COUNTY OF EL DORADO

April 13, 2016

TO: Board of Supervisors

FROM: Karl Weiland, Assessor
                 Joe Harn, Auditor-Controller
                 Cherie Raffety, Treasurer/Tax Collector

RE: Property Tax System Replacement

The purpose of this staff report is to provide background information in support of replacing the County's Property Tax Administration system.

Background
The County general fund, schools, cities, and about 55 other taxing jurisdictions in the county depend on property tax revenues to fund service delivery. Property tax generates over $330 million in revenues. As the statutory administrator, the County is constitutionally responsible for the administration of the property tax system and ensuring the revenue stream upon which so many depend.

The current Property Tax Administration System was acquired during the 1980's following the passage of Prop 13. The system became functionally operational by 1990 and has served its purpose effectively since that time. It is an integrated system between the three departments charged with property tax administration - the Assessor, the Auditor and the Tax Collector. The property system is written in an original (now outdated) IBM programming/database language, Model 204. It is a mainframe based system developed over time and has been revised and enhanced to accommodate changes in property tax law and to meet the business needs of the County. The system requires complex coding and programming, relies on numerous shadow systems managed on independent servers and PC's, and is labor intensive and expensive to support.

On February 11, 2014, the Board of Supervisors approved Information Technologies' Five-Year Mainframe Migration Plan as well as a Systems Modernization action plan to migrate all applications off the current mainframe system. These applications include the County's financial system, land management system and property tax administration system. Migration to a new financial system (FENIX), transfer of Recorder document imaging, and a new planning, permitting and parcel management system (P3) are already underway.

Subsequent to the approval of the Five-Year Mainframe Migration Plan, the Assessor, Auditor-Controller, and Treasurer/Tax Collector began working to identify available replacement property tax administration systems, and consulting with colleagues from other counties to obtain first-hand information regarding the functionality of systems currently in use.   On December 2, 2015, the departments provided a detailed report to the Chief Administrative Officer which included information on the current status of the mainframe-based property system, an overview of other systems currently available to replace that system, and preliminary recommendations for acquisition implementation of a new system. (A copy of that report is provided as Attachment B to this agenda item.)

Two primary vendors were identified as being able to provide a fully integrated system that could meet the County's needs within the identified timeline. After meeting with the CAO in January 2016, it was agreed that the property tax administration departments would work with Information Technologies and the CAO Procurement and Contracts Division to distribute functional requirements for a new system to the two identified vendors, Thomson Reuters and Megabyte Systems Inc., and invite presentations from those vendors.

System Demonstrations

Staff from the three property administration departments, along with staff from Information Technologies and the Chief Administrative Office participated in vendor presentations from Megabyte Inc. and Thomson Reuters. Staff identified the following as key criteria for evaluating the proposed systems:

1) Ability to provide an integrated solution for all three property tax departments

2) One or more successful system implementations in California

3) Ability to meet the implementation time constraints imposed by the projected end of life of the County's current mainframe platform and the projected retirement windows of key staff.

4) Initial and ongoing costs

On February 5th, 2016, staff from the Property Tax Administration departments, Information Technologies and the Chief Administrative Office traveled to the offices of Megabyte Property Systems in Rocklin and spent a full day receiving an overview of the Megabyte Property Tax System. On February 10th and 11th, Thomson Reuters presented the Aumentum property tax system to the same staff here on campus. At the conclusion of the demonstrations, all participating staff was asked to provide written feedback, observations and comments on the two systems. A summary of those comments is provided below.

Megabyte: Almost all respondents gave credit to Megabyte's successful installation and performance in 25 California Counties, the proximity of the company in Rocklin for training and support, along with the benefit of a well-organized user's group. In addition, several staff noted that Megabyte's long track record in California ensures compliance with various performance and compliance audits conducted by the State in each of the Property Tax Administration departments.

