

Bill Luna
County Executive Officer



Jay E. Orr
Assistant County Executive Officer

Executive Office, County of Riverside

September 21, 2010

Honorable Board of Supervisors
County of Riverside
Robert T. Andersen Administrative Center
4080 Lemon Street, 5th Floor
Riverside, California 92501-3651

Subject: County of Riverside Enterprise Solutions for Property Taxation (CREST)

Board Members:

Before the Board today are two items for the County of Riverside Enterprise Solutions for Property Taxation (CREST) project. The first gives the Board a summary of several implementation scenarios, a 10-year project scope for the most likely scenario, and a recommended project budget. The second item before you today is a request to initiate final development of a new property tax system through the execution of professional service contract.

The CREST project is a critical advancement for this county and will replace the current (40-year old) system which lacks the capacity to adapt to emerging fiscal and legal requirements. The new system will replace inefficient business processes and outdated technologies that are at the end of their usable service life.

As designed, the new system will coordinate and integrate processes for the Auditor-Controller, Treasurer-Tax Collector, and the Assessor-Clerk Recorder and will be the first of its kind in this state.

The project has been spearheaded by Project Manager Brian Kovalsky, who leads a team of 15 staff, amassed from the three key property tax departments. Since CREST began operations in 2007, this team completed a full business analysis of the property tax system, identified specific requirements, released Requests for Proposal (RFP) for solutions to the county's property tax business needs, and recommended a vendor to implement a new integrated property tax management system. All CREST work to date has been completed on-time, on-schedule, and within budget.

Overseeing the project is the policy steering committee, consisting of high level managers from the elected property tax departments and a representative from my office. This group monitors and advises CREST on project direction. They oversee CREST resources to ensure integration of CREST results into property tax business operations.

3.5

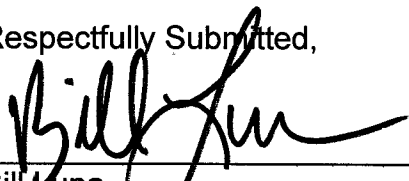
The CREST RFP planning stage will culminate today with your approval to select a vendor to implement our new property tax and assessment system. This group will continue to coordinate this effort through to completion of the project. Development will end in October 2013 with final acceptance expected in October 2015.

The ten-year cost, including for county staff, of this project is estimated at \$99 million. New net county cost during that period is not expected to exceed \$33.5 million. The board has committed \$2 million in ongoing general fund support for this effort and has allowed budget savings from the three property tax departments to accumulate in a general fund reserve. Today that reserve totals \$13.6 million. The recommended professional service contract before you today incorporates a financing plan to spread the costs of the new system over a ten year period. By drawing down reserves first, new ongoing general fund resources are not needed for at least five years. If contingency costs are insignificant, it could be seven years before new general fund support is required.

Pending litigation in Los Angeles County could reduce the amount of revenue recovery a county can seek in regard to property tax administration. If such litigation leads to changes in statute, the need for direct general fund support would be accelerated. To mitigate this potential impact and to further defer any impact on the general fund, I recommend that the Board continue its practice of setting aside departmental budget savings realized annually by the three property tax departments, placing those funds into the property tax reserve.

Progress reports will be provided to the Board regularly, keeping you up to date on the status for this initiative.

Respectfully Submitted,



Bill Luna
County Executive Officer

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



266

FROM: Larry W. Ward (Assessor-County Clerk-Recorder), Don Kent (Treasurer-Tax Collector), Robert Byrd (Auditor-Controller)

SUBMITTAL DATE:
September 16, 2010

SUBJECT:

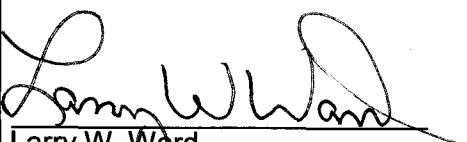
Implementation Strategy and Ten-Year Financial Plan for an Integrated Property Tax Management System and Computer Aided Mass Appraisal System

RECOMMENDED MOTION: That the Board of Supervisors:

- 1) Approve of this Implementation Strategy and Ten-Year Financial Plan for an Integrated Property Tax Management System and Computer Aided Mass Appraisal System

BACKGROUND: The Assessor-County Clerk-Recorder; Treasurer-Tax Collector; and Auditor-Controller are re-engineering the County's 40-year-old Property Tax System. The County completed the first phase of this initiative in June 2009 with detailed analysis of the current Property Tax System. This included analysis of property tax departmental business requirements to comply with California revenue and taxation code, laws, and regulations. This analysis produced recommendations for replacement of the Property Tax System subject to the risks identified with continued use of the current Property Tax System.

