

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 10/20)

Fiscal Year 2023-24	Business Unit 7600	Department California Department of Tax and Fee Administration	Priority No. 1
Budget Request Name 7600-026-BCP-2023-GB		Program ALL	Subprogram ALL

Budget Request Description

Centralized Revenue Opportunity System (CROS) Maintenance and Operations

Budget Request Summary

The California Department of Tax and Fee Administration (CDTFA) requests \$8.9 million in fiscal year 2023-24 and 2024-25, which is composed of \$5.3 million in contract services for maintenance and operations (M&O), \$2.75 million for the GenTax Software License and \$850,000 in operating expenses and equipment (OE&E). The CROS Project is an information technology modernization effort that has enabled the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues reducing the tax gap.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Department CIO	Date

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

Project No. 0860-094

Project Approval Document: SPR 5

Approval Date: 1/10/2020

If proposal affects another department, does other department concur with proposal? Yes No

Chief Financial Officer	Date	Chief Deputy Director	Date
Department Director	Date	Agency Secretary	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

PPBA Chris Hill	Date submitted to the Legislature 1/10/2023
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A. Budget Request Summary

The California Department of Tax and Fee Administration (CDTFA) requests \$8.9 million in fiscal year 2023-24 and 2024-25, which is composed of \$5.3 million in contract services for M&O, \$2.75 million for the GenTax Software License, and \$850,000 in operating expenses and equipment (OE&E). The CROS Project is an information technology modernization effort that has enabled the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues reducing the tax gap.

B. Background/History

The CDTFA administers California's sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs.

The CDTFA-administered programs collect revenue that supports local essential services such as transportation, public safety and health, libraries, schools, social services, and natural resource management programs through the distribution of tax dollars going directly to local communities.

CROS is a tax collection and distribution information technology system approved in 2011. The first production release, Rollout 2, included the Sales and Use Tax Program and was implemented on May 7, 2018. The second production release, Rollout 3 included Special Taxes (such as Alcoholic Beverages, Cigarette and Tobacco, and Fuel Taxes) and was implemented on August 12, 2019. The final production release, Rollout 4 included all the remaining CDTFA tax programs and was implemented on November 9, 2020.

CROS established an integrated, responsive, and effective tax and fee payer centric solution that uses up-to-date tax collection, storage, account management, and data retrieval technologies to maximize effectiveness of the CDTFA's operations through the following activities:

- Replacing legacy mainframe-based revenue and collection information systems with an integrated and automated tax and fee system.
- Providing an enterprise data warehouse.
- Enhancing online services available to tax and fee payers and other stakeholders.
- Improving case and contact management.
- Reengineering and improving program processes.
- Improving data sharing capability and real-time data access, especially to field staff.
- Enhancing the CDTFA's ability to implement legislative, judicial, or electoral changes to tax/revenue codes.

The Project Scope included the following components:

- Integrate registration, report obligations, payments, refunds, collection, audit, appeal, accounting and general ledger functions for all sales and use, special tax and fee programs, and timber tax functional areas into CROS.
- Replace the Integrated Revenue Information System and Automated Compliance Management System, as well as the Timber Tax legacy systems.
- Integrate enterprise software to include Call Center and Documentum (enterprise content management) software.

C. State Level Consideration

The CDTFA supports California's state and local government finance system by administering 37 tax and fee programs that generated revenue of \$81.5 billion in 2020-21. In addition to the \$57.3 billion in state revenue, the CDTFA collected more than \$24 billion on behalf of California's counties, cities, and special tax districts.

The successful implementation of CROS significantly improves the CDTFA's ability to fulfill its mission to

make life better for Californians by fairly and efficiently collecting the revenue that supports essential public services and meet the following strategic objectives:

- Streamline processes and harness state-of-the-art technologies to enhance tax collection, improve accuracy, boost efficiency, and speed tax administration.
- Expand online service for taxpayers.

D. Justification

The CDTFA requests \$8.9 million in 2023-24 and 2024-25 for the M&O contract determined by the CDTFA and FAST for resources to keep the CROS system current and operating optimally to continue collecting the revenue that benefits taxpayers.

The state benefits from using FAST staff that have been instrumental in working on the system and will continue to be dedicated to the CDTFA through M&O. The CDTFA will work in partnership with FAST staff in implementing day-to-day changes and enhancements. FAST has proprietary knowledge of the system and the thousands of site-specific configurations made during implementation. Therefore, they are key for knowledge transfer, advising the CDTFA staff as changes are being made, errors arise, service pack upgrades become available, and the opportunity to brainstorm viable options for problem resolutions. FAST will also help ensure that the CDTFA can meet the volume and speed of changes expected in the system, while state staff continue to build expertise.

