

EDR Project Overview

The Enterprise Data to Revenue Project is the first of several FTB information technology projects described in our *IT Strategic Plan* that address modernizing our tax systems technology environment.

The EDR Project allows us to use technology to leverage the data that we have to more effectively administer our programs which results in:

- **\$1 billion** additional revenue collections starting in 2016, and continuing each year thereafter.
- **Better customer service.**
- A higher level of **transparency** than we can provide currently.
- More **efficient operations** throughout FTB.

The EDR Project puts FTB in the position of maximizing revenue by using our data more effectively through data capture and centralization, and at the same time, minimizing costs by automating return processing manual processes.

EDR revenue estimates are based on current tax law and do not factor in any new taxes or penalties. The primary source of funding for the project is drawn from collections due to increased tax compliance based on more efficient and effective processes.

The EDR Project includes four major components:

1. A new **return processing system**.
2. An **enterprise data warehouse**.
3. A **taxpayer folder** available online to taxpayers and other stakeholders.
4. Updated **legacy systems**.

EDR Project Addresses the Tax Gap and Customer Service

Tax Gap and Revenue Benefits

The EDR Project is the largest single effort that FTB has ever undertaken to address the \$6.5 billion Tax Gap.

The EDR Project will generate about \$4.7 billion in additional revenue for the State over the project reporting period of fiscal years 2009/10 through 2017/18. Thus, the EDR Project makes a significant dent in the ongoing Tax Gap.

The EDR Project total cost is \$670 million. The contractor costs account for \$400 million of the total and State costs account for \$270 million. The EDR Project pays for itself through the additional revenue it generates.

The total cost benefit ratio (CBR) for the EDR Project is 7:1.

Customer Service

The EDR Project allows us to reach a superior level of transparency and customer service that we do not have the functionality and services to facilitate today. For instance: EDR provides a great new tool for taxpayers, the Taxpayer Folder. The folder allows both personal income and business entity taxpayers, and other stakeholders, online access to their key tax information. They will be able to print their tax returns, file their tax returns, make payments, contact us for real time help, calculate potential penalties, address audit issues, and handle various other activities they currently handle on the phone or by mail.

EDR Project Uses Solution Based Procurement with Benefits Based Payment Model to Minimize Risk to the State

Solution Based Procurement Model

The EDR Project is using the Solution Based Procurement Model. This model includes the following primary elements:

- Requirements are limited to those that are business related.
- The State provides business problems and a high level vision for a solution, rather than a detailed solution.
- Bidders provide solutions.

Benefits Based Payment Model

The EDR Project is using a Benefits Based Payment Model. This means payments to the contractor are based on the benefits the State receives. If the State does not receive benefits, the contractor does not receive payments. This approach shifts much of the financial risk to the contractor. Additionally, the contractor is highly motivated to generate benefits to ensure they receive compensation.

We have handled multiple projects that used the benefits based payment model similar to the EDR Project approach. These projects include CAPS, ARCS, PASS, and INC. The benefits for all of these projects were significantly higher than originally projected.

EDR Project Special Project Report Overview

In March, FTB submitted a Special Project Report (SPR) change request to align and update FTB's proposed solution, costs, benefits, and timeline per the Feasibility Study Report (FSR) with the actual EDR solution, as proposed by the Prime Solution Provider (PSP).

Four Primary Reasons for EDR Project Changes

Based on *The EDR Project Cost Reasonableness Study* (January 17, 2011) and other information, there are four primary reasons for the increase in cost.

1. Increased project duration by one year.

We extended the project schedule by one year from 54 months to 66 months based on feedback from bidders regarding the feasibility of the schedule.

2. Added revenue producing deliverables.

The contractor identified additional “compensation deliverables” beyond those identified by FTB for the FSR. A compensation deliverable is a key component of the project that results in additional revenue for the State.

3. Added essential hardware and software.

Because the EDR Project is using a Solution Based Procurement Model, the details of the solution are defined by the contractor. The contractor identified additional hardware and off the shelf software needs based on the final solution that could not be identified when developing the FSR.

4. Underestimated legacy system complexity.

When the State estimated the legacy systems analysis level of effort for the FSR, it had limited information about complexity and functionality. Therefore, the State based its information on similar project history and functions. During the RFP process, the State validated the estimates and increased them by 20 percent. Accordingly, the legacy system costs increased over the FSR estimate.