(continued on Page 2)


Larry W. Ward
Assessor-County Clerk-Recorder


Don Kent
Treasurer-Tax Collector



Robert Byrd
Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	No
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	No
	Annual Net County Cost:	\$ 0	For Fiscal Year:	FY10/11

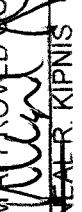
SOURCE OF FUNDS: Not Applicable	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

APPROVE

BY: 

County Executive Office Signature Christopher M. Hans

FORM APPROVED COUNTY COUNSEL DATE 9/14/10
 BY:  MARK SELLER, KIPNIS
 Mark Seller, Assistant Director, Departmental Concurrence
 FCIT AM & S. Richard Byrd, Mark Seller, Greg Stoddard, CTO

Dep't Recomm.: Consent Policy
 Per Exec. Ofc.: Consent Policy

Prev. Agn. Ref.:

District: All

Agenda Number:

3.5

SUBJECT: Implementation Strategy and Ten-Year Financial Plan for an Integrated Property Tax Management System and Computer Aided Mass Appraisal System

September 16, 2010

Page 2

BACKGROUND: (continued from Page 1)

The property tax system is the most significant source of revenue for the County of Riverside. The property tax system has performed reliably and remarkably well for forty (40) years, but it is at the end of its usable service life. The following recent statistics demonstrate the fiscal significance of the property tax system:

Tax Year	Potential Revenue	Statistical Basis
2009-2010	<ul style="list-style-type: none">• \$ 2.4 Billion general levy• \$524 Million special assessment	<ul style="list-style-type: none">• \$209.11 Billion property tax roll• 901,189 secured assessments• 40,985 unsecured assessments
2008-2009	<ul style="list-style-type: none">• \$ 2.67 Billion general levy• \$515 Million special assessment	<ul style="list-style-type: none">• \$234.58 Billion property tax roll• 895,405 secured assessments• 43,057 unsecured assessments

Based on property tax laws and regulations, the County apportions and distributes these revenues to the benefit of County operations, school districts, redevelopment agencies, cities, and special districts.

This Implementation Strategy and Ten-Year Financial Plan recommends that the County mitigates risk and accumulates operational cost savings by replacing the County's 40-year-old mainframe-based property tax system with a new Integrated Property Tax Management System (IPTMS) utilizing state-of-the-art technology. This strategy applies the following principles:

- Utilize the County's Property Tax Designation to pay for the new IPTMS implementation prior to requesting any new General Fund support. This assumes property tax departmental budget savings continue to be set aside into the County's Property Tax System Designation.
- Apply potential savings from operational efficiencies due to a new IPTMS to the CREST project budget to offset requests to the County for unfunded budgetary needs.
- Incorporate income sources into the CREST budget based on SB2557 allocations for Property Tax Administrative Cost recovery, governmental grants or legislative earmarks awarded to the County, and vendor-based price incentives to minimize future allocations from the County General Fund.
- Finance the procurement of a new IPTMS through a vendor that allows payments to be amortized over a ten-year period.
- Provide budgetary consideration for a fifteen percent (15%) risk contingency to accommodate approved adjustments due to project complexity and duration.
- Assumes no cuts in Net County Cost (NCC) to CREST operations throughout the ten-year period (2011 through 2020).

SUBJECT: Implementation Strategy and Ten-Year Financial Plan for an Integrated Property Tax Management System and Computer Aided Mass Appraisal System

September 16, 2010

Page 3

Total gross costs over the ten-year period are estimated to be \$98,559,172. After considering other funding sources, the new General Fund obligations are expected to be \$33,546,983 over the ten-year period. Refer to Attachment A for more details and a costing plan that incorporates a fifteen percent (15%) contingency.