Personal Services

The CDTFA continually evaluates the specific positions/skillsets necessary to support CROS' ongoing operations. This BCP does not request any new staffing needs.

OE&E Requests

The CDTFA requests \$8.9 million in 2023-24 and 2024-25 and includes funding for FAST as follows:

- \$5.3 million in 2023-24 and 2024-25 for M&O contract services costs
- \$2.75 million in 2023-24 and 2024-25 for the GenTax Software License Fee

The CDTFA also requests \$850,000 in 2023-24 and 2024-25 for hardware, software, and training resources needed to support CROS operations. Training resources are needed to provide technical training for staff to ensure they gain key skills in new technologies to support CROS.

For additional information, see Attachment 2 – Operating Expenses and Equipment.

Ongoing Contracts

M&O Contract

The current M&O contract is based on two 2-year optional periods for contract services. The first period was executed August 17, 2021, and goes through August 16, 2023, the second period will begin August 17, 2023, through August 16, 2025. Near the end of the term for the current contract, CDTFA and FAST will need to negotiate an ongoing contract to continue the M&O services. Without this, the CDTFA will not have access to the advanced knowledge of the system and site-specific configurations. CROS was implemented using FAST Enterprises' GenTax, a commercial-off-the-shelf (COTS) proprietary software. The CDTFA's goal during the initial M&O phase is to prepare state staff with the skillset to maintain daily operations of the system and continue CDTFA's capabilities to lead on system changes. The CDTFA administers 37 tax and fee programs, each with unique requirements and regulations. Given that GenTax is a proprietary COTS software and with the need to customize for specific tax program requirements, the CDTFA must retain vendor support to assist with program updates and complex changes to the system.

Software Licensing Agreement

The Software Licensing Agreement is renewed on an annual basis. The renewal cost in 2023-24 and 2024-25 will be \$2.75 million per year. This Software Licensing Contract will remain ongoing at a rate anticipated to increase by 1.5 percent annually, which will be absorbed by savings or funded by future BCP requests.

FAST Compensation for M&O Services and Software License				
	2021-22¹	2022-23	2023-24	2024-25
Contract Services²	\$6,599,216	\$8,074,756	\$5,302,000	\$5,302,000
Software License	\$2,500,000	\$2,500,000	\$2,750,000	\$2,750,000
Total	\$9,099,216	\$10,574,756	\$8,052,000	\$8,052,000

¹The stated amounts in 2021-22 are the actual amounts paid for the original M&O Contract Services and Software License.

²These figures do not include updates and/or changes to the system due to legislation (e.g., Hope Act: California Electronic Cigarette Excise Tax BCP 046).

E. Outcomes and Accountability

The most significant outcome in the transition from the legacy systems to the CROS solution is the increase in the Sales and Use Tax (SUT) Collection's baseline revenue of approximately \$798.3 million through the period of May 2018 through August 2021. Additional outcomes include continuing to enhance services to tax and fee payers, improving operational efficiencies including accounting and general ledger improvements, expanding revenue tracking from receipt through distribution, enhancing security, and the greater ability to quickly respond to statutory, judicial, or electoral changes to tax and revenue codes. CROS achieves this level of success through advanced system automation, which requires fewer manual processes.

During the project phase to ensure accountability and that CROS was the highest Information Technology priority, the project reported directly to the CDTFA's Chief Information Officer and had a governance structure that included executive sponsors from all program areas. Based on best practices, the CDTFA also used an independent consultant to verify and validate CROS Project deliverables to ensure they met the system and program requirements and fulfilled contractual obligations.

The California Department of Technology provided external oversight of CROS activities and management processes through both an onsite presence and review and analysis of CROS monthly project reports to ensure that all applicable policies, rules, guidelines, and procedures were followed. The DOF provided fiscal oversight and monitored the compensation model.

As the CDTFA has now entered ongoing M&O, the system is maintained by the Technology Services Division and continues to report to the CDTFA's Chief Information Officer.

F. Analysis of All Feasible Alternatives

Alternative 1 – Provide funding for 2023-24 – 2024-25 resources. Alternative 1 includes the following resource request:

- \$8.9 million in 2023-24 and 2024-25 for the continuation of M&O, software license, and ongoing OE&E.

Pros:

- Provides the appropriate funding to maintain CROS.
- Provides funding to continue software licenses and CROS hosting environment that allows for the system to continue to operate.

