MINUTES

MONTANA HOUSE OF REPRESENTATIVES
58th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION

Call to Order: By **CHAIRMAN JOHN BRUEGGEMAN,** on February 21, 2003 at 9 A.M., in Room 317-A Capitol.

ROLL CALL

Members Present:
Rep. John Brueggeman, Chairman (R)
Sen. Rick Laible, Vice Chairman (R)
Sen. Gregory D. Barkus (R)
Sen. Mike Cooney (D)
Rep. Monica Lindeen (D)
Rep. John Sinrud (R)

Members Excused: None.

Members Absent: None.

Staff Present: Matt Bugni, OBPP
Greg DeWitt, Legislative Branch
Amy Sassano, OBPP
Misty Shea, Committee Secretary

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed. Tape time stamp refers to the material which follows.

Committee Business Summary:
Hearing & Date Posted: POINTS, 2/21/2003
Executive Action: NONE

{Tape: 1; Side: A; Approx. Time Counter: 1 - 15}

Kurt Alme, Director, Department of Revenue (DOR), said the department would present the Committee with project goals, options with time frames and costs and risks related to the POINTS Program. The overview will include a brief history, and the planning process which will highlight key decisions. Decisions concerning replacement of the POINTS program, when that should occur, and the scope of that replacement will be discussed. The agency will provide technology estimates and organizational estimating processes. **Director Alme** said he would cover some of the options that the agency has considered.

Director Alme referred the Committee to the handout which summarized major DOR changes. In 1993 a study was initiated to determine if there was a way to combine the administration of unemployment insurance and withholding tax. Funds were appropriated in 1995 to study the feasibility of combining the two functions.

EXHIBIT(jgh39a01)

Director Alme said the recommendation stated that wage-based tax reporting and collection functions could be combined. The Department of Labor and Industry (DOLI) and DOR came forward with a plan to move the unemployment insurance functions from DOLI into the DOR combining them with withholding functions. The computer systems would be combined into one system.

Director Alme stated that in the 1997 session, the efficiencies that were being affected by combining the two functions together could be broadened department-wide in DOR. Duplications of functions existed in all tax types and it was felt that combining the functions would increase efficiency within DOR. Bonding authority for $14 million was authorized to modernize all the legacy systems. Wage-based tax reporting and collection functions were consolidated.

Director Alme said the impact of pulling auditors out of the project and bringing them on as business analysts was not thought through. The department was reorganized by putting different functions into separate divisions. FTE were reduced but did not allow for backfilling positions taken out during the POINTS development.

Director Alme said that in 1998, POINTS I replaced eight of the department's existing systems including unemployment insurance and withholding tax types. POINTS II was to bring in property, natural resource and individual/corporation tax types. Funding for POINTS II was approved in the 1999 Session. Because of Y2K, POINTS I was scheduled arbitrarily to be on production in December 1999. **Director Alme** said, "The system has had defects and data problems ever since that time."

Director Alme reported that development of POINTS II began in April 2000. The development of the property tax portion of the project was removed from the scope of POINTS II in 2001. In November of 2002 additional efforts toward developing POINTS II were halted after the independent analysis showed the project was not progressing. The decision was made not to pursue POINTS II any further.

{Tape: 1; Side: A; Approx. Time Counter: 15 - 30}

Director Alme said that presently the project is focusing on data and software stabilization of POINTS I. Data cleanup and work backlogs are being addressed aggressively. POINTS I will be the transitional system until a new system can be brought up.

SEN. LAIBLE asked about the statement that the diversion of the auditors cost the department $17 million. **Director Alme** replied that when the project was planned in 1997, the intention was to absorb all of the project costs into the existing FTE. As coding and testing was being done, staff were pulled out of their regular processes. No funding was provided to backfill those now-vacant positions so audit work went undone. Generally, individual income tax auditors bring in about $250,000 per year in audit-related revenues and on the corporation side, they bring in substantially more.

SEN. LAIBLE summarized that DOR pulled staff off of the audit procedures and put them into the POINTS program knowing full well that it was going to cost the DOR $17 million. **Director Alme** replied that no one anticipated the amount of the loss to the DOR. If project time lines would have been met, those figures would not be so large.