POTENTIAL COUNTY COST STATEMENT

****FIFTEEN PERCENT (15%) CONTINGENCY INCLUDED****

Considering the details of this ten-year financial plan, the total projected cost to the County is **\$33,546,983** between FY 2011 and FY 2020 in addition to the annual current NCC allocation of \$2.1 million. This takes into consideration all anticipated project costs and property tax administrative cost recovery over the 10-year period.

Figure 1 shows annual IPTMS funding requirements being drawn from the Property Tax System Designation which cover IPTMS cash flows through 2017. In this analysis, cash flows are exclusive of the fifteen percent (15%) contingency. In the event the contingency funds are needed, funding requests will be brought before the Board of Supervisors. This will potentially decrease the timeframe for which the Property Tax System Designation is available. If the full contingency is utilized, potentially new General Fund support could be needed as early as 2015.

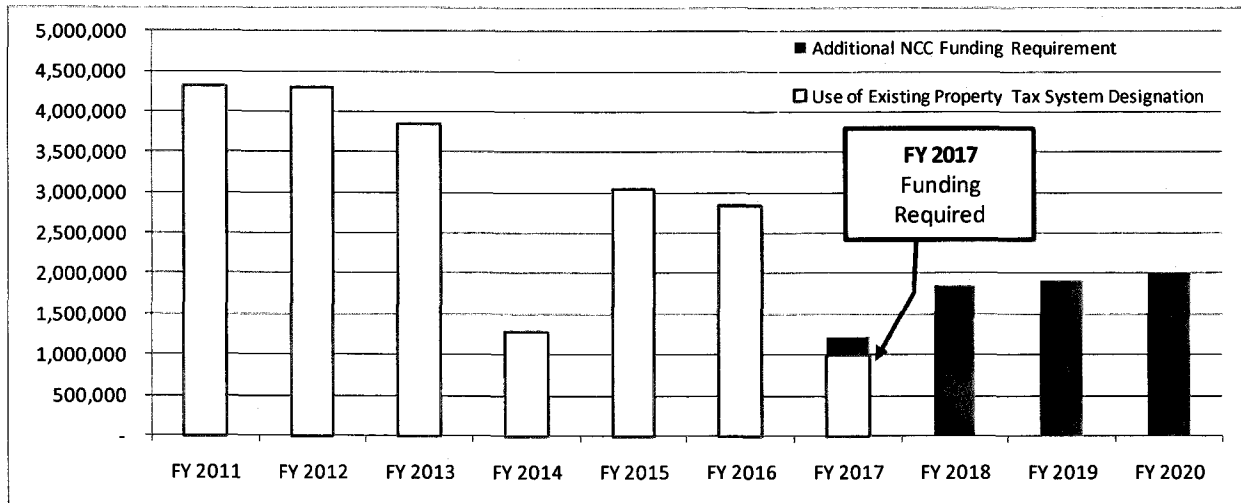


Figure 1: IPTMS Ten-Year Cash Flow Analysis with NO CONTINGENCY INCLUDED

SUBJECT: Implementation Strategy and Ten-Year Financial Plan for an Integrated Property Tax Management System and Computer Aided Mass Appraisal System

September 16, 2010

Page 4

After IPTMS implementation, the property tax departments achieve operational cost savings due to the efficiencies and effectiveness of the new IPTMS. These potential savings average \$2.9 million per year. These savings can be applied in future years to any unfunded cash flow requirements of IPTMS. Figure 2 summarizes these potential savings:

