

# STARS Integrated Tax System Modernization Project

State of Arizona – ADOR  
Change Request (CR-0994)

**Project Investment Justification (RV23006)**

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December 13, 2023

ITAC Meeting



Agency Vision

*Funding Arizona's priorities through excellence in innovation,  
exceptional customer service experience, and public servant-led  
continuous improvement.*

Agency Mission

*Serving Taxpayers*



# Team Introduction

## Roles Present at ITAC

- Rob Woods - Director, ADOR
- Neeraj Deshpande - Deputy Director, ADOR
- Ranbir Samra - Chief Information Officer, ADOR
- Thomas Rieckhoff - Deputy Chief Information Officer, ADOR
- Zac Sharp - Deputy Assistant Director, ADOR
- Joie Estrada - Budget Director, ADOR
- Lorilea Hudgins - STARS Senior Project Manager, ADOR
- Charles Brown - Deputy Chief Information Officer, ADOA
- Michael Hillebrand - Statewide Procurement Manager, State Procurement Office, ADOA
- Sohrab Rezvan - Vice President Government and STARS Project Manager, GCOM
- Rahul Puri - Chief Product Officer, GCOM

## STARS Project Overview

## Why We Are Here Today

- During the November 2023 ITAC meeting, the STARS Project Change Request was tabled.
- The committee sought additional information on:
  - Procurement Process
  - Contract Details
  - Payment Schedule
  - Discovery and Planning Phase Deliverables
- In response to the request for additional information, ADOA-ASET and ADOR have partnered to provide the committee with this information. Today's presentation will cover the following:
  - Project Overview - Procurement, Budget, and Vendor Background Details that were previously reviewed and approved by the committee in the June 2023 ITAC Meeting.
  - Change Request Overview - that will support the project through the end of the Discovery and Planning Phase.
- STARS Change Request for Approval

# Project Introduction

## Stated Operational/Business Issue

- 2019 Auditor General finding required ADOR to start planning for a new system (Report 19-106).
- There are currently a variety of systems and other tools being utilized to support operations, which often do not integrate with each other, creating inefficiencies in operations
- Most of the key systems are old technology and are becoming increasingly difficult and costly to maintain
- The lack of integration makes taxpayer service and compliance activities difficult
- The Department's current external facing portal does not offer services for all tax types

## Benefit to the State Agency and Constituents

- Single integrated tax system (ITS) of record that will house all business functions, for all tax types
- Improved Tax Administration
- Expanded Electronic Services
- Data-driven strategies to reduce the Arizona Tax Gap
- System will be configurable and adaptable to respond to changes in legislation