SEN. LAIBLE asked who set the budget for POINTS. **Director Alme** said he had no way of knowing what discussion preceded the decision to pull the auditors into the POINTS program without back-filling their positions. The intent was for the project to take a much shorter period of time. When the system came up, revenue would be enhanced which would make up part of the cost of the staffing diversions. The department is taking great care not to make those mistakes as they move forward with a different system.

SEN. BARKUS asked if Arthur Anderson Consulting was a major player in the process. **Director Alme** said Arthur Anderson Consulting was involved in the feasibility study to combine unemployment insurance and withholding. Another firm was brought into the DOR to help reorganize. UNISYS was the contractor brought in on the technology component.

Director Alme began an overview of the POINTS replacement strategy and plan. Currently the Department of Administration (DOA), DOLI, and DOR are developing a project time frame and projected costs.

EXHIBIT(jgh39a02)

Director Alme addressed the key decisions that need to be made in order for the agencies to be able to come forward with time frames, costs and risks. The key decision include: 1) Does unemployment insurance (UI) go back to DOLI; 2) Does POINTS need replacement; 3) Should development of a replacement system begin this biennium; and 4) What is the scope of the replacement system.

Director Alme said at this time the recommendation is that UI should go back to DOLI. DOR has not been able to administer UI successfully. To go forward the DOR's organization and their capacity to handle all the responsibilities simultaneously is limited. **Director Alme** said it was his opinion that it is in the best interests of the State to have DOR focus its resources on doing its core revenue and General Fund producing obligations. Advantages of returning UI to DOLI are apparent from an organizational capacity point of view and a cost point of view. It is advantageous to have UI tax and UI benefits in the same agency.

Director Alme said it will be more expensive in the operations to break the two functions apart. Funding may be available from the United States Department of Labor (USDL). The DOR costs would have to come from General Fund. DOR has to be able to lay out an effective project plan for the transition to occur.

Director Alme said the DOR's short answer is "Yes" to the question: "Does POINTS need replacement?" DOR believes the development of a replacement system should begin this biennium. The department is focusing on the replacement of POINTS, not other legacy systems. The four functions that are proposed to be replaced first are the base system, Consolidated Oil and Gas (COG), UI and withholding. The department will come forward with a plan for the remaining tax types during this biennium.

{Tape: 1; Side: B; Approx. Time Counter: 1 - 16}

Director Alme stated the organizational capacity he had mentioned has to be ready in order for the project plans to succeed. The DOR has been under a great deal of stress due to the POINTS issue and related work, there is a burnout risk, and tax time is upon them. If the legislature approves any new taxes, that will directly affect the POINTS system replacement, so it is something the DOR is planning for.

Director Alme referred the committee to Page 5 of Exhibit 1 and said he would walk them through the handout from there. He quickly and briefly discussed: 1) Bad debt collection; 2) DOLI technology cost options and estimates,(Page 7); 3) Data conversion, minimizing risk, project planning support and tasks (Page 8), 4)possible contract projects (Page 9); 5) Why POINTS needs replacement (Page 10), 6) The premise behind SB 271, 7) attempting to stabilize the POINTS system with the risks and costs involved, 8) The system's place in its life cycle and maintenance, 9) System architecture, 10) Backlogged UI accounts, and 11) The accuracy of information that is an ongoing risk to the state until POINTS is stabilized. He noted that a lesson has been learned, and he stated that the DOR does not recommend any new tax types or legacy systems be brought into POINTS. He said the DOR agrees with SB 271 as the state should move forward with POINTS replacement this biennium.

Director Alme discussed the scope of the replacement shown on Page 11. He said the best way to make the transition is not with an artificial deadline like Y2K as the DOR needs to make sure the system is ready to be brought up, and the goal is the biennium. He spoke to how the DOR is strongly recommending that there is independent verification and validation at every step so if something goes awry it gets correct or the project is terminated. The DOR plans for checks and balances, dealing with the remaining 32 tax types to develop a plan for the next session, and MAC migration as a short time option for UI were explained.

{Tape: 1; Side: B; Approx. Time Counter: 16 - 30}

Vendor responses for the technical costs were addressed (Page 12 of Exhibit 1), with **Director Alme** pointing out that the estimates are just for the technical components of what would need to be done. **SEN. COONEY** asked if there were estimates for the organizational and transitional costs as of yet. **Director Alme** said that they just have ballpark figures that are separate and may be duplicate so they need to be narrowed down. He went over the next steps individual items on Page 13 and detailed them.