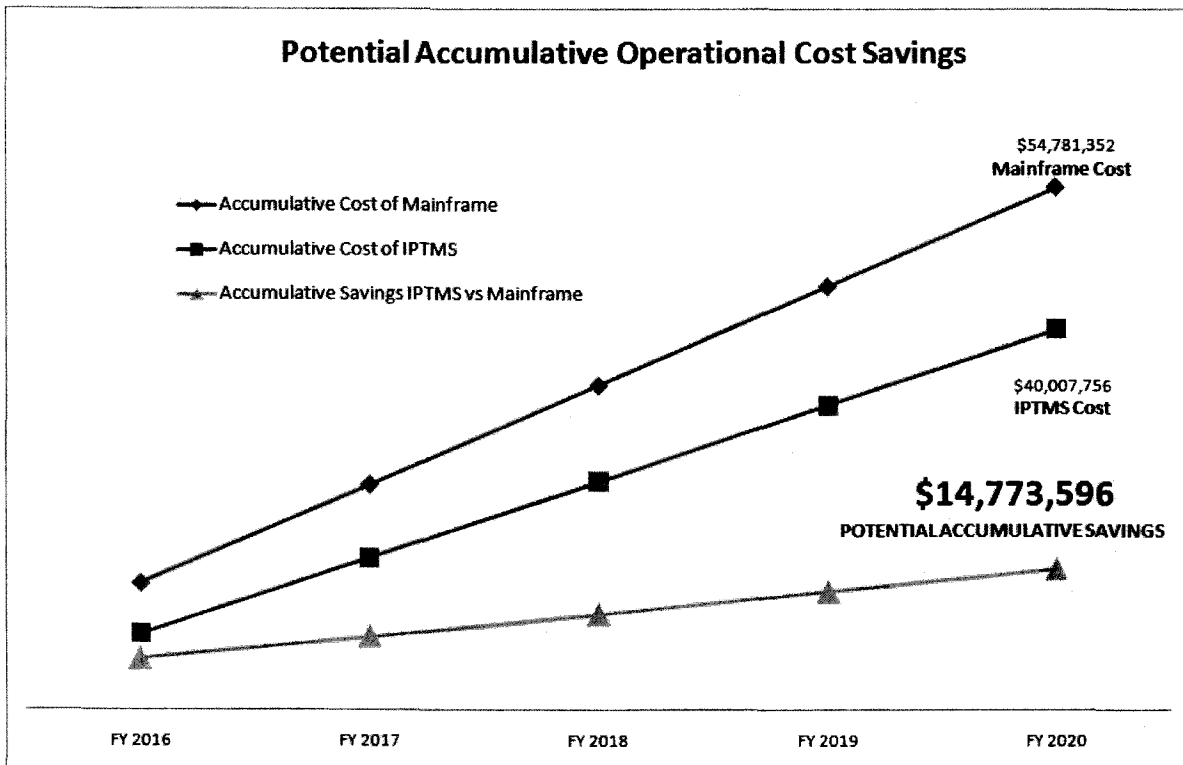


Figure 2: Potential Accumulative Operational Cost Savings

The benefits of a new IPTMS include but are not limited to:

- Highly improved efficiency and effectiveness in property tax administrative operations due to re-engineered business processes and workflows
- Increased potential property tax revenue due to improvements in assessment, appraisal, collections, apportionment, and related property tax operations
- Improved ability to implement adjustments to meet legislative mandates in property tax codes, laws, and regulations for property tax administration
- Improved ability to accommodate increased property tax departmental workloads with existing staff as property tax workload increases with projected future county growth
- Improved public service and responsiveness to the public
- Incremental implementation spans three years with two-year Final Acceptance
- Timely implementation based on state-of-the-art technologies
- Strong availability of qualified engineers and staff to provide maintenance and support

SUBJECT: Implementation Strategy and Ten-Year Financial Plan for an Integrated Property Tax Management System and Computer Aided Mass Appraisal System

September 16, 2010

Page 5

In consideration of its role as the primary source of County revenue, the current property tax system represents significant business risk to the County if operations continue in their current profile. Attachment B identifies these risks, which include:

- The technological obsolescence of the current IBM Z890 mainframe platform
- The application inflexibility and restrictions of mainframe software that was implemented over 40 years ago, before California's landmark property tax legislation in 1978 known as Proposition 13
- The availability of qualified engineers to maintain and support the current mainframe implementation
- The fragmented implementation of over 464 distinct business processes that evolved over four decades across the three property tax administration departments of Assessor-County Clerk-Recorder, Treasurer-Tax Collector, and Auditor-Controller
- Financial risk exists as addressed in Attachment B (Page B-3) due to pending legal actions associated with SB2557 (Property Tax Administrative Cost recovery)

The following spreadsheet summarizes the details of the IPTMS Ten-Year Financial Plan including a FIFTEEN PERCENT (15%) budget for unexpected risk as a contingency.