EDR Project Costs and Revenue

Table: EDR Costs and Revenue by Fiscal Year

Fiscal Year	Costs	Revenue
2009-10	\$6M	\$8 M
2010-11	\$10 M	\$20 M
2011-12	\$50 M	\$65 M
2012-13	\$119 M	\$151 M
2013-14	\$170 M	\$250 M
2014-15	\$106 M	\$684 M
2015-16	\$79 M	\$1.2 B
2016-17	\$85 M	\$1.2 B
2017-18	\$44 M	\$1.2 B
TOTAL AMOUNT	\$670 M	\$4.7 B

March 2011: FTB Will Submit a Finance Letter to Align EDR Budget with Prime Solution Provider

In March, FTB will submit a Finance Letter to request an increase in funding and position authority for the project, as well as to report additional revenue for fiscal year 2011/12, and ongoing.



State of California
Franchise Tax Board



EDR Project Update

Kem Musgrove

March 10, 2011



EDR is the most significant effort that FTB has ever undertaken to address the Tax Gap.



EDR will generate about \$4.7 B in additional revenue over the project reporting period.

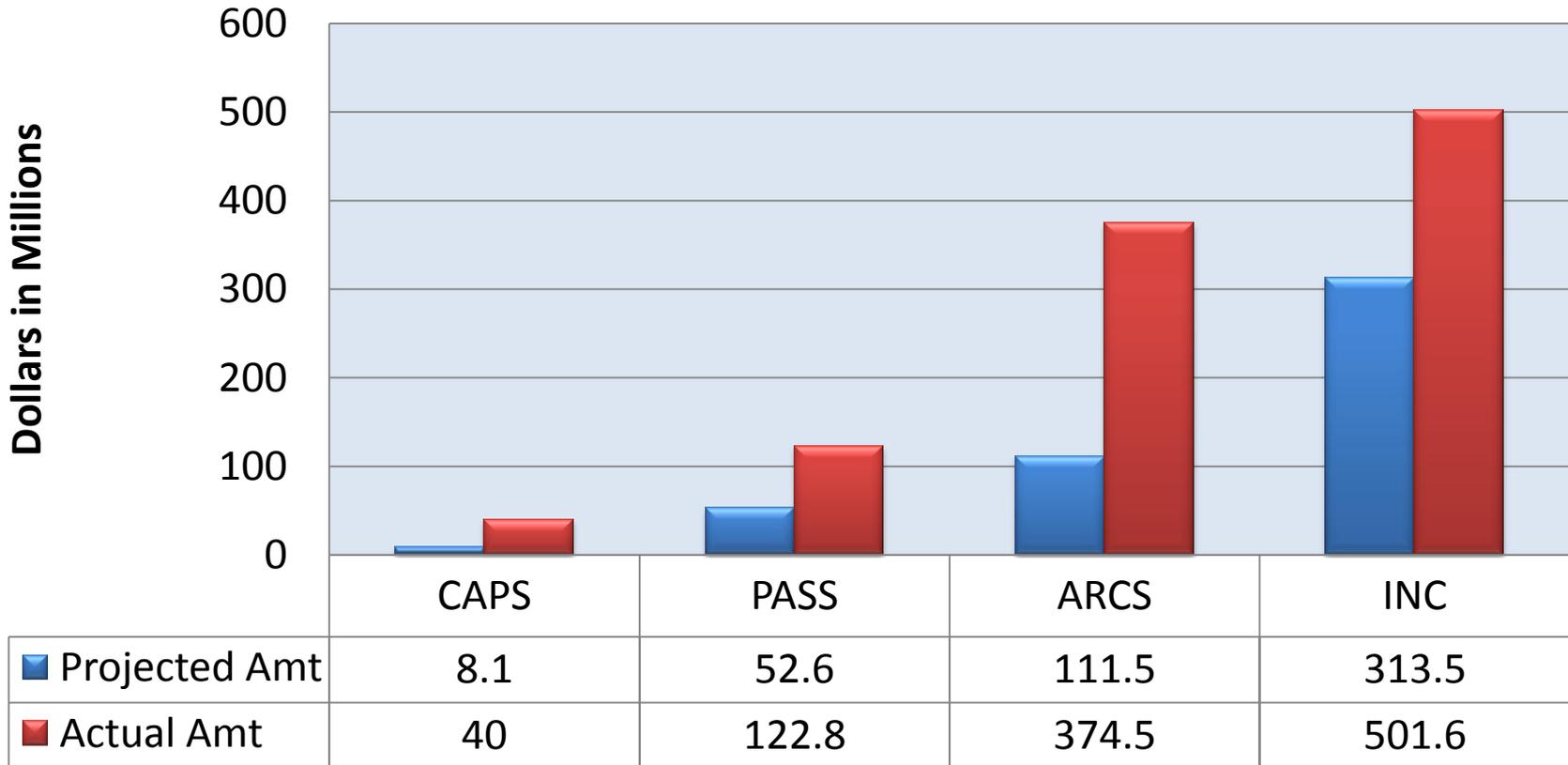


Procurement and Payment Model

EDR uses Solution Based Procurement Model and Benefits Based Payment Model to reduce risk to the State.

Success with Benefits Based Payment Model

Projected Benefits vs. Actual Benefits



Major Project Changes Reflected in SPR

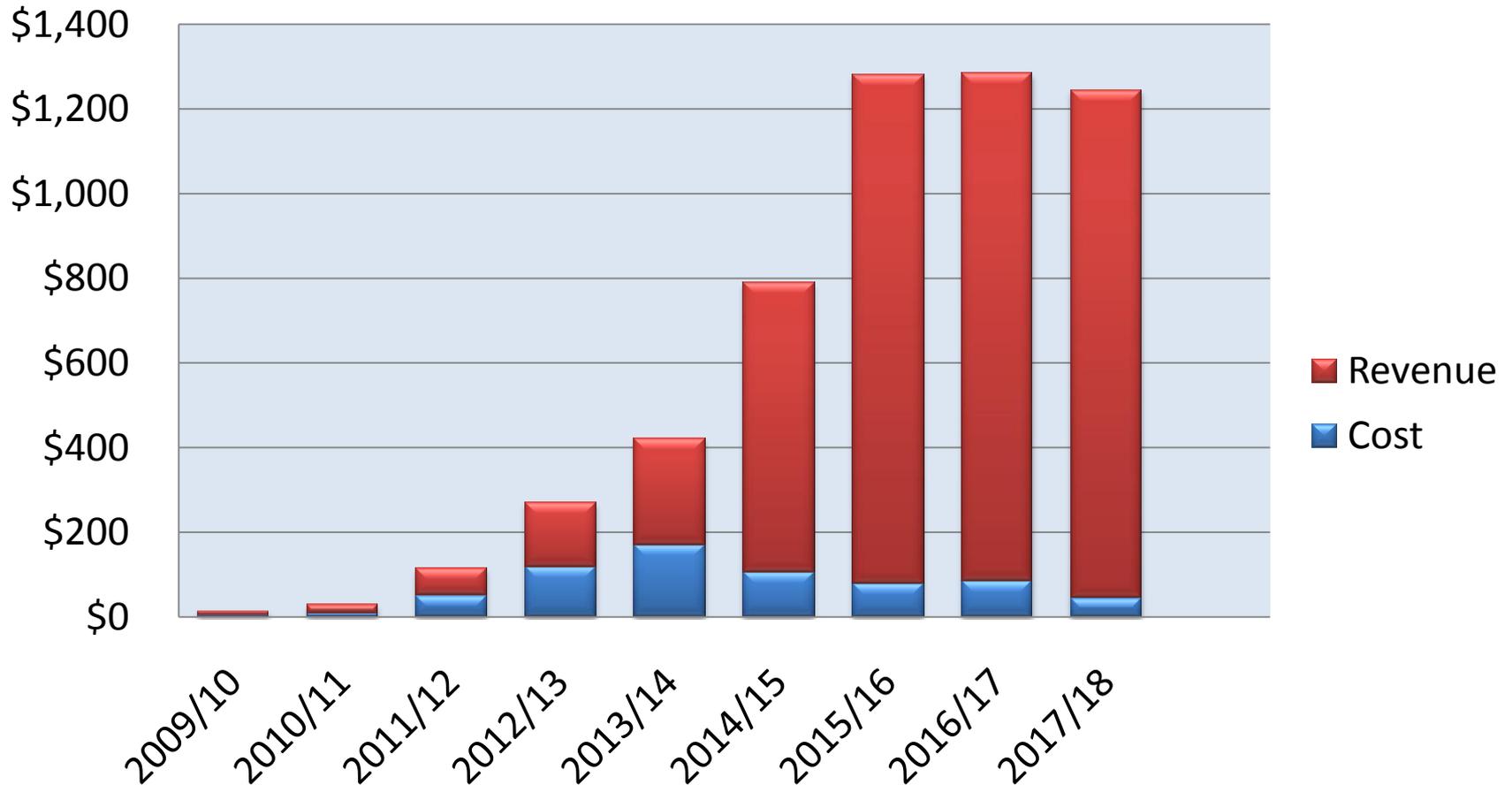
- Increased project duration by one year.
- Added revenue producing deliverables.
- Added essential hardware and software.
- Underestimated legacy systems complexity.