Relative to funding options, if the legislature approves the plan, **Director Alme** stated that informal discussions have taken place and there are possibilities to which he briefed.

Brian Wolf, State ITSD CIO, stood before the Committee and gave an organizational structure outline. He passed out visual representation and explained the combining plan as a triad working together collectively through the process with ITSD as the prime contractor of any IT bills that would have to happen. He talked about the stakeholders role, and that of the Commissioner Project Champion, and Director Project Champion shown on the handout. **SEN. LAIBLE** asked Mr. Wolf to address systems that other states have and his findings. **Mr. Wolf** stated that the only system he would allow to be implemented will be a proven reusable code solution. He summarized that any system brought in will require some customization and there are good vendors to bring product in so there is some confidence, but nobody has built a UI function like they need before. He likened the code base to separating a Siamese twin, and he spoke from a data perspective on the business logic. He confirmed for SEN. LAIBLE that the numbers in question are just for replacing POINTS I and decoupling UI and all costs tentative to those issues. **SEN. LAIBLE** asked what would be done with the POINTS II items.

Mr. Wolf began answering by outlining the POINTS base system and its functionality.

EXHIBIT(jgh39a03)

{Tape: 2; Side: A; Approx. Time Counter: 0 - 14}

Mr. Wolf continued his answer by explaining the migration time-frame, shifting costs, tax type system replacements, and the planning. **SEN. LAIBLE** repeated what he thought was said in laymen terms. To this **Mr. Wolf** commented, "Absolutely." He spoke to the concept of integrated tax systems as making perfect sense. He said POINTS was a good vision just ahead of its time. **SEN. LAIBLE** asked in regard to new taxes if we have the capabilities to handle those. **Mr. Wolf** replied that bringing up the application is not a concern he has. His concern is whether DOR can withstand it right now. He explained his suggestions to Director Alme to help alleviate stress, and Director Alme made comments to this.

SEN. COONEY said he has some basic questions about POINTS, and he asked from day one until now what is the total cost for Phase 1. **Director Alme** replied that from the DOR best estimates, it is $32,000,000 in bonding issuance with $30,000,000 being expended.

He added from the HB 2 side approximately $8,000,000 has been spent with staff diversions, operating costs, etc. and there is $17,000,000 in lost opportunity costs. **SEN. LAIBLE** asked if the $17 million figure was ongoing to keep POINTS I alive with the diverting of auditors. **Director Alme** said no the amount is to date, and yes there are still audit or positions and appropriated compliance staff. **SEN. COONEY** told Director Alme that he knows he wasn't there in the beginning, but constituents have questions. He asked, "Due to problems experienced why is there no way to recover costs, what was the agreement and by whom?" **Director Alme** answered that POINTS I was accepted by the DOR in December of 1999 under contract, and in April 2000 in negotiating Phase II a release to UNISYS was given for Phase 1. **SEN. COONEY** asked, "Why would we do that?" He paused and said again to Director Alme who could not speculate, "You weren't there." **SEN. COONEY** said it is the biggest mystery in his mind why we as a state, knowing how technology things happen, would box ourselves in with a waiver. He asked if Director Alme could find out. **CHAIRMAN BRUEGGEMAN** acknowledged that SEN. COONEY had nailed the issue and he commented from his knowledge of contracting as he had worked for a vendor. He then said that the lesson learned is why we have Brian Wolf to provide oversight.

{Tape: 2; Side: A; Approx. Time Counter: 14 - 30}

SEN. COONEY appreciated the Chairman's explanation and Director Alme for taking the hits, and he asked Mr. Wolf how will we not be put in the same position again. **Mr. Wolf** answered by going over what they have done and will do as addressed in the DOA agency overview. **REP. SINRUD** asked Mr. Wolf questions about his workload and if he can manage it, and they were answered. **Mr. Wolf** said it is his role to put in the right policies and procedures and he discussed the details in relation to projects. He stated he is conscience of how much oversight he has and how much infrastructure is beneath him. When the office of the CIO was created his position was the only one created and ITSD staff were reduced to do that. He said there is sufficient capacity to oversee the current projects.

