

# Budget Change Proposal - Cover Sheet

Fiscal Year: 2020-21  
Business Unit: 7730  
Department: Franchise Tax Board  
Priority Number: 4  
Budget Request Name: 7730-005-BCP-2020-GB  
Program: 6290  
Subprogram:

Budget Request Description: Vehicle Registration Collections (VRC) Program System Modernization Project

Budget Request Summary: The Franchise Tax Board (FTB) requests an augmentation of \$1.9 million in Special Funds in 2020-21, and \$2.3 million in Special Funds in 2021-22 for replacement of the VRC's Delinquent Vehicle Registration (DVR) system. Failure to replace the current DVR system increases the risks of system failure and system issues which could negatively impact FTB's ability to effectively and efficiently administer the VRC Program and its revenue generating activities for the state.

Requires Legislation:  Yes  No

Code Section(s) to be Added/Amended/Repealed:

Does this BCP contain information technology (IT) components?  Yes  No

*If yes, departmental Chief Information Officer must sign.*

Department CIO Name: Kem Musgrove

Department CIO Signature: Kem Musgrove

Signed On Date: 12/13/2019

*For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.*

Project Number:

Project Approval Document:

Approval Date:

If proposal affects another department, does other department concur with proposal?

Yes  No

*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By: Javone Tavares

Date: 12/11/2019

Reviewed By: Christopher Hicks

Date: 12/11/2019

Department Director: Selvi Stanislaus

Date: 12/17/2019

Agency Secretary: Julie Lee, Acting Secretary

Date: 12/18/2019

**Department of Finance Use Only**

Additional Reviews: Capital Outlay: ITCU: FSCU: OSAE:

Department of Technology:

PPBA:

Date submitted to the Legislature:

## A. Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of \$1.9 million in Special Funds in 2020-21, and \$2.3 million in Special Funds in 2021-22 for replacement of the VRC's Delinquent Vehicle Registration (DVR) system.

Failure to replace the current DVR system increases the risks of system failure and system issues which could negatively impact FTB's ability to effectively and efficiently administer the VRC Program and its revenue generating activities for the state.

## B. Background/History

In 1993, the California Legislature transferred the responsibility for collecting delinquent vehicle registration fees from the Department of Motor Vehicles (DMV) to FTB through the enactment of California Revenue and Taxation Code Section 10878. FTB established the VRC Program within the Accounts Receivable Management Division.

The DMV primarily assists customers in obtaining or renewing driver licenses and the licensing of vehicles as well as overseeing the annual registration of vehicles in the state. The DMV sends an annual renewal notice to the vehicle's last known registered owner 60 days before the registration expires. If the owner fails to pay the renewal amount by the expiration date, the DMV sends two collection notices advising the vehicle's owner (now referred to as a debtor) to pay. If the fee becomes delinquent, the debtor's account is referred to FTB for collection activities. Once FTB receives a delinquent vehicle registration account from the DMV for collection, FTB mails a "Demand for Payment" notice to the debtor and collection activity can begin soon after.

Due to the age and inflexibility of the DVR system, VRC Program staff are required to use multiple applications, oftentimes requiring dual entry of data or engaging in manual workarounds as the various systems don't communicate. This is inefficient, costly, and does not allow FTB to timely serve debtors trying to resolve their accounts.

In 2016-17, the DMV issued an estimated 33 million vehicle registration notices to Californians. Currently in the DMV inventory, there are approximately 3.73 million delinquent registration accounts, with an estimated total value of \$425 million.

The VRC Program has collected the following revenue over the last six fiscal years:

- Fiscal year 2013-14 - \$130 million
- Fiscal year 2014-15 - \$133 million
- Fiscal year 2015-16 - \$144 million
- Fiscal year 2016-17 - \$161 million
- Fiscal year 2017-18 - \$149 million
- Fiscal year 2018-19 - \$198 million

## C. State Level Considerations

Replacing the DVR system allows FTB to effectively and efficiently administer the VRC Program by reducing the risk of system failure and technical failures that could impact the program's revenue generating activities. This proposal supports the following FTB Strategic Plan goals:

#2 – Effective Compliance – “Fairly administer the law to ensure taxpayers file and pay the correct amount.”

