

Department of Revenue Administration 2018/2019 Capital Budget Request

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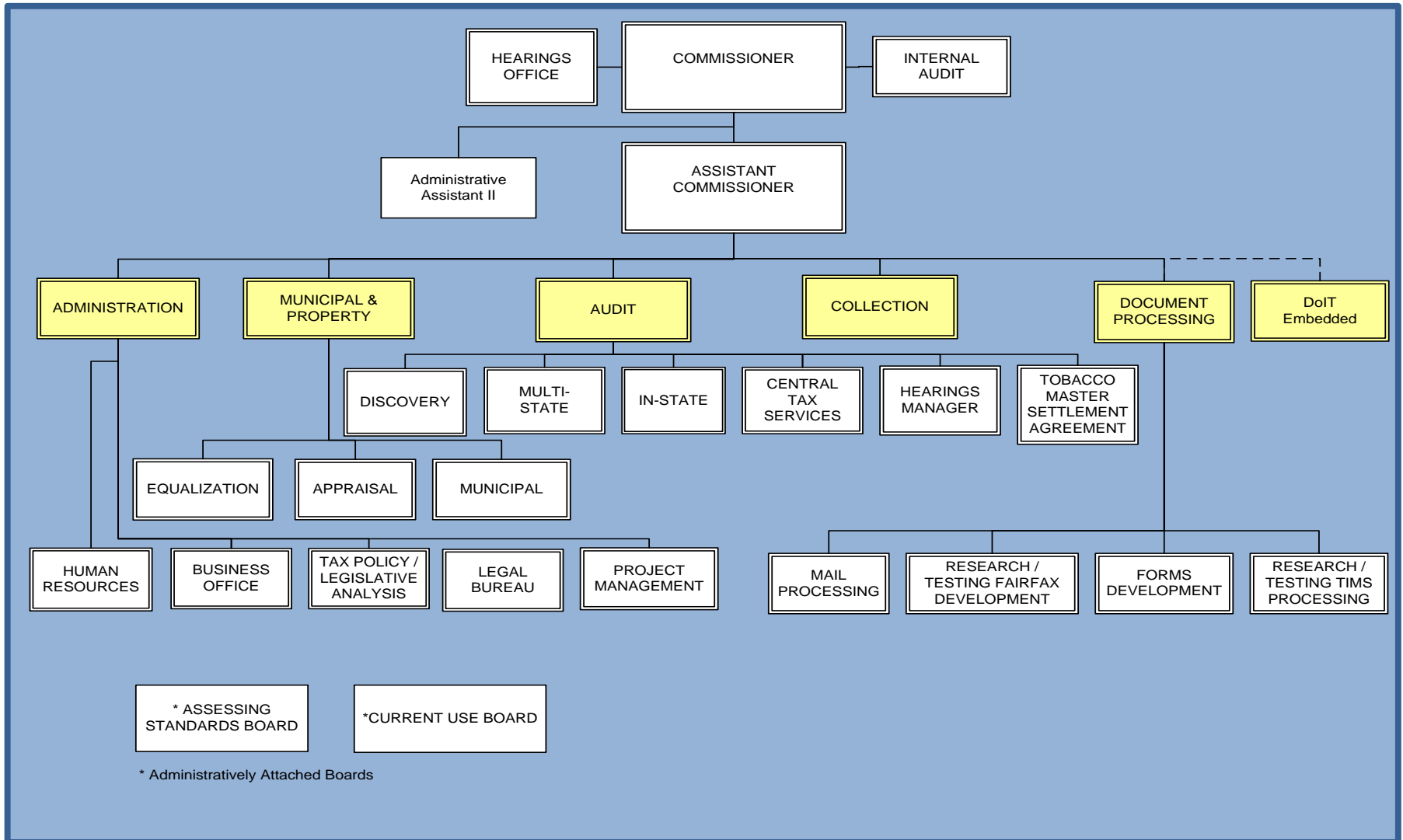


Mission



The mission of the Department of Revenue Administration is to fairly and efficiently administer the tax laws of the State of New Hampshire, collecting the proper amount of taxes due, incurring the least cost to the taxpayers, in a manner that merits the highest degree of public confidence in our integrity. Further, we will provide prompt and constructive assistance to the municipal units of government in matters of budget, finance, and the appraisal of real estate.