SEN. BARKUS asked who the person was who signed the UNISYS release? **Director Alme** answered that it was his predecessor, Mary Bryson. **SEN. LAIBLE** questioned Mr. Wolf about putting an IT package together and the system design, and his questions were answered. **Mr. Wolf** said he did not know what the final picture would look like right now, it is dependant on the contracts for project management and is extremely complex. **CHAIRMAN BRUEGGEMAN** and **Mr. Wolf** then agreed that one of the initial dangers with

POINTS "was too many cooks in the kitchen." There was not consistency with respect to the vendors for development and maintenance, and this was discussed. **Mr. Wolf** commented that looking in from the outside, "the state bit off way more than it could chew," and this opinion was explained.

SEN. COONEY asked about the bonds, which were for ten years. **REP. SINRUD** questioned if the FTE listed on Page 4 of the fiscal note on SB 271 (Exhibit 4), would need to be backfilled, and **Director Alme** explained the plans. **REP. LINDEEN** asked what we are looking at when it comes to bringing up and maintaining the new system in regards to technical staff.

EXHIBIT(jgh39a04)

{Tape: 2; Side: B; Approx. Time Counter: 1 - 20}

Director Alme answered REP. LINDEEN's questions by saying it will depend in part on the vendor the DOR chooses and the agreement with them. REP. LINDEEN had also asked about the impact to the agency, and he did not know if there was enough time in half-an-hour to discuss it. He summarized what areas of the agency had been impacted by POINTS, and what ones had not. The critical areas of desk audit, field audit, collection functions in the wage based areas, and the individuals themselves who are tired, have felt the impact. **Director Alme** talked about the people and process. He said what we need to do is come forward with a project plan to unite everybody and set reasonable goals that can be achieved. The agency needs to move toward a solution.

REP. LINDEEN and **Mr. Wolf** discussed ensuring that a vendor does not push the state into something not right for them in the future. **REP. SINRUD** asked about the costs for continual upgrades of POINTS, the program maintenance cost, complexities, and whether or not the system will be outdated in the next ten years. **Mr. Wolf** answered that REP. WANZENRIED's bill pertaining to bonding makes sure the life cycle of the software is apex to the bonding, and he discussed the analysis of applications in terms of life cycles. He said software needs to be managed on a continuum, and he gave an example of what the state of Idaho is doing with GENTAX tax implementation. He said they probably pay $1,000,000 annually in upkeep which is not bad for 17 tax types. **CHAIRMAN BRUEGGEMAN** commented about how most systems operate now versus how they used too.

SEN. STAPLETON asked the Committee to consider supporting SB 271 when they make their recommendation to full appropriations, and he explained why. He said that he did not exactly agree with the fiscal note (Exhibit 4); it would have to be rewritten, but most of the bullets will remain. He asked that no more than $19,000,000 be authorized, and he talked about his vision for the future with respect to a new system. **SEN. LAIBLE** asked if UI is a component, why would it need to be separated from its function, and **SEN. STAPLETON** spoke his thoughts on this. It was determined that economically having one system makes the most sense.

{Tape: 2; Side: B; Approx. Time Counter: 20 - 30}

REP. WANZENRIED took off his badge and spoke his concerns with POINTS from his role as a taxpayer. He asked, "What have we got to show for our $30,000,000 spend?" His intent is to put all of this behind and move on towards taking some of the responsibility away from the taxpayer. He talked about having physical deliverables come out of the investment for the people to see, as they are owed that. He discussed the issue of accountability and the high standards of responsibility to be placed on those dealing with the new system to come. He pointed out that there were additional costs above the bonding money, which he explained. **CHAIRMAN BRUEGGEMAN** asked him how he would wish to proceed with his and SEN. STAPLETON's bills. **REP. WANZENRIED** answered that he just wants to make sure that the state buys something that is going to work this time, to which **CHAIRMAN BRUEGGEMAN** agreed.

Seeing no further discussion the Chairman thanked everyone who spoke, and he and the Committee discussed their ending thoughts on the subcommittee business.

{Tape: 3; Side: A; Approx. Time Counter: 0 - 0.3}

Motion/Vote: **REP. BRUEGGEMAN moved TO CLOSE SECTION A OF THE BUDGET WITH RESPECT TO GENERAL GOVERNMENT AND TRANSPORTATION. Motion carried 6-0 by voice vote.**

ADJOURNMENT

Adjournment: 11 A.M.

____
REP. JOHN BRUEGGEMAN, Chairman

____
MISTY SHEA, Secretary

JB/MS

EXHIBIT(jgh39aad)