Long Range Ten-Year Financial Plan		
Organization Name: CREST		
One-Time Costs and On-Going Costs		
ONE-TIME COSTS	FY 10/11-19/20 10 Year	FY 10/11-14/15 5 Year
Professional Svs - Implementation Consultants	7,603,200	7,603,200
Financing (Manatron)	19,546,195	10,284,675
Report Development	1,173,000	1,173,000
Equipment, Computer	5,000,003	2,600,578
Total One Time Costs	33,322,398	21,661,453
ON-GOING COSTS	FY 10/11-19/20 10 Year	FY 10/11-14/15 5 Year
Maintenance - Software (Manatron)	8,839,535	2,341,839
Approp. 1 - Salaries & Benefits	26,248,137	11,969,643
Approp. 2 - Services and Supplies, less Manatron	17,045,804	9,606,744
Approp. 3 - Other Charges	13,103,299	6,970,574
Approp. 4 - Equipment	0	0
Approp. 7 - Intrafund	0	0
Total On-Going Costs	65,236,774	30,888,800
One-Time and On-Going Costs	98,559,172	52,550,253
Risk Contingency of Project Costs @ 15%	12,855,544	6,854,381
REVENUE & COST RECOVERY CLAIMS:		
Anticipated Prop. Tax Admin. (50.5% of PY Expense)	44,014,982	21,174,992
NCC Estimate	20,967,160	10,483,580
Other Revenue	30,048	30,048
Total On-Going Revenue	65,012,190	31,688,620
Additional Amount Needed to Balance	33,546,983	20,861,632

As demonstrated in Figure 3 below, by adding a fifteen percent (15%) contingency into the Ten-Year Cash Flow Analysis, additional funding from County NCC would be needed in FY 2015, assuming full contingency expenditures. Assuming the full contingency is utilized, the following chart reflects the revised time in which General Fund support will be needed to support the project.

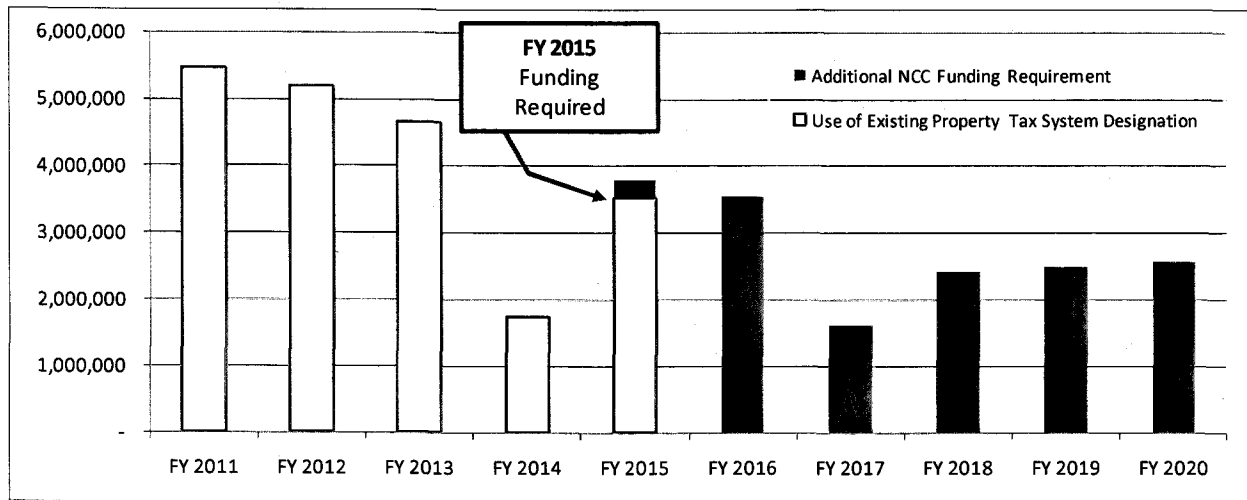


Figure 3: IPTMS Ten-Year Cash Flow Analysis with FIFTEEN PERCENT (15%) CONTINGENCY INCLUDED

RISK CATEGORIES WITH CONTINUATION OF MAINFRAME OPERATIONS

Categorically, risks associated with a continuation of the current mainframe-based property tax system include, but are not limited to, the following:

- Technological Obsolescence
 - Current IBM Z890 will no longer be supported by IBM
- Lost or Unrecoverable Tax Revenue
- Inflexibility
- Application Architecture
- Organizational Inefficiencies
 - Multiple ancillary systems with manual processes
 - Accuracy
 - Schedule coordination
 - Operational overlap
- Personnel / Workforce
- Maintenance
- Cost
- Complexity
- Quality Control / Assurance
- Training
- Legal Suits and Settlements

The County of Riverside's Enterprise Solutions for Property Taxation (CREST) project completed an analysis of these risks in June 2009. The details below summarize this analysis. The CREST project produced numerous specifications and requirements for a new Integrated Property Tax Management System (IPTMS) to replace the County's 40-year-old mainframe-based property tax system.

These specifications and requirements served as a basis for County Requests for Proposal (RFPs) PUARC-1104 (Integrated Property Tax Management System Implementation) and ASARC-025 (Computer Aided Mass Appraisal (CAMA) System Implementation). These RFPs solicited responses from the vendor community to seek solutions for the defined requirements.

RISKS OF THE CURRENT PROPERTY TAX SYSTEM

Organizational, technical, and financial risks of continuing with the current Property Tax System include the following.

Organizational Risks

- Departmental overlaps / redundancies
- Most of the staff currently supporting the property tax system is either at or approaching retirement age.
- Qualified technical staff availability
- As staff retires, it is increasingly difficult to find qualified staff to support the system. It takes many years to learn the property tax system processes within the system.

Technical Risks

- The County currently suffers from the technological deficit caused by many years of property tax system operational status quo without technological advancement (e.g. use of obsolete IMS database, dependency on expensive mainframe platform, use of aging COBOL program code, dependence on obsolete technologies abandoned by their original vendors).
- This technological deficit places the County in a position of having to undertake expensive and complex technology replacements to rectify the shortcomings and impending technological obsolescence of the property tax system.
- If the County does not maintain project directions to adjust property tax system technology incrementally over time with a cohesive project team after its deployment of a replacement technology, the County runs the risk of falling behind in technology once again over time thereby repeating the same error of improper life cycle maintenance of its property tax system.
- The speed of technological obsolescence increases dramatically as the rate of technological innovation increases. New technologies emerge at much faster rates than we have historically experienced. If our property tax system does not keep up to date with these technology innovations, the County risks falling behind again and perhaps more frequently as the rate of technology innovation increases.
- The work effort required for modifications to the existing mainframe system is very high.
- The mainframe database structure requires specialized knowledge for maintenance and new applications.
- The mainframe application language (COBOL) requires specific skills that are not readily available in the workforce.

Financial Risks

- The operational costs of current mainframe system exceed the operational costs of a replacement IPTMS.
- The declining economy makes it more difficult for the County to support a mainframe system that is more expensive to operate and maintain than a replacement IPTMS.
- In the declining economy, it is difficult to secure traditional funding sources for replacement technology due to other competitive budgetary demands.
- Legal actions are pending for a suit filed in Los Angeles County regarding California payments to Counties for Property Tax Administrative Cost recovery in consideration of SB2557. Current cost recovery levels are set at fifty and one-half percent (50.5%). The level of cost recovery is used in the income projections for IPTMS as cited in this Form 11. The cited legal action may reduce these cost recovery levels to thirty-five percent (35%). If this adjustment holds in court and if it applies to Riverside County, the ten-year cash flow projections for this Form 11 will change to those depicted in the following figures.

In consideration of a budget with a thirty-five percent (35%) recovery under SB2557 and no contingency, the County's Property Tax System Designation will be utilized to pay for project expenses until 2015. Other funding would be necessary to continue with project operations after that point.