# Solicitation Statutory Requirements

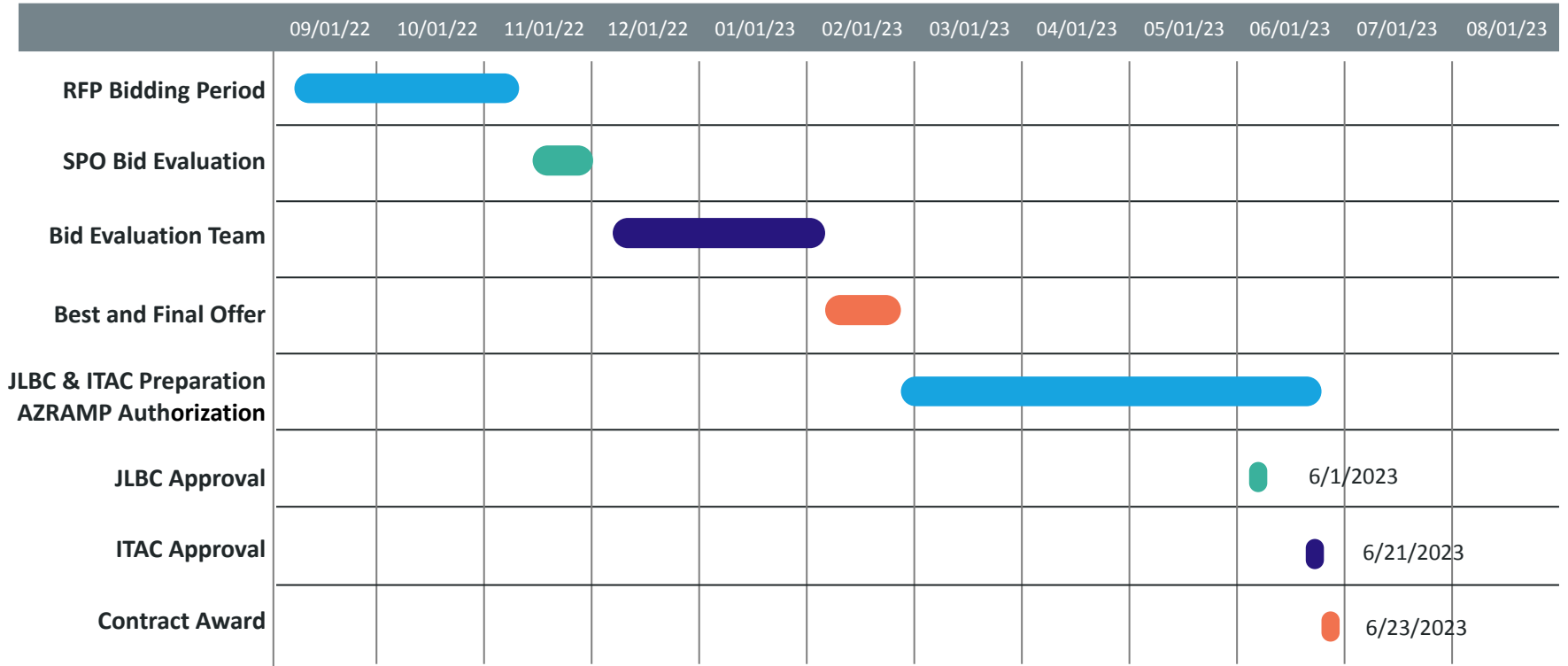
## SB 1729 & HB 2869 (2022)

- Laws 2022, Ch. 320 indicated that the department could not use any mandatory minimums in its solicitation for a new integrated tax system. This included:
  - Number of years spent developing information technology systems, number of years spent developing information technology systems in this state
  - Number of integrated tax systems implemented
  - Requires that ADOR review any proposal from an offeror that has developed, marketed and deployed, in whole or or in part, an integrated tax system of similar size and complexity
- Laws 2022, Ch. 313, § 107(D) requires that the new integrated tax system must:
  - Capture data fields from electronically-filed individual and corporate income tax returns and makes the data available for querying and reporting purposes
  - Capture information regarding the principal business activity of corporations
  - Includes an integrated individual income tax model within the project and provide the staff of ADOR, JLBC, and OSPB direct access to the model
  - Makes individual and corporate income tax data available for querying, modeling, and reporting within twenty-four months following the end of a tax year

## Due Diligence and Method of Procurement

- **RFP Preparation** - SPO officially led the procurement process for the new ITS. Facilitated by Grant Thornton, the RFP was completed in conjunction with ADOR and key stakeholders and officially released on September 1, 2022 with a due date of November 3, 2022.
- **RFP Bidding Period** - A total of four bids were received for consideration. The total evaluated price from the four bids ranged from \$78 Million to \$235 Million over the total contract term of 15 years.
- **Evaluation and Demonstration** - After a review of the bids by the ADOR Financial Team and SPO, it was determined that one of the four bids was within the project budget. Thus, the Evaluation Team was provided with the qualified bid and began their individual evaluation process. After a formal demonstration including hands-on lab sessions, the Evaluation Team completed the group evaluation which resulted in ADOR and SPO extending an invitation to the vendor to participate in the Best and Final Offer (BAFO) process.
- **Best and Final Offer (BAFO)** - During the BAFO process, ADOR and the vendor agreed to final terms which included revisions to the payment schedule, service level agreements, a one-time perpetual license fee for the entire length of the contract and the overall project phasing schedule. Upon agreement, ADOR selected the vendor for award on February 22, 2023.

