Department of Revenue Response to Chairman Adolph Request of February 17, 2016

<u>Efficiency and Cost Saving Initiatives</u>

Governor Wolf has made improving government efficiency a top priority, and has tasked his leadership team with reviewing their agencies' operations and pursuing transformational projects that create efficiencies, improve service and generate savings. Additionally, we are working collaboratively to identify opportunities to share services and consolidate operations.

This report includes information on projects being undertaken by the Department of Revenue to increase efficiency, produce cost savings, improve employee or citizen engagement and provide improved customer service. The Governor's Office of Transformation, Innovation, Management and Efficiency (GO-TIME) has developed a standard methodology for calculating cost savings and implemented a project management tool to track agency cost savings estimates and monitor the progress of initiatives on a quarterly basis, ensuring that cost savings are accurately captured and savings goals are achieved.

Cost savings are categorized as (1) direct dollar savings, (2) productivity savings, (3) increased revenue and (4) cost avoidance. Direct dollar savings may be one time reductions or ongoing savings. Productivity savings are the estimate of change between current and future processes. Cost avoidance is a reduction in planned or budgeted expenditures resulting from an agency initiative or action. Increased revenues may include new revenue from penalties, fines or fees, or improved cost recoveries. Actual or estimated expenses are subtracted from savings to determine net project savings. Savings within each year are prorated based on the date of project implementation, with project costs taken in full in the year in which they are incurred.

Project costs and savings are projected for a five year period, starting in fiscal year the project began.

The Department of Revenue is implementing the following efficiency and cost saving initiatives for Fiscal Years 15/16 and 16/17:

- **Ongoing Revenue Modernization Project**

  This initiative is both an efficiency initiative as well as a necessary continuing investment to assure ongoing operations for the Commonwealth's tax revenue accounting and collection systems. The modernization of the department's tax systems is a multi-year initiative that began in Fiscal Year 2008 and will continue through the five year budget planning horizon. Major Information Technology systems supporting tax processing in the Department of Revenue had been in place well beyond their intended life. The modernization project will ultimately replace and update department legacy tax systems that were developed and implemented more than forty years ago. These legacy systems operate on aged hardware and software platforms supported by technology resources with dwindling availability of expertise in the now-obsolete underlying technologies.

  In 2010, the Department initiated a process to obtain the hardware, software and implementation consultants needed to modernize its tax processing systems. The modernization of Business Tax processing was implemented in two phases. Corporation tax processing went live on the new system in March, 2013, nine months after the planned implementation date of June, 2012. Trust Fund taxes were implemented in November, 2014, ten months after the anticipated implementation date of January, 2014. Personal Income Tax and Motor Fuel taxes which had been part of the original implementation plan were never started.

The corporation tax system went live with only cursory testing and then had to be corrected in the live environment which created significant difficulties in unwinding inaccuracies as they were discovered. Limited testing was done prior to go-live of the sales and employer tax implementation, and the integration of those payments with the corporation tax system also created a number of technical, operational and customer service challenges.

During 2015 the department focused on correcting the numerous system errors that remained unresolved after go-live and integration of both systems. Integration of payments has been moved to occur in its more appropriate sequence -- once liabilities are final and have been routed to collections. Resolution of the payments integration issues and the most significant of the system errors have enabled the Department to return to previous levels of processing capacity and improve customer service. During 2015 over a half million corporation tax returns and over 3.5 million trust fund tax returns were processed through the Business Tax System.

	Business Tax Processing		
	Jan-May, 2015	May, 2015 - Jan, 2016	2015 Processed
Corporation Taxes	63,891	447,634	511,525
Trust Fund Taxes	1,733,264	1,789,364	3,522,628
Total	**1,797,155**	**2,236,998**	**4,034,153**

The long term outlook is for additional efficiencies to be developed. This will require continuing focus and commitment by a skilled IT staff as well as contract resources to continue the correction of system errors, improve customer notices and build management reporting and control capabilities into the system.

The Department plans to continue the modernization of the remaining legacy tax systems during Fiscal Year 16-17 and beyond, including the Personal Income tax, International Fuel Tax Agreement, Property Tax and Rent Rebate, Motor Fuel Taxes, Realty Transfer and Inheritance tax systems.

- **Electronic Filing of Liens**

  - **Initiative Description**

This initiative is a combined Productivity Improvement and Revenue Collection Initiative. The Department of Revenue is responsible for processing and filing liens for state taxes due with Pennsylvania County Prothonotaries in the County of the taxpayers' residence.

The current Lien Filing and Satisfaction process is both manual and time consuming. The department processing cost per Lien is nearly $10.00. The department is launching this initiative to reduce the overall processing cost per Lien to below $5.00 and create the opportunity to reallocate portions of staff time to work on Wage Garnishments and Administrative Bank Attachments in order to collect unrealized new General Fund delinquent collections of $700,000.

