



Dan Bucks
Director

Montana Department of Revenue



Brian Schweitzer
Governor

November 14, 2005

Mr. Greg DeWitt, Senior Fiscal Analyst
Legislative Fiscal Division
Room 110 State Capitol
Helena, MT 59620

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LEGISLATIVE
FISCAL ANALYST

Dear Greg,

This letter is in response to your September 28 e-mail regarding the Legislative Finance Committee (LFC) meeting and the Property Assessment Division (PAD) Computer System budget.

In your e-mail you listed various questions regarding the computer system budget. Please see my responses below.

Without the mid-tier costs, is the vendor quote for the project the same as it was in the budget request for \$5.5 million?

No. The vendor quote in the budget request for \$5.5 million was \$5.2 million. The actual vendor quote from the RFP process is \$4,843,800.

How were the mid-tier costs missed in the estimate?

The previous administration did not follow proper steps in developing the proposal. The leadership in the prior administration of the Department of Revenue, the Department of Administration, and the Office of Budget and Program Planning did not take steps necessary to ensure that this budget proposal was properly prepared.

Was ITSD, DOA involved in the budget planning process and estimating?

ITSD did not perform the review of this project required under statute. There is no evidence that either the Office of Budget and Program Planning or the Department of Revenue, both under their prior leadership, engaged ITSD in its review role. While the former Budget Director included this system in the budget at a late date, the proper review and planning steps should still have been undertaken. ITSD did not provide advanced instructions to agencies on budget development for systems and did not provide planning advice to DOR on the property system. Nor did DOR seek planning assistance from ITSD.

Was it always anticipated that the state mid-tier platform would be used during development (implementation and testing of the off-the-shelf application)?

No. Use of the state mid-tier platform was never properly anticipated.

Department of Revenue
PAD Computer System - Expenditures & Funding

<u>Budget Category</u>	<u>Projected Expenditures FY 2006</u>	<u>Projected Expenditures FY 2007</u>	<u>Total Projected Expenditures</u>	
Vendor Payments	571,896	3,971,904	4,543,800	(excludes \$300,000)
Project Management/Contingency/IV & V	375,000	375,000	750,000	
DOR Operations	125,370	92,842	218,212	
Mainframe	20,000	18,000	38,000	
Mid-Tier	119,967	509,295	629,262	
TOTAL	<u>1,212,233</u>	<u>4,967,041</u>	<u>6,179,274</u>	

FUNDING Sources (Revenue)

HB2 Restricted/Biennial Appropriation	5,500,000
FYE2005 Accrual	<u>250,013</u>
TOTAL Funding	<u>5,750,013</u>
Budget Shortfall	<u>(429,261)</u>

NOTE: The vendor quote is \$4,843,800 which includes \$300,000 for hardware. ITSD will purchase the hardware to provide mid-tier and mainframe support so the payment to the vendor will be reduced by \$300,000.

Department of Revenue

Property Assessment Division Computer System

Budget Category	Projected Expenditures		
	FY 2006	FY 2007	Total
Vendor			
Vendor Payments	571,896	3,100,032	3,671,928
Holdback/Maintenance 24 months @ 36,328/month	-	871,872	871,872
<u>Total Vendor Payments</u>	<u>571,896</u>	<u>3,971,904</u>	<u>4,543,800</u>
Best Practices			
PMO	38,180	21,850	60,030
Contingency/IV&V	336,820	353,150	689,970
<u>Total Best Practices</u>	<u>375,000</u>	<u>375,000</u>	<u>750,000</u>
Field Staff - System Development Costs			
<i>These costs are for field staff to work in Helena</i>			
<u>Supplies</u>			
Photocopies	10,500	10,500	21,000
Paper	1,302	651	1,954
Office Supplies	2,676	2,676	5,352
<u>Total Supplies</u>	<u>14,478</u>	<u>13,827</u>	<u>28,306</u>
<u>Communication</u>			
Telephone Equipment Charges (DofA)	3,420	3,420	6,840
Long Distance (DofA)	600	600	1,200
<u>Total Communication</u>	<u>4,020</u>	<u>4,020</u>	<u>8,040</u>
<u>Travel</u>			
Hotel	34,058	17,029	51,087
Per Diem	17,940	8,970	26,910
Personal Vehicles	12,804	6,402	19,206
<u>Total Travel</u>	<u>64,802</u>	<u>32,401</u>	<u>97,203</u>
<u>Rent</u>			
	26,388	26,912	53,300
<u>Total Field Staff System Development Costs</u>	<u>109,688</u>	<u>77,161</u>	<u>186,849</u>
ITSD Processing Services			
Mainframe Costs	20,000	18,000	38,000
Mid Tier Costs	119,967	509,295	629,262
Data Network Services (DofA) 18@72.60/month	15,682	15,682	31,363
<u>Total ITSD Services</u>	<u>155,649</u>	<u>542,977</u>	<u>698,625</u>
Total Project Costs	<u>1,212,233</u>	<u>4,967,041</u>	<u>6,179,274</u>
Funding			
HB2 Appropriation			5,500,000
FYE2005 Accrual			250,013
Total Funding			<u>5,750,013</u>
			<u>(429,261)</u>



Has the schedule changed to utilize the state mid-tier earlier than anticipated?

No. The schedule has not changed because there never was a schedule for the use. Mid-tier costs were not properly anticipated.

Where did the mid-tier cost amount of \$430,000 come from?

See the attached spreadsheet. The system project budget was actually under budgeted by \$679,274 in several categories, of which computer processing costs are the largest category for which no funds were originally budgeted. Working with ITSD, DOR estimates the total processing costs at \$698,625. Due to savings in the vendor quote and using some FYE 2005 funds, the department is able to cover all costs except for \$430,000.

Since mid-tier costs would be ongoing, how are you planning on reducing expenditures so the appropriations for the full biennium will not be exceeded (17-7-301, MCA) while absorbing these this fiscal year and again next fiscal year?

These costs are project specific. The department cannot and has no plan to reduce expenditures.

If supplemental funding is not authorized to correct this error, the department will be forced to re-allocate revenue generating resources to this project. A \$430,000 budget reduction could result in \$4 million dollars of lost revenue.

For future years, the DOR budget will absorb these processing costs by using the base funding provided for regular processing of data under the legacy systems that are being replaced. It is only during the system development phase that duplicate processing costs are incurred—regular processing for the work being done in the legacy systems and the special processing done to program the new system and convert property data to the new system. The latter go away after systems development is done.

If you need additional information, please call me at 444-6739.

Sincerely,



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c: Christi Moyer, Senior Budget Analyst, Office of Budget and Program Planning
Amy Sassano, Operations and Budget Manager, Office of Budget and Program Planning
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