- Supports CDTFA's ability to successfully fulfill its mission to make life better for Californians by fairly and efficiently collecting the revenue that supports essential public services.

Cons:

- None.

Alternative 2 – Provide funding for the GenTax License Fee and OE&E. The CDTFA cancels the service portion of the M&O Contract with FAST. Alternative 2 includes the following resource request:

- 2023-24 and ongoing: \$3.7 million for the following costs:
 - \$2.75 million for the GenTax License Fee.
 - \$850,000 for the OE&E costs to continue minimal support of CROS.

Pros:

- Reduces overall contractor costs.

Cons:

- The CDTFA will have limited access and knowledge to make changes to the system application given that it is proprietary software.
- Knowledge transfer in key areas will not be implemented resulting in a negative impact to system maintenance.
- Will increase the overall CDTFA staff operations costs by having to perform workarounds and will have to troubleshoot without expertise knowledge from FAST.
- The CDTFA will have limited ability to make system enhancements, adjustments, and respond to changes in user requirements, which may include new legislative requirements.

Alternative 3 – Do not provide funding.

Pros:

- No additional costs.

Cons:

- Not providing funding would require redirecting CDTFA funds from other budgeted areas to cover the minimal amount necessary for the Software Licensing fee for CDTFA to maintain authorization to utilize the existing application.
- Without FAST Services the CDTFA's current version of GenTax would quickly become obsolete and ineligible for required system changes and enhancements.
- The CDTFA would be required to identify, procure, and implement an alternative system.
- Failure to meet the long-term goals of the CDTFA by implementing an integrated system designed to support the CDTFA's multiple tax programs that can be modified easily and quickly to implement legislative changes, revenue, and customer usability enhancements.

G. Implementation Plan

The following table provides a summary of the remaining tasks of the CROS Project Schedule through the Post Implementation Evaluation Report (PIER) closeout.

Phase	Description	Scheduled Start Date	Implementation Date	Scheduled End Date
M&O Period (Two, 24-month periods)	A 24-month period after Final State Acceptance where the FAST provides the CDTFAs services and provide GenTax service package upgrades.	08/17/21	n/a	08/16/23
		08/17/23		08/16/25
Project Closeout	Closing all project phases and producing the Post Implementation Evaluation Report (PIER).	8/17/21	n/a	08/16/23

H. Supplemental Information

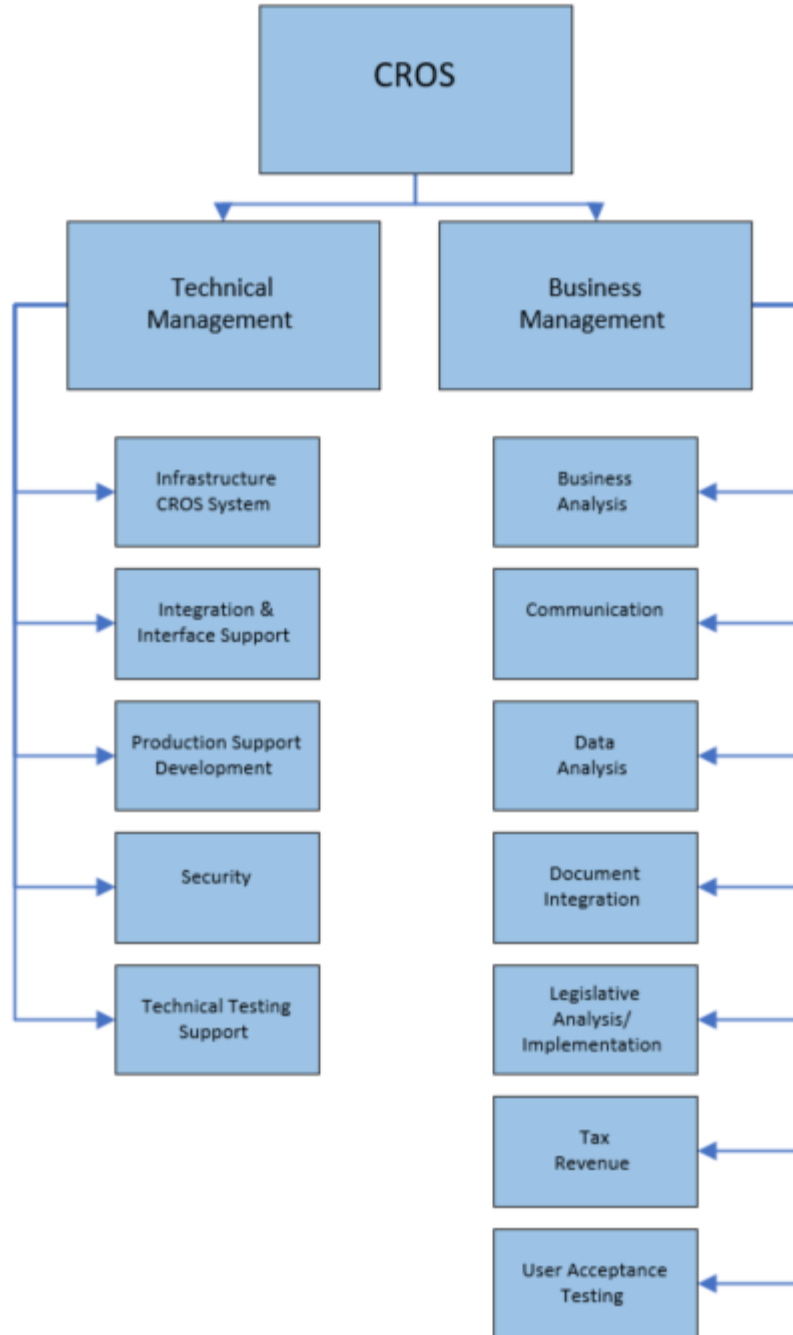
- Attachment 1: CROS Production Support Functional Area Chart
- Attachment 2: Operating Expenses and Equipment