- Strategy 2.1 – Identify noncompliant taxpayer segments and customize our actions to improve compliance.
- Strategy 2.3 – Improve data, information, and knowledge sharing with the tax community and government partners.

Industry trends in technology and electronic commerce continue to significantly impact the way FTB conducts its business. By integrating a system with the capacity to support self-services and collector management tools, FTB will optimize its approach for achieving self compliance.

#3 – Strong Organization – “Invest in our employees, challenge and empower them to be experts in their field, and help them achieve their full potentials.”

- Strategy 2.2 – Support an environment where decisions are made at all levels by those who have both the expertise and best information.

Implementation of the new DVR system will enhance the ability to recruit, develop, train and retain talent in the program. Real time reporting services will give management and staff the ability to probe into potential problems and drive business decisions on comprehensive evidence based data.

#4 – Operation Excellence – “Optimize processes, products, services, and resources to better serve our customers.”

- Strategy 4.3 – Leverage and modernize IT systems and processes to support enterprise business activities, including financial, human resources, and nontax programs.
- Strategy 4.5 – Standardize FTB's hardware and software to optimize operations.

As innovation occurs and best practices evolve in tax and nontax debt business administration, FTB embraces change in a creative and responsible manner to enhance the operational infrastructure. With the new system, the VRC Program can utilize other

applications developed in the EDR project. It improves collection efficiencies by eliminating redundancies in the business process. Additionally, the replacement of the DVR system brings the VRC Program closer in alignment with FTB's target Enterprise IT architecture.

## D. Justification

In November 2018, an S1BA was approved by the California Department of Technology (CDT) and identified the need to replace the DVR system. There are concerns with the current DVR system that potentially impact FTB's ability to administer the program.

### Risk of being unsupported

The DVR system is a 37 years old system and was written in COBOL, an outdated programming language. FTB has difficulties recruiting new programmers with extensive COBOL knowledge to support the DVR system. Therefore, the DVR system is at the risk of not being supported and prone to system issues. Due to the age of the existing system and limited resources, FTB would not be able to implement any future system augmentations mandated by legislation.

### Limited collector tools to manage cases

Unlike other FTB collection systems, the DVR system is limited in the tools available to manage cases. For example, the DVR system cannot generate levy and garnishment notices. Staff rely on another application to generate notices and must manually enter data to issue a notice. This method does not create an audit trail in the DVR system, which leaves staff unable to easily understand actions taken on debtor accounts without looking at multiple systems. Staff are unable to view or refer to the generated notices, which causes confusion, additional efforts, and delays when assisting debtors in fulfilling their debt obligation.

### The lack of installment agreements and self-service options

The DVR system does not have the options for debtors to create installment agreements or self-service online. Debtors can only fulfill their debt obligations by sending a check to FTB or by paying in person at an FTB Field Office, DMV office, or participating California State Automobile Association Office. Currently, debtors cannot access the information needed to make payments, create installment agreements and monitor their account online. The lack of self-service options and inability to create an installment agreement are an inconvenience for debtors who want to utilize these services that FTB is currently offering in other collection programs. The lack of these basic tools, can and do delay resolution of debts.

### Insufficient DVR system capacity

The outdated system technology cannot interface with other FTB systems, services, electronic documents, and Internet applications. As such, any modern standard enhancement cannot be implemented on the DVR system. The limitations of the DVR system also hinders FTB responding to or improving any business operation needs.

Below is the list of functions the DVR system cannot perform due to its limitations:

- Process more than one transaction per customer account per day. Multiple transactions on one account must be performed across multiple days.
- Capture payment sources (i.e., bank information from payments made by check).
- Reprint notices on demand.
- Associate payments to the notice type issued (Demand, Order to Withhold, Earning Withholding Order).
- Capture all historical actions and display them chronologically.
- Control notice volumes to manage outputs triggering taxpayer contacts with existing staffing levels.
- Consolidate multiple debts for the same debtor into one account.