The first implementations of the County Electronic Lien Filing Program occurred during January 2016 with successful tests of personal income tax liens filed in the counties of Allegheny and Philadelphia. The next waves of counties where electronic lien filing will be implemented include Bradford, Bucks, Cumberland, and Montgomery. The current phase of the project applies to personal income tax Liens. Going forward, the plan is to expand filings to include liens for business taxes.

  - **Implementation Date**

The initiative is expected to be rolled out to all counties with electronic filing capability by July 2016 by which time it is anticipated that staff can be reallocated to the above mentioned collection activities to generate the additional delinquent collections.

  - **Implementation Timeline**

The following are the key milestones for the initiative

- January – February 2016
  - Confirm 1st wave of participating County Prothonotaries
- February – May 2016
  - Complete testing of the Electronic Filing
  - Refine any technical and operational issues.
  - Plan reassignment of Department staff to Wage Garnishment and Administrative Bank Attachments
- June 2016
  - Complete Final Electronic Lien Filing testing for the Phase 1 Counties
  - Train Staff for Wage Garnishment and Administrative Bank Attachments tasks

- July 2016
    - Go Live for Phase 1
    - Initiate Wage Garnishment and Administrative Bank Attachments tasks
    - Plan Phase 2 participant Counties
- September
    - Go Live with Electronic Lien Filing for Phase 2
    - Continue Wage Garnishment and Administrative Bank Attachments tasks

- **Cost Analysis**

The costs to implement Electronic Filing of liens are internal Information Technology (IT) costs using existing Revenue IT staff. The Electronic Lien filing costs to be submitted to the County Prothonotary are currently under discussion between Revenue and the County. We estimate annual filing costs to be no more than $24,000.

The costs for the Wage Garnishment portion of the initiative are the reassignment of existing staff time to the new function - no additional personnel will be hired. Staff time valued at $125, 822 will be reassigned to Wage Garnishment and Administrative Bank Attachments tasks which will produce delinquent General Fund Tax Revenue.

- **Savings and Revenue Collection Projections – FY 16/17 and ensuing five planning years**

The department projects a net annual increase of $676,000 in Delinquent General Fund Revenue Collection for a five year total of $3,380,000.

- **Licensing Impacts**

Not applicable

- **Performance Measures/Reporting**

Number of liens filed electronically and net additional delinquent General Fund revenues resulting from increased wage garnishments and bank attachments.

- **Sales Tax Intentional Underreporting and Sales Tax Fraud Identification**

- **Initiative Description**

This initiative is a combined Productivity Improvement and Revenue Collection Initiative. As part of the Department of Revenue's Tax Enforcement operations, the Department conducts investigations into activity that is subject to sales tax but currently not reported and paid to the Department. This initiative will enhance current enforcement programs with specific focus on the identification of sales activity subject to the collection and reporting of Pennsylvania Sales and Use Tax.

- **Implementation Date**

March 1, 2016 – Pilot / Proof of Concept
July 1, 2016 – November – Roll out to full implementation

- **Implementation Timeline**

The department has established a unit within the Pass through Business Office to conduct desk reviews for sales and use tax. This unit will focus on non-filers, unregistered taxpayers, under reporters and taxpayers who fail to pay use tax on purchases when sales tax was not charged. The Department has procured the assistance of a vendor to provide technical and consulting services. A pilot program will be initiated and will begin by sending out notices to a selected sample of taxpayers in spring 2016. The program will continue to roll out and is expected to be fully operational by November 2016.

- **Cost Analysis**

This initiative includes a productivity factor and a direct cost factor:

  - Reassignment of Department staff – Seven (7) staff will be reassigned to conduct the Sales Tax Reviews. The staff will allocate 75% of their work hours to this initiative, reallocating existing work effort valued at $437,000.
  - Contingency Fee – The Department has engaged the services of a Vendor to develop the software and related analytics to create cases for review by the Seven (7) agency staff. The projected Vendor costs are $1,200,000.

- **Savings and Revenue Collection Projections**

The projected FY 16/17 delinquent revenue collections are estimated to be $4 million. The net collections are projected to be $2,362,258, after vendor fee and staff costs.
The Five year Revenue Collections are projected at $11,812,840.

- **Licensing Impacts**

Not Applicable

- **Performance Measures**

The Sales Tax Desk Review assignments will be measured by assessments mailed and receipt of delinquent General Fund revenue on a monthly, quarterly and annual basis.

- **Consolidation of Document and Imaging Services**

  - Project Overview
    - For more than a decade, the Department of Revenue has and continues to offer advanced data capture, document imaging, scanning and remittance processing to twenty (20) Commonwealth agencies including the Office of the Budget and the Office of Administration. The Commonwealth, through the Department of Revenue, has made a

    significant investment in creating an organization that can support the data capture, imaging, scanning, and remittance processing needs of many Commonwealth agencies.
  - During FY 16/17, Revenue will work with the Office of Administration to identify potential additional agency clients.
- Project Benefit
  - Expansion of Consolidated Imaging Service Offering for Commonwealth Agencies
  - Revenue Cost Savings – None; savings accrue to other agency
- Scale and Scope of other agency requirements require comprehensive management and risk management.