Thomson Reuters: There was almost universal agreement among the participants that the Thomson Reuters Aumentum product is a more technologically advanced system than the Megabyte system. However, much of the technology is present because Aumentum is designed to operate in all 50 states and is not yet operational in California. This is a concern because of the many complexities unique to California property taxes. Another concern is that the vendor's commitment to the 11 California counties already under contract with them would likely delay our County's implementation beyond the end of life of the mainframe – and beyond the retirement dates of several key IT staff that are essential to the system conversion. Finally, the projected date for Thomson/Reuters' Riverside County implementation puts the completion of an entire business cycle out to 2018, with no ability for our staff to evaluate the system implementation prior to the end of life date of our mainframe.

<u>Cost Proposals</u>
Both Megabyte and Thomson Reuters have provided estimated pricing. Pricing estimates include provisions for one time software licensing, initial data conversion, staff training and implementation, as well as annual support charges.

The following detailed pricing information was provided by both vendors:

Price Component	Aumentum	Megabyte	Difference
Software license	$ 1,357,715	$ 850,000	$ 507,715
Data Conversion	602,758	150,000	452,758
Online Business Filing (OBPF)	Not Avail	37,500	37,500
One Time Cost	**$ 1,960,473**	**$ 1,037,500**	**$ 922,973**
System Maintenance / Support	$ 271,543	$ 288,000	$ (16,457)
OBPF Maintenance	n/a	3,000	3,000
Aircraft/Boat Inquiry		500	(500)
Assessment Appeals	Not Avail	15,500	15,500
Public Web Access	Not Included	5,004	5,004
Agency Web Access	Not Included	12,511	12,511
Web Bill Print - Current Year		808	(808)
Web Bill Print - Prior Year		512	(512)
Annual Support	**$ 271,543**	**$ 325,835**	**$ (54,292)**

The consensus of the staff participating in the system demonstrations is that both vendors offer a fully integrated property tax administration system; however, the Megabyte system is best suited to meet the functional requirements of El Dorado County and is in the best position to do so prior to the end of life of the County's mainframe platform. Additionally, while the ongoing/annual support costs of both systems are comparable, the initial cost of the Megabyte software solution is nearly $1 million less than Thomson Reuters Aumentum solution. Staff recommends the Megabyte Property Tax System as the preferred solution for the replacement of the County's current M204 Property Tax System.

Project Cost Analysis

A detailed cost analysis for the Megabyte property tax system conversion and implementation is provided on page 5 of this report. Estimated project costs include the vendor software and support costs noted above, as well as IT systems support, contracted project management, server hardware and software, backfill for IT and department project team staff, and project contingency.

The project cost analysis includes estimated costs shown over seven years – two years for the proposed conversion process and five years to reflect the distributed payments for the one-time Megabyte software license (acquisition). For comparison purposes only, estimated costs are also shown for continued operation of the current M204 property tax system.

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Seven Year Cost Projection

The cost of operating the current M204 system over the next seven years would be approximately $9 million. As the County migrates other programs (financial, recorded document imaging, and land management) off the mainframe in the next two years, the cost of maintaining the mainframe environment would fall solely to the property system in FY 2018-19. Current year M204 system costs of approximately $720,000 per year would jump to twice that amount, or approximately $1.4 million per year.

The total cost estimate for the proposed conversion, implementation and operation of the Megabyte system over the next seven years is approximately $6 million, including maintenance and support for the current M204 system during the two year conversion process. Conversion to the Megabyte system is projected to reduce costs to the County by more than $3 million over the current system during that seven year period.

Annual Operating Costs

The annual operating cost of the Megabyte system is projected to be $450,000 which is approximately $300,000 lower than the current M204 system costs. This projection focuses on the property system costs only and does not address other savings that will be achieved with the elimination of the mainframe.

System	Estimated Cost Over Next 7 Years*	Approximate Annual Operating Costs
M204 (Current)	$9,250,968	$750,000
Megabyte	$6,000,558	$450,000
Cost Difference	$3,250,410	$300,000

Detailed 7 year cost analysis on next page.