FSR Costs vs. SPR Costs

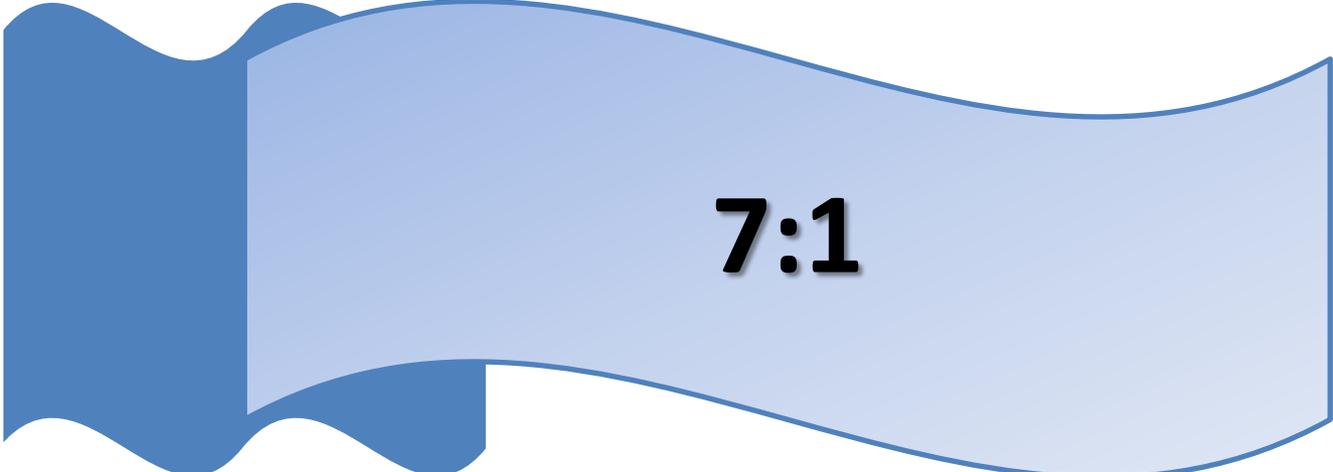
Description	FSR	SPR	Difference
IT Project Costs	\$317 M	\$522 M	Increase of \$205 M
Program Project Costs	\$195 M	\$149 M	Decrease of \$46 M
Total Project Costs	\$512 M	\$670 M	Increase of \$158 M
Annual ongoing revenue	\$940 M	\$1.2 B	Increase of \$223 M
Total Project Revenue <i>Project Reporting Period</i>	\$3.7 B	\$4.7 B	Increase of \$1 B



Cost vs. Revenue: in Millions, by Fiscal Year



Cost Benefit Ratio



7:1

FTB's Strong Foundation Ensures Success

- **Multiple successful large IT projects.**
- **Extensive experience with Benefits Payment Model.**
- **Strong relationship with project partner:**
 - **CGI Technology and Solutions, Inc.**

Important Dates and Milestones

- **March 2011**
 - SPR
 - Section 11 Letter
 - Spring Finance Letter
- **June 2011:**
 - Sign Contract
- **July 2011:**
 - Project Kick-Off



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Enterprise Data to Revenue

EDR

