in the late 1980's which resides on the state's mainframe. The mainframe environment is not suitable for system enhancements and improvements. Operationally, this causes manual, antiquated processes to permeate and multiply, requiring countless Office Assistant positions to complete work that could not be automated within the current system.

Once the new case management module is implemented, the division will be able to improve process efficiencies and reduce operating costs. The new system has multiple benefits such as:

- Automation of manual processes allows the division to eliminate 28 office assistants and 2 accounting technicians at a total savings of \$1.9 million annually to the general fund.
- Manual entry is automated; more staff time can be devoted to collection activities (payment plans, working with noncustodial parents, outreach, etc).
- Increasing collections benefits the state in multiple ways.
 - o More money is diverted to the families that need it.
 - o Second, it may lift custodial families off of public programs resulting in general fund savings to the state.
 - o Third, the state may receive additional flexible federal incentive payments for improving collections.

Peer states such as Wyoming and North Dakota have approximately the same amount of cases and collections as Alaska does, but they are able to do so with half the staff and receive larger federal incentive payments for their cost effectiveness. This is largely because they have more modern systems which eliminate the need for numerous time-consuming manual processes.

Initial project timeline estimates places this as a two year project, but that is subject to change based on the selected modernization method.