# Procurement Timeline - High Level





# Proposed Solution

## Overview of Proposed Solution

The State has executed a 15-year, \$79.1 Million contract with GCOM Software LLC and its subcontractor Kyndryl (herein “Team GCOM”) to provide an enterprise platform for integrated tax administration.

- The RevHub Integrated Tax System (ITS) will be configured and developed upon RevHub’s existing modern application platform.
- The RevHub ITS will contain all tax types and business functions that are administered by ADOR.
- The RevHub ITS will contain an external facing taxpayer portal that will include all tax types & fees administered by ADOR.
- The RevHub ITS contains a single case management system that will be used by all authorized users to conduct business with taxpayers.
- Contains a native income tax policy simulator to be used by ADOR, OSPB and JLBC, meeting the statutory requirement.
- Designed with advanced analytics at the forefront with the goal of improving the customer experience and shrinking the tax gap.

# Proposed Solution

## Key Vendor Experience

GCOM acquired ASR Analytics in 2021

- **Comptroller of Maryland - GCOM (ASR), 2008 - Current**
  - Prevented over \$500 Million in Individual Income Tax Refund Fraud
  - BRE Re-Allocation Initiative
- **Arizona Department of Revenue - GCOM (ASR), 2016 - Current**
  - Prevented over \$200 Million in Individual Income Tax Refund Fraud
  - Audit Lead Generation - \$4.5M in audit assessments
  - Withholding Verification - \$4.6M in incorrect refunds prevented
  - RS / MPF Discovery - \$6.5M in revenue to date
- **California Franchise Tax Board (FTB) - GCOM (ASR), 2016 - Current**
  - Subcontractor for FTB Modernization Project
  - Provides Analytic Models for Compliance Activities
  - Publication 1075 Compliance Required