PROPERTY TAX SYSTEM COST ANALYSIS

Estimated Costs Over 7 Years

	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	Total
CURRENT M204 PROPERTY TAX SYSTEM COSTS	$ 720,000	$ 734,400	$ 1,498,176	$ 1,528,140	$ 1,558,702	$ 1,589,876	$ 1,621,674	$ 9,250,968
PROPOSED MEGABYTE PROPERTY SYSTEM COSTS								
IT System Support								
Current M204 Mainframe/Programming	$ 720,000	$ 734,400						
Megabyte System Administration/Support			$ 75,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000	
Project Management								
Contracted Project Management	$ 100,000	$ 100,000	$ 100,000					
County IT Hardware/Software								
Server Hardware & Configuration	$ 25,000	$ 75,000						
Server Contingency	$ 10,000	$ 15,000						
Server Software	$ 25,000							
Microsoft Annual License	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	
Megabyte System / Conversion								
Vendor Data Conversion	$ 75,000	$ 75,000						
Historical Data Conversion		$ 25,000						
EDC IT Staff Backfill	$ 5,000	$ 10,000	$ 5,000					
Software Program Costs								
Megabyte Software License			$ 170,000	$ 170,000	$ 170,000	$ 170,000	$ 170,000	
On Line Business Property (OBPF) Module			$ 37,500					
OBPF Annual Maintenance			$ 3,000	$ 3,060	$ 3,121	$ 3,184	$ 3,247	
Assessment Appeals Module			$ 15,500	$ 15,810	$ 16,126	$ 16,449	$ 16,778	
Public Web Access License			$ 5,004	$ 5,104	$ 5,206	$ 5,310	$ 5,416	
Agency Web Access License			$ 12,511	$ 12,761	$ 13,016	$ 13,277	$ 13,542	
Web Bill Print Current Year License			$ 808	$ 824	$ 841	$ 857	$ 875	
Web Bill Print Prior Year License			$ 512	$ 522	$ 533	$ 543	$ 554	
Aircraft/Boat Inquiry License			$ 500	$ 510	$ 520	$ 531	$ 541	
TOT Module Estimate			$ 20,000					
Annual System Maintenance/Support			$ 288,000	$ 293,760	$ 299,635	$ 305,628	$ 311,740	
EDC Implementation Costs								
Backfill for department project team	$ 50,000	$ 150,000	$ 150,000	$ 100,000	$ 50,000			
Staff Training	$ 5,000	$ 25,000	$ 20,000	$ 5,000				
Ongoing Training / User Group		$ 10,000	$ 10,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000	
Contingency								
General Project Contingency	$ 25,000	$ 50,000	$ 50,000	$ 25,000				
Staffing Contingency	$ 15,000	$ 15,000	$ 20,000	$ 15,000				
Software Contingency	$ 2,000	$ 2,000	$ 2,000	$ 2,000				
TOTAL ESTIMATED MEGABYTE SYSTEM COSTS	$ 1,072,000	$ 1,301,400	$ 1,000,335	$ 744,352	$ 653,999	$ 610,779	$ 617,694	$ 6,000,558
COST DIFFERENCE	$ 352,000	$ 567,000	$ (497,841)	$ (783,788)	$ (904,704)	$ (979,098)	$ (1,003,980)	$ (3,250,410)

Notes:

Assumes a 7/1/2018 "go live" date for Megabye system.

Projections for ongoing costs assume a 2% annual increase.

Projections for M204 costs include an increased burden of mainframe costs on the property system as other programs migrate to a server based environment.

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Summary

➢   The Board has acknowledged the need to transition away from the current mainframe computing environment and replace mainframe-based programs, including the property tax system, with new systems.

➢   A project to replace the current property tax system is time-constrained by the end of life of the existing mainframe hardware and the potential retirement of key staff.