Inability to obtain timely reports to make business decisions

The current reporting process does not provide FTB's management team with the ability to obtain timely reports needed to make business decisions and effectively manage the VRC Program. Ad-hoc basis reports require manual programming from the DVR system developers, it usually takes a week to program and make available for management to review. The inability to provide readily available real-time data hinders the management team from reacting and making timely operational decisions.

As a solution, FTB proposes cloning the current Court Ordered Debt (COD) system as a replacement for the DVR system. The COD system is a modern collection system that is currently being used by multiple programs. Aligning the programming language and IT system architect allows the DVR system to be supported continuously. VRC will be able to leverage the functions in the COD system, utilize services and applications built during EDR (i.e. Best address service), and adapt to any new applications and services in the future.

## E. Outcomes and Accountability

It is FTB's responsibility to effectively and efficiently to administer the VRC Program. To accomplish this mission, the DVR system needs to be replaced to avoid any risks of system failure and issues that may impact revenue generating activities.

This BCP is supported by the Project Approval Lifecycle (PAL). FTB has submitted the S2AA analysis and requested a Reporting Exemption Request from CDT. The Exemption Request would give FTB project delegation of the VRC System Modernization Project. FTB is waiting for the outcome of both actions.

The DMV has indicated their full support for this effort.

The management of resources received from this proposal will be the responsibility of the Chief Information Officer or a delegate. The fiscal oversight of the resources is the responsibility of the Chief Financial Officer.

## F. Analysis of All Feasible Alternatives

### Alternative #1:

Provide \$1.9 million in Special Funds in 2020-21; \$2.3 million in Special Funds in 2021-22 for the VRC Program.

This alternative provides the funding for the consultant and professional services needed to supplement and support dedicated FTB resources throughout the life of the VRC System Modernization Project. The project will be FTB-led and is expected to start in July 2020 and completed in July of 2022.

### Alternative #2:

Do not approve the request.

By denying the request FTB will not be able to secure contracted vendor staff.

## G. Implementation Plan

VRC System Modernization Project timeline:

- July 2020: Funding approved and available
- July 2020: Award procurement
- July 2020 - March 2022: Requirements/analysis, system development, and testing
- September 2021 - June 2022: Data conversion
- July 2022: Go live

## H. Supplemental Information

None

## I. Recommendation

Alternative #1 is recommended. Provide \$1.9 million in Special Funds in 2020-21; \$2.3 million in Special Funds in 2021-22 for the VRC Program.

Alternative #1 will provide the appropriate solution to support the department's Strategic Plan Goals with the least possible impact. Alternative #1 will ensure the VRC System Modernization Project has the necessary resources to support the project while protecting the annual \$150 million revenue.

# BCP Fiscal Detail Sheet

BCP Title: Vehicle Registration Collections (VRC)

BR Name: 7730-005-BCP-2020-GB

Budget Request Summary

## Operating Expenses and Equipment

Operating Expenses and Equipment	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
5340 - Consulting and Professional Services - Interdepartmental	0	0	652	0	0	0
5340 - Consulting and Professional Services - External	0	1,892	1,613	0	0	0
5346 - Information Technology	0	11	5	0	0	0
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$1,903</b>	<b>\$2,270</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Total Budget Request

Total Budget Request	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$1,903</b>	<b>\$2,270</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>



# Fund Summary

## Fund Source

Fund Source	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
State Operations - 0044 - Motor Vehicle Account, State Transportation Fund	0	660	787	0	0	0
State Operations - 0064 - Motor Vehicle License Fee Account, Transportation Tax Fund	0	1,243	1,483	0	0	0
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$1,903</b>	<b>\$2,270</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$1,903</b>	<b>\$2,270</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

# Program Summary

## Program Funding

Program Funding	FY20 Current Year	FY20 Budget Year	FY20 BY+1	FY20 BY+2	FY20 BY+3	FY20 BY+4
6290 - Department of Motor Vehicles Collections Program	0	1,903	2,270	0	0	0
<b>Total All Programs</b>	<b>\$0</b>	<b>\$1,903</b>	<b>\$2,270</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>