# Proposed Solution

## Key Vendor Experience

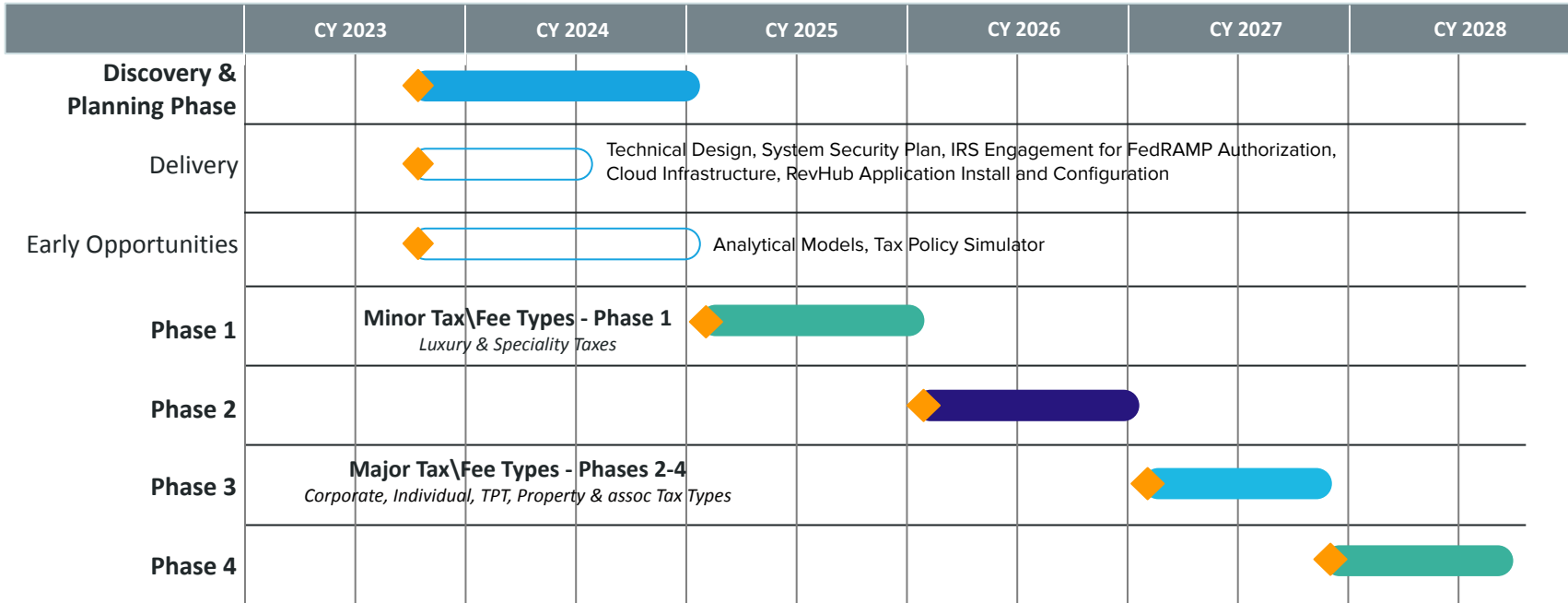
- **Missouri Department of Revenue - GCOM (ASR), 2015 - Current**
  - Prevented over \$113 Million in Individual Income Tax Refund Fraud
  - Audit Lead Generation - \$101 M in audit assessments
- **NYC Department of Health and Mental Hygiene - GCOM, 2018**
  - Designed, developed, and deployed eVital System
  - eVital reports life events and issues vital records for NYC
- **State of Arizona Department of Transportation Motor Vehicle Division (MVD) - Kyndryl, 1996**
  - Provides managed services to ADOT MVD under the Authorized Third-Party Electronic Services Partner contract
  - Processes FTI data with its Fuel Tax Reporting System



## STARS Governance Structure

- **ADOR Governance**
  - Project Steering Committee
  - Agency Business Team
  - PMO Office
- **Inter Agency Governance**
  - ADOA Arizona Strategic Enterprise Technology (ASET) Oversight
  - Information Technology Authorization Committee (ITAC) Oversight
  - Auditor General Office Oversight
  - Tax System Modernization Committee
- **External Governance**
  - Gartner IV&V Engagement

# Project Timeline - High Level



STARS Discovery & Planning Phase BAFO - Estimated high level timeline, to be refined during the Discovery & Planning Phase.

## Discovery & Planning Phase - Value Proposition

- **Discovery & Planning Phase Objectives** - The STARS project will implement GCOM's RevHub software, an enterprise platform for tax administration and analytics. The project will begin with the Discovery and Planning Phase, which is scheduled not to exceed 18 months, 8/8/2023 - 2/7/2025. The STARS Project Team will use this time to:
  - **Project Planning:**
    - Project Management Plan - including Implementation Plan and Schedule
    - Resource and Cost Management Plan
    - Discovery and Planning - Develop User Stories and Requirements Matrix
  - **Infrastructure Design and Implementation:**
    - Stand up RevHub AWS cloud infrastructure - All environments
    - Install RevHub application for development and testing purposes
    - System Security Plan - Secure FedRAMP authorization
    - Implementation Pre-Planning Activities: Support early opportunities
  - **Configuration and Development:**
    - Perform discovery and initial configuration planning
    - Core Functionality across Tax Types - External-facing Portal, License & Registration, Payment Processing, Returns Processing, Taxpayer Accounting, Compliance Modules, Revenue Accounting, Revenue Distribution to state agencies, towns, cities and counties, and AZ360