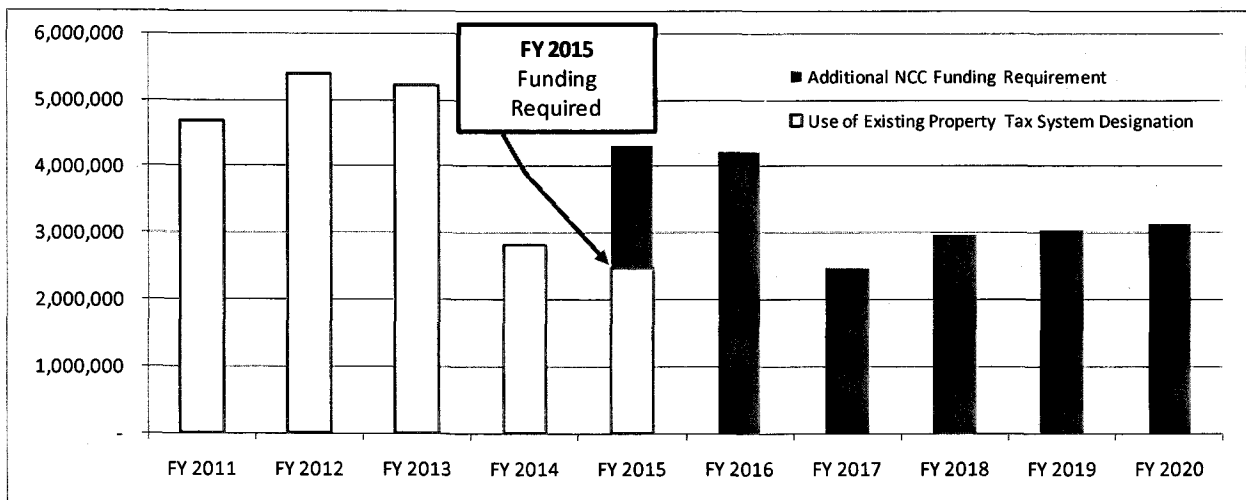


Figure 4: IPTMS Ten-Year Cash Flow Analysis with **POSSIBLE** SB2557 reduction and **NO CONTINGENCY**

In consideration of a budget with a thirty-five percent (35%) recovery under SB2557 and a fifteen percent (15%) contingency, the County's Property Tax System Designation will be utilized to pay for project expenses until 2014. Other funding would be necessary to continue with project operations after that point.

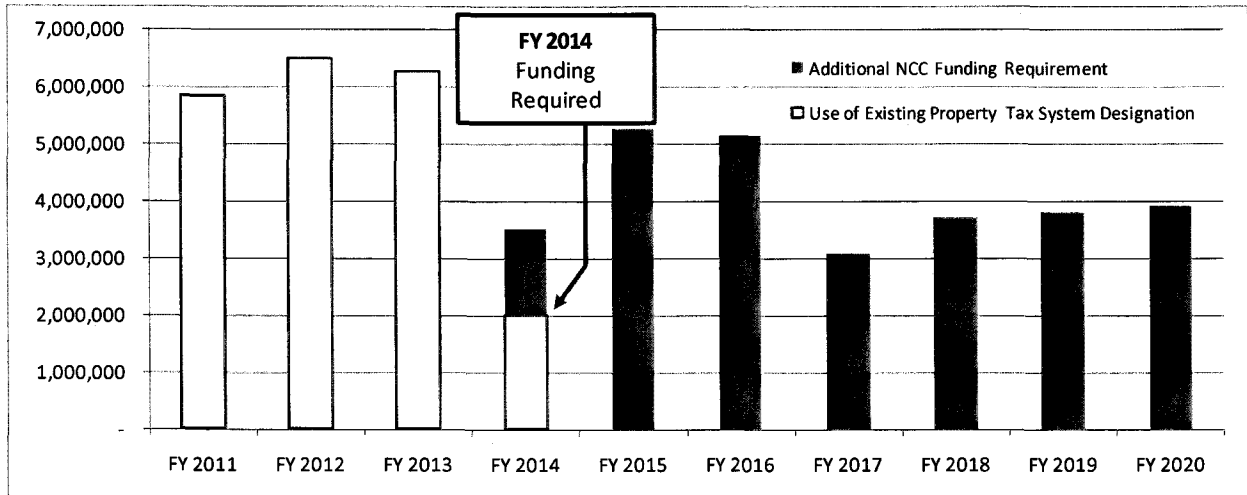


Figure 5: IPTMS Ten-Year Cash Flow Analysis with **POSSIBLE** SB2557 reduction and **FIFTEEN PERCENT (15%) CONTINGENCY**