Department of Revenue Administration Organizational Chart – 9/30/2016



Tax Revenue - Fiscal Year 2016 (Audited)

<u>Tax Type</u>	<u>Tax Revenue</u>
Business Enterprise Tax	\$272.3M
Business Profits Tax	\$427.0M
Subtotal Business Tax	<u>**\$699.3M</u>
Communications Services Tax	\$52.4M
Electricity Consumption Tax	*\$5.9M
Interest and Dividends Tax	\$89.3M
Meals and Rooms Tax	\$301.3M
Medicaid Enhancement Tax	*\$212.5M
NFQA/ICFQA	*\$39.2M
Tobacco Tax	\$227.1M
Taxation of Railroads	*\$0.7M
Utility Property Tax	\$43.3M
Real Estate Transfer Tax	\$134.5M
State Wide Education Property Tax	\$363.1M
TOTAL	\$2.2B

*DRA FY 2016 Cash Basis

**Includes \$15.36M from 2015-2016 Tax Amnesty Program

HB 25, As Introduced

- Section 1, paragraph XVI provides \$8,000,000 of general funds to the Department of Revenue Administration (DRA) for a Revenue Information Management System (RIMS).
- This is an incomplete proposal for funding and an oversight by the Governor's Office.
- Attached is draft legislation for amendments to HB 25 and HB 2 to fully fund RIMS.

RIMS Project

- The DRA requests a \$30,160,000 capital appropriation through general funds and other funds to replace the DRA's Tax Information Management System (TIMS).
- TIMS, which was implemented in 1990, is obsolete and limited in its functionality, impacting the reliability, usefulness, and security of taxpayer data.
- This capital appropriation will be used to purchase a new system, RIMS, from a qualified vendor, including all the necessary hardware and software components and implementation services.
- RIMS will be used by taxpayers, practitioners, and DRA staff.
- RIMS will be implemented by DRA, in partnership with DoIT, and will be a complete backend technology system, housing and consolidating all taxpayer data.

2008 LBA Financial Audit

Recommendation

“Given the Department’s concern with the limitations of TIMS, the Department should establish a plan to support the timely replacement of the system. As part of that plan, the Department should document the need for a new tax processing system, including limitations in the current system, the efficiencies and other advantages to be gained with a new system, the anticipated costs in money and efforts to transition to a new tax system. Adequate planning for the replacement of a system as critical as TIMS is a complex, long-term project that requires a formalized and detailed approach.”

– 2008 Financial Audit, Legislative Budget Assistant (LBA), Page 9, June 30, 2008 (attached)

2014 LBA Financial Audit Recommendation

“The Department should continue to build its case for implementing a new tax information system that would be more adaptable to the Department’s and State’s needs and more efficient for taxpayer interaction.”

“The Department and State should ensure that a replacement system has been fully designed, vetted, and acquired before the limitations in TIMS become too much of a burden on the operations of the Department.”

– 2014 Financial Audit, LBA, Page 9, June 30, 2014
(attached)

2014 RIMS Planning Committee

- In 2014, a TIMS Replacement Planning Committee documented the TIMS system limitations and DRA's requirements for a new system.
- The TIMS Replacement Planning Committee issued a white paper on its findings.
- The Planning Committee recommended that the DRA write a Request for Information (RFI) to educate DRA and DoIT staff on possible alternative products in the marketplace.
- DRA allocated \$200,000 to obtain a vendor to assist the DRA and DoIT team with gathering business requirements and developing a Request for Proposal (RFP) for RIMS.