➢   The only property tax system which is readily obtainable within the constrained timeframe that provides an integrated solution with a proven track record is the Megabyte system. In addition, Megabyte is the preferred solution based on staff participation in demonstrations.

➢   The transition from our current system to any selected replacement cannot be delayed without increasing risk to the property tax revenue stream.

➢   Financial analysis shows that the operating cost of the property system will be substantially reduced by transitioning to the Megabyte property system operating in a server environment.

Recommendation

The Assessor, Auditor-Controller and Treasurer/Tax Collector recommend the Board:

➢ Approve the selection of Megabyte Property Tax System as the preferred solution for the replacement of the County's current M204 Property Tax System; and

➢ Authorize the Purchasing Agent and the affected departments to enter into contract negotiations with Megabyte, Inc. and return to the Board prior to June 30, 2016 for approval of a contract and project implementation calendar and plan

Additional Information

The following additional information is provided in support of acquiring a new property tax administration system.

New Property System - Increased Functionality

Implementation of a new property system will result in several improvements:

- ➢ Operating efficiencies will be achieved:
  - o Through redesigned operations, tighter integration of business processes and data, and new capabilities such as workflows and mobile devices
  - o Integration of changes in legislation affecting Property tax administration will be easier to implement
  - o Streamlining property tax administration processes between departments
  - o Enhancing coordination of system improvements across departments based on consistency in the program and application

- ➢ Customer Service will be enhanced:
  - o Participation in a vendor supported user group consisting of all Counties using the system will provide additional customer service solutions
  - o Vendor provided training across departments will improve internal coordination and reduce confusion in dealing with the public
  - o Implementing modern system technology opens the possibility for cross agency data exchanges, which will lead to consistency among agency information and less confusion for the public.
  - o The acquisition of an assessment appeals module will improve appeal applicant customer service for both the Assessor and the Assessment Appeals Clerk

- ➢ IT Operations will be more efficient:
  - o Reduce associated hardware, software, system and labor costs
  - o Allow redirection of IT resources from legacy programming languages to new state-of-the-art technologies
  - o Enable improved services by leveraging new technology
  - o Reduce efforts needed to accommodate advances in emerging computing technology

Staff Support

➢ The mainframe based property system is supported by County IT database and Model 204 (property system) programming staff. This staff is highly experienced in the unique configuration of the property system and routinely performs the business process analysis and program modification/ development necessary to accomplish and meet the needs of property tax administration. These key IT programmers have been with the County for a number of years and are essential to a successful system conversion.

➢ One of the most critical tasks of any system implementation is the migration of existing data from the current system to the new system. The property tax system is no different, and it will be a substantial task to migrate the information from the current property inventory into a new format while preserving all of the database relationships necessary to have the information in a useful format to the new system. The current staff in IT will be invaluable in this effort and every effort should be made to ensure these resources remain available during the data migration and program transition. Even more importantly, should we delay and begin the project without the benefit of existing staff, the project cost will increase significantly along with an increased risk of additional delay, excessive cost or outright failure. In other words, we need to finish this project before these key staff retire.

Management Support

➢ Each of the three property tax administration departments are currently staffed by experienced, knowledgeable managers, supervisors and staff that collectively form the backbone of the system management. Attrition in this valuable resource due to project delay will negatively impact the project and increase costs.

Vendor Selection Process

➢ The procurement of proprietary software system is exempt from the competitive bidding process; however, a competitive process for purchases of this magnitude is generally encouraged. Typically, the first step in that process would be the evaluation of the market for the desired software solution and identification of all vendors offering such a solution. Staff from the property tax administration departments and Information Technologies have done considerable research on the existing market and the availability of potential solutions. That research has revealed that there are only two systems that would be viable for the County at the current time. Cost proposals were solicited from both vendors and considered together with the factors above and staff's technical evaluation of the systems.