## Discovery & Planning Phase - Value Propositions Being Considered

- **Early Opportunities Being Considered - Analytical Models**
  - The overall goal is to accelerate the collection of current outstanding accounts receivables by utilizing GCOM's existing analytical models that are currently utilized in other states.
  - Accelerating collections will have the effect of increasing enforcement revenue and lowering State's overall accounts receivable figure.
- **Early Opportunities Being Considered - Early Launch of RevHub's Tax Policy Simulator**
  - The Tax Policy Simulator is a legislative requirement of the STARS project. Providing it early is a win for ADOR and a win for JLBC and OSPB.
  - The Simulator will utilize more current data than the existing Income Tax Model. This has the potential to improve resulting output.
  - Implementation of the Tax Policy Simulator will reduce the ADOR workload required to stand up and maintain the existing Income Tax Model.

# Project Timeline

## Discovery & Planning Phase Timeline, Deliverables and **Payment Milestones \$**

- Quarterly Invoice payment dependent upon Milestone delivery.

Q1

- **Milestone 1:**
  - Project Kickoff
  - Project Plan
  - Issues Management Plan
  - Risk Management Plan
  - Project Strategy Document

Q2

- **Milestone 2:**
  - Project Schedule
  - Project Resource Plan
  - Org Chart
  - Scope Change Mgmt Plan
  - System Security Plan

Q3

- **Milestone 3:**
  - Project Mgmt Procedures
  - Quality Control Plan
  - Cost Management Plan
  - Requirements Traceability Matrix

Q4

- **Milestone 4:**
  - Project Team Training
  - Training Plan
  - Training Assessment
  - Training Curriculum
  - User Support Strategy

Q5

- **Milestone 5:**
  - Performance Testing and Tuning Plan
  - Security, Vulnerability and Penetration Test Plan

Q6

- **Milestone 6:**
  - Installation Guide
  - Security Administrators Users Guide
- **Milestone 7:**
  - Implementation Plan



# Project Budget - After BAFO Adjustments - Implementation Period

	FY23	FY24	FY25	FY26	FY27	FY28	Total
<b>APPROPRIATION</b>	<b>15,819,800</b>	<b>19,369,400</b>	<b>19,456,800</b>	<b>19,256,800</b>	<b>18,456,800</b>	<b>12,468,000</b>	<b>104,827,600</b>
Software Licensing (One time cost, Perpetual license)		8,066,100					<b>8,066,100</b>
Implementation, Support and Hosting	0	10,553,200	10,221,600	10,183,600	8,250,200	7,985,000	<b>47,193,600</b>
<b>ADOR COST</b>							
Personal Service & ERE	401,100	2,116,400	4,020,000	6,044,400	6,044,400	4,029,600	<b>22,655,900</b>
Professional & Outside Services	29,000	1,050,800	3,290,900	3,734,000	3,734,100	2,489,400	<b>14,328,200</b>
Mis Support	73,000	48,700	61,500	61,500	41,000	41,000	<b>326,700</b>
<b>TOTAL ADOR COST</b>	<b>503,100</b>	<b>3,215,900</b>	<b>7,372,400</b>	<b>9,839,900</b>	<b>9,819,500</b>	<b>6,560,000</b>	<b>37,310,800</b>
IV&V	0	358,000	454,700	463,800	473,100	617,600	<b>2,367,200</b>
Project Contingency							<b>9,493,800</b>
<b>TOTAL PROJECT COST</b>	<b>\$503,100</b>	<b>\$22,193,200</b>	<b>\$18,048,700</b>	<b>\$20,487,300</b>	<b>\$18,542,800</b>	<b>\$15,162,600</b>	<b>\$104,431,500</b>

Fiscal years are approved to utilize funding for up to 2 years beyond the appropriation.

# Spending Projections - After BAFO Adjustments

	FY23 Appropriation		FY24 Appropriation (Partial Year)		Total
<b>APPROPRIATION</b>	<b>15,819,800</b>		<b>19,369,400</b>		<b>\$35,189,200</b>
<b>FISCAL YEAR</b>	<b>FY23</b>	<b>FY24</b>	<b>FY24</b>	<b>FY25 (Partial Year)</b>	
Software Licensing (One time cost, Perpetual license)		8,066,100			<b>8,066,100</b>
Implementation		3,600,000	4,533,200	4,399,900	<b>12,533,100</b>
Hosting and Support		2,420,000		1,555,000	<b>3,975,000</b>
<b>ADOR COST</b>					
Personal Service & ERE	401,100	415,800	1,700,600	2,637,700	<b>\$5,155,200</b>
Professional & Outside Services	29,000	558,400	492,400	938,600	<b>\$2,018,400</b>
Mis Support	73,000	10,400	38,300	2,700	<b>\$124,400</b>
<b>TOTAL ADOR COST</b>	<b>503,100</b>	<b>984,600</b>	<b>2,231,300</b>	<b>3,579,000</b>	<b>\$7,298,000</b>
IV&V	0	246,000	112,000	246,000	<b>\$604,000</b>
<b>TOTAL PROJECT COST</b>	<b>\$503,100</b>	<b>\$15,316,700</b>	<b>\$6,876,500</b>	<b>\$9,779,900</b>	<b>\$32,476,200</b>
<b>REMAINING APPROPRIATION</b>	<b>\$0</b>		<b>\$2,713,000</b>		<b>\$2,713,000</b>

Fiscal years are approved to utilize funding for up to 2 years beyond the appropriation.

# Project Budget

## After BAFO Adjustments - Implementation Period

Category	Original Budget Submission	After BAFO Adjustments	Over / (Under)
ITS Vendor Costs	61,650,000	55,259,700	(6,390,300)
ADOR Costs	40,177,800	37,310,800	(2,867,000)
IV&V	3,000,000	2,367,200	(632,800)
Project Contingency*	0	9,493,800	9,493,800
<b>TOTAL PROJECT COST</b>	<b>\$104,827,800</b>	<b>\$104,431,500</b>	<b>(396,300)</b>

\*Project contingency amount to cover unforeseen project costs

# STARS Project Change Request

Discovery & Planning Phase

## Change Request Overview

Discovery & Planning Phase - 2/8/2024 - 2/7/2025

# Project Change Request Overview

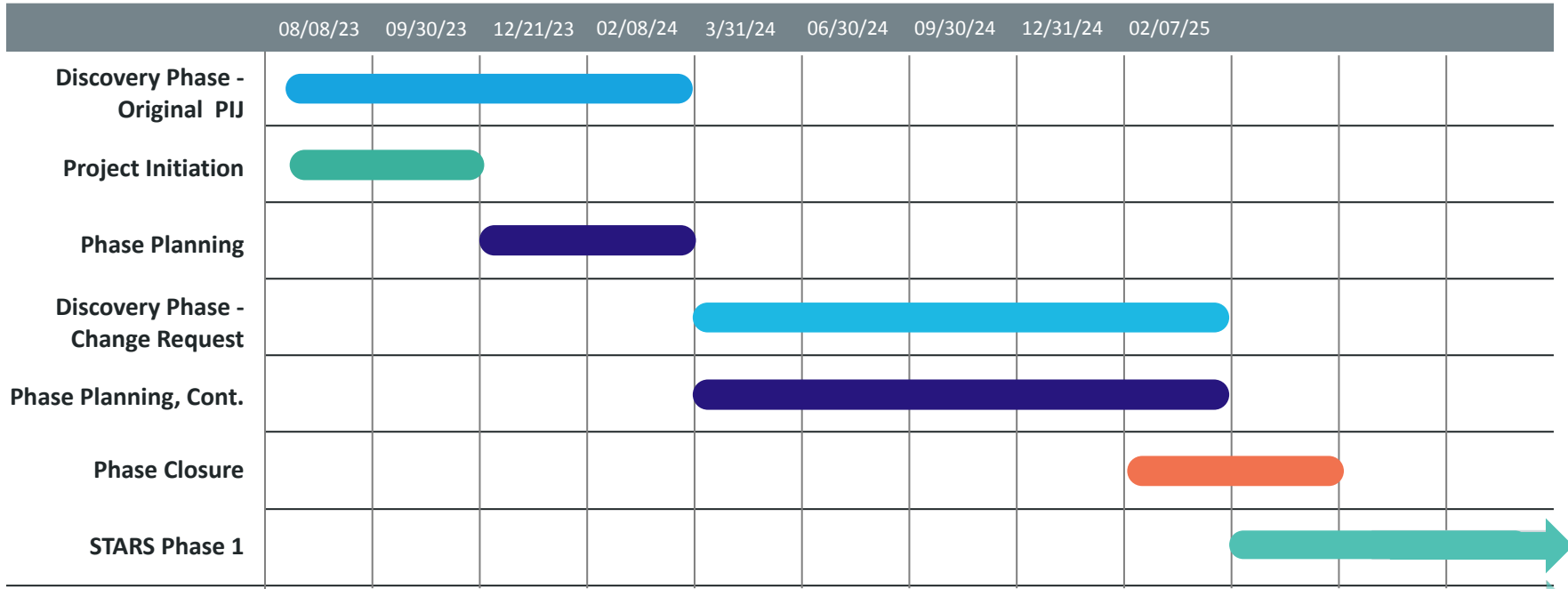
## What in the PIJ is changing?:

- ✓ Timeline: From 2/8/2024 to 2/7/2025
- ✓ Scope: Includes Milestones for the remainder of the 18 month Discovery Phase
- ✓ FY24 Appropriation Request: \$16,656,400

## What initiated this change?:

- *The remaining FY23 Appropriation planned expenditure is anticipated to be expended by February 2024. The purpose of this planned change request is to request the FY24 Appropriation which was approved as part of the FY24 Budget.*
- *The existing STARS Project Milestones were originally developed prior to the completion of the contract award. These Project Milestones have been updated to align with approved GCOMs Project Strategy and Schedule documents.*

# Discovery & Planning Phase Timeline - High Level



# Revised Project Timeline

Identify any change in timeline and possible benefits:

Milestone Name - <a href="#">Original Milestones</a>	Milestone Health	Status	Original Start Date	Original End Date	Revised Start Date	Revised End Date
Project Initiation - Vendor Engagement and Onboarding		Complete	8/8/2023	11/8/2023		
Project Initiation - Establish ADOR Project Governance		In Progress	8/8/2023	11/8/2023		
Phase Initiation - Update Communications and Stakeholder Plans according to Discovery & Planning Phase Milestones		Complete	8/8/2023	11/8/2023		
Create Organizational Change Management Plan		In Progress	8/8/2023	11/8/2023	10/16/2023	2/8/2024
Human Resources - Onboard STARS Phase 1 Project Staff		In Progress	8/8/2023	11/8/2023	10/16/2023	2/8/2024
Budget & Finance - Statutory Requirement - Assessment Billing (2023)		In Progress	8/8/2023	2/8/2024		
Budget & Finance - Payment Milestone - Vendor to Invoice according to payment schedule		In Progress	8/8/2023	11/8/2023	8/8/2023	2/7/2025

# Revised Project Timeline

Identify any change in timeline and possible benefits:

Milestone Name - <a href="#">Original Milestones, cont.</a>	Milestone Health	Status	Original Start Date	Original End Date	Revised Start Date	Revised End Date
Project Execution - Deploy ITS base cloud and application infrastructure per Pub 1075 regulations		In Progress	8/8/2023	11/8/2023	8/8/2023	2/8/2024
Project Execution - Discovery & Planning Phase: ADOR & GCOM to jointly develop the implementation plan for the entirety of the project		In Progress	10/9/2023	2/8/2024	10/9/2023	2/7/2025
Project Execution - Discovery & Planning Phase: ADOR and selected Vendor to jointly develop the delivery schedule associated with the deliverables included in the Contract		In Progress	10/9/2023	2/8/2024	10/9/2023	2/7/2025
Project Execution - Data Management Workstream		In Progress	8/8/2023	2/8/2024	8/8/2023	2/7/2025
Project Monitoring - Statutory Requirement - IV&V Vendor Onboarding and Project Monitoring		In Progress	8/8/2023	2/8/2024		
Project Monitoring - Statutory Requirement - Tax System Modernization Project Advisory Committee Engagement		In Progress	8/8/2023	2/8/2024		
Budget & Finance - Final Payment Milestone - Quarterly Support, Hosting and Implementation Services Payment		Not Started	2/8/2024	2/8/2024	02/28/2025	02/28/2025



# Revised Project Timeline

Identify any change in timeline and possible benefits:

Milestone Name - <a href="#">New Milestones</a>	Milestone Health	Status	Start Date	End Date
Budget & Finance - Statutory Requirement - Assessment Billing (2024)		Not Started	9/1/2024	2/7/2025
Project Execution - Discovery & Planning Phase: Participate in Discovery and Planning activities identified in the GCOM Project Schedule.		Not Started	2/9/2024	2/7/2025
Project Execution - Discovery & Planning Phase: GCOM to deliver agreed upon deliverables according to the Project Strategy document		Not Started	2/9/2024	2/7/2025
Project Execution - Discovery & Planning Phase: Vendor to deliver the System Security Plan outlining the compliance plan and status for AZRamp, Pub 1075 and FedRAMP.		Not Started	2/9/2024	2/7/2025
Project Monitoring - Statutory Requirement - IV&V Project Monitoring		Not Started	2/9/2024	2/7/2025
Project Monitoring - Statutory Requirement - Tax System Modernization Project Advisory Committee Activities		Not Started	2/9/2024	2/7/2025

# Project Request for Approval

## Key Accomplishments To Date:

- *Project Initiation Phase: Completed Kickoff, Onboarding, Governance Structure, Charter and Project Strategy and Schedule.*
- *Milestone Alignment: The STARS Project Milestones have been updated to align with approved GCOMs Project Strategy and Schedule documents.*
- *Discovery and Planning Sessions: Held initial Discovery and Planning Sessions.*
- *Stood up base RevHub AWS cloud infrastructure.*
- *Installed RevHub application for development and testing purposes.*

## Request for Approval:

- ✓ **Timeline:** From 2/8/2024 to 2/7/2025
- ✓ **Scope:** Milestones for the remainder of the 18 month Discovery & Planning Phase
- ✓ **FY24 Appropriation Request:** \$16,656,400

# Project Costs - Funding Request

FY 2024 Appropriation Funding - February 2024 - February 2025

- This request is to ask for a portion of the FY24 Appropriation that will cover the costs for the Discovery and Planning Phase.

Project Costs by Category	FY24 Appropriation Request
Personal Services/ERE	4,338,300
Implementation Services	8,933,100
Professional & Outside Services (Contractors)	1,431,000
IV&V	358,000
Software, Support & Hosting	1,431,000
Other Operational Expenditures + Hardware	41,000
<b>TOTAL REQUEST</b>	<b>\$16,656,400</b>

# Q & A Session

## Recommended Conditions - 1 of 2

### ADOA-ASET Conditions

1. Should development costs exceed the approved estimates by 10% or more, or should there be significant changes to the proposed technology scope of work or implementation schedule, the Agency must amend the PIJ to reflect the changes and submit it to ADOA-ASET, and ITAC if required, for review and approval prior to further expenditure of funds.
2. Monthly reporting on the project status is due to ADOA-ASET no later than the 15th of the month following the start of the project. Failure to comply with timely project status reporting