2015 RIMS Planning

- In April 2015, DRA issued an RFI to assess viable alternatives in the marketplace - 7 vendors responded.
- In October 2015, the DRA issued an RFP to select a vendor to assist the DRA and DoIT team with gathering business requirements and developing an RFP for RIMS. Berry Dunn from Portland, Maine was selected to perform this work.
- A DRA team conducted site visits to two other states to learn about their successful implementations of new tax information management systems.

2015/2016 DRA, DoIT & BerryDunn

Major Initiatives

- Research and Analysis Report created.
- 600+ Requirements developed.
- Budget estimates provided for capital planning based on other states' experiences and DRA's unique needs.
- RFP development is nearly complete.
- DRA resources supporting this initiative span across all DRA Divisions, including DoIT - approximately 10 staff.

Funding Model

- Capital appropriation financed by bonds over a period of 20 years (debt service schedule attached).
- Firm fixed price contract with a vendor.
- Legislature would authorize the Treasurer to create a separate account to fund RIMS (see attached draft legislation for amendments to HB 25 and HB 2).
- General Fund capital appropriation to fund debt service during implementation.
- Remainder of debt service funded by revenue up-lift from RIMS post-implementation.
 - A portion of the revenue up-lift from the RIMS would be deposited into a system replacement account (SRA).
 - The SRA would fund the debt service until full payment of the obligation.
- Allows for the stability of firm fixed price and capital budget flexibility.

Funding Model (continued)

- Annual debt service schedule on general obligation bonds is estimated to peak at ~\$3.3m over the 20 year period, with 60% of the principal repaid during the first 10 years.
- For the 10 year period 2022-2031, the Department would deposit no more than \$4.0m of the revenue up-lift from existing taxes into the SRA, fully funding the remaining debt of the project.
- The result:
 - \$6.0m of general obligation debt, supported by the General Fund, to finance the project debt service during the implementation years.
 - \$24.16m of self-supporting debt to finance the project debt service during the years following full implementation

Returns on Investment (ROIs)

- Areas where ROI will be gained:
 - Improve System Security
 - Improve Data Quality
 - Increase Cross-Agency Data Sharing
 - Taxpayer Ease Of Use
 - Quick and Accurate Identification of Non-Compliance
 - Fraud Protection
 - Faster Issue Resolution

Taxpayer Benefits

- Faster refunds.
- Enhanced taxpayer, tax preparer, and tax representative facing functionality online for registration, filing, payment, account inquiry, access to taxpayer documents and self-service with access determined by the owner or authorized individual.
- Easier to use interface options (internet, smart phone, tablet, computer).
- Self-service capabilities, e.g., make a payment, check account status, update address, etc.
- Faster response times to taxpayers, with greater data accuracy.

Risks of Delaying RIMS

- Increasing risk of catastrophic failure.
- If failure occurs, cost of expedited implementation of new system is exponentially greater than typical system implementation.
- Compounded compatibility issues with newer technology as system ages.
- Functionality, reliability, and security of taxpayer data fall further behind industry standards.
- Difficulty replacing DoIT staff who leave State service because industry standard is no longer COBOL.
- Continued missed opportunities to collect underreported tax due to account maintenance backlogs.
- Continued use of multiple cobbled-together system will further compromise data accuracy, internal controls, and efficiency.
- Quality and reliability of data reporting from the system will continue to deteriorate.

Conclusion

- DRA requests a \$30,160,000 appropriation to modernize DRA's backend system, housing and consolidating all taxpayer data.
- Funding methodology utilizes a capital appropriation financed by bonds over a period of 20 years.
- DRA utilized the 2009 capital appropriation to modernize DRA front end processing.
- Over the past two years DRA has conducted extensive research to ensure that the system will benefit not only the DRA but taxpayers and the practitioner community.
- The RIMS RFP is nearly complete and will be ready to issue if a capital appropriation is granted.
- DRA and DoIT are well positioned to successfully implement the new system.
- Additional information in attached email to Chairman Chandler, and Executive Summary and memo to Governor's Interim Budget Director.