I. Recommendation

The CDTFAs recommends Alternative 1, approve \$8.9 million in 2023-24 and 2024-25 for continued support of CROS, as it provides the greatest benefit to the state and the taxpayers.

Attachment 1

CROS Functional Organizational Chart



Attachment 2

Operating Expenses and Equipment

Item Type	Budget Category	Department	Unit	FY 23/24	FY 24-25	Purpose
Landline Monthly Service	Communications	CROS	487	\$ 10,000	\$ 10,000	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
Ongoing Calnet/Internet	Information Technology	CROS	487	\$ 2,500	\$ 2,500	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
FTI Background Checks	Consulting External	Admin-PPS	357	\$ 500	\$ 500	A minimal portion of the cost for background checks required for access taxpayer information
Optional M&O - CROS Solution Maintenance & Operations (M&O) Contract Services Costs	Consulting External	CROS	487	\$ 5,302,000	\$ 5,302,000	Optional CROS Solution Maintenance & Operations (M&O) contract - Services amount based on the hourly rate for service hours. This will include Batch Monitoring and Centralized Technical Support. (Labor, Monitoring \$150K, Support \$400K)
M&O - CROS Solution (GenTax) M&O Continuing Software License	Information Technology	CROS	487	\$ 2,750,000	\$ 2,750,000	GenTax License fee.
Software Licensing	Information Technology	TSD	382	\$ 100,000	\$ 100,000	Software related to SQL Licenses
Cloud Services	Information Technology	TSD	382	\$ 400,000	\$ 400,000	Annual fee and to Refresh (every third year) Storage, Network, AMS
Headquarters Rent	Facilities Operations	CROS	487	\$ 280,550	\$ 280,550	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
Headquarters Maintenance, Security	Facilities Operations	CROS	487	\$ 1,050	\$ 1,050	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
Office Supplies	General Expense	CROS	487	\$ 2,250	\$ 2,250	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
Paper	Printing	CROS	487	\$ 750	\$ 750	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
Travel	Travel	TSD	381	\$ 20,000	\$ 20,000	Related to Developer Training (Denver)
Tax and Fee System Prep. Training	Training	TSD	381	\$ 15,000	\$ 15,000	Specialized training/Specific training related to new technologies and methods required for CROS (\$1000-\$5000, per person/per class)
Utilities	Utilities	CROS	487	\$ 2,250	\$ 2,250	Standard OE&E item in support of staff - per person count based on a maximum allowed in the M&O contract up to 25 contractor staff.
				\$ 8,886,850	\$ 8,886,850	

BCP Fiscal Detail Sheet

BCP Title: Centralized Revenue Opportunity System (CROS) Maintenance and Operations

BR Name: 7600-026-BCP-2023-GB

Budget Request Summary

	FY23					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
5301 - General Expense	0	2	2	0	0	0
5302 - Printing	0	1	1	0	0	0
5304 - Communications	0	10	10	0	0	0
5320 - Travel: Out-of-State	0	20	20	0	0	0
5322 - Training	0	15	15	0	0	0
5324 - Facilities Operation	0	282	282	0	0	0
5326 - Utilities	0	2	2	0	0	0
5340 - Consulting and Professional Services - External	0	5,303	5,303	0	0	0
5346 - Information Technology	0	3,252	3,252	0	0	0
Total Operating Expenses and Equipment	\$0	\$8,887	\$8,887	\$0	\$0	\$0
Total Budget Request	\$0	\$8,887	\$8,887	\$0	\$0	\$0

Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	4,779	4,779	0	0	0
0004 - Breast Cancer Fund	0	7	7	0	0	0
0022 - State Emergency Telephone Number Account	0	23	23	0	0	0
0061 - Motor Vehicle Fuel Account, Transportation Tax Fund	0	446	446	0	0	0
0070 - Occupational Lead Poisoning Prevention Account	0	13	13	0	0	0
0080 - Childhood Lead Poisoning Prevention Fund	0	8	8	0	0	0
0230 - Cigarette and Tobacco Products Surtax Fund	0	90	90	0	0	0
0320 - Oil Spill Prevention and Administration Fund	0	5	5	0	0	0
0387 - Account, Integrated Waste Management Fund	0	8	8	0	0	0
0439 - Underground Storage Tank Cleanup	0	59	59	0	0	0

Fund							
0465	- Energy Resources Programs Account	0	5	5	0	0	0
0623	- California Children and Families First Trust Fund	0	154	154	0	0	0
0965	- Timber Tax Fund	0	30	30	0	0	0
0995	- Reimbursements	0	2,924	2,924	0	0	0
3015	- Gas Consumption Surcharge Fund	0	13	13	0	0	0
3058	- Water Rights Fund	0	8	8	0	0	0
3065	- Electronic Waste Recovery and Recycling Account, Integrated Waste Management Fund	0	68	68	0	0	0
3212	- Timber Regulation and Forest Restoration Fund	0	17	17	0	0	0
3270	- Local Charges for Prepaid Mobile Telephony Service Fund	0	6	6	0	0	0
3288	- Cannabis Control Fund	0	126	0	0	0	0
3301	- Lead-Acid Battery Cleanup Fund	0	21	21	0	0	0
3319	- Department of Tax and Fee Administration Subaccount, Tobacco Law Enforcement Account, CA Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund	0	58	58	0	0	0
3333	- Cannabis Tax Fund - Department of Tax and Fee Administration	0	0	126	0	0	0
3366	- California Electronic Cigarette Excise Tax Fund	0	19	19	0	0	0
Total State Operations Expenditures		\$0	\$8,887	\$8,887	\$0	\$0	\$0
Total All Funds		\$0	\$8,887	\$8,887	\$0	\$0	\$0

Program Summary

Program Funding							
6275075	- Timber Tax Program	0	30	30	0	0	0
6275100	- Sales and Use Tax Program	0	7,469	7,469	0	0	0
6275125	- Hazardous Substances Tax Program	0	82	82	0	0	0
6275150	- Alcoholic Beverage Tax Program	0	49	49	0	0	0
6275175	- Tire Recycling Fee Program	0	30	30	0	0	0
6275200	- Cigarette and Tobacco Products Tax Program	0	360	360	0	0	0
6275250	- Transportation Fund Tax Program	0	446	446	0	0	0
6275275	- Occupational Lead Poisoning Prevention Fee Program	0	13	13	0	0	0

6275300	- Integrated Waste Management Program	0	8	8	0	0	0
6275325	- Underground Storage Tank Fee Program	0	59	59	0	0	0
6275350	- Oil Spill Prevention Program	0	5	5	0	0	0
6275375	- Energy Resources Surcharge Program	0	5	5	0	0	0
6275400	- Annual Water Rights Fee Program	0	8	8	0	0	0
6275425	- Childhood Lead Poisoning Prevention Fee Program	0	8	8	0	0	0
6275450	- Marine Invasive Species Program	0	8	8	0	0	0
6275500	- Emergency Telephone Users Surcharge Program	0	23	23	0	0	0
6275525	- E-Waste Recycling Fee Program	0	68	68	0	0	0
6275550	- Lumber Fee Program	0	17	17	0	0	0
6275575	- Insurance Tax Program	0	14	14	0	0	0
6275600	- Natural Gas Surcharge Program	0	13	13	0	0	0
6275650	- Prepaid Mobile Telephony Program	0	6	6	0	0	0
6275700	- Lead-Acid Battery Cleanup Fee Program	0	21	21	0	0	0
6275725	- Cannabis Taxes Program	0	126	126	0	0	0
6275750	- Electronic Cigarette Excise Tax Program	0	19	19	0	0	0
Total All Programs		\$0	\$8,887	\$8,887	\$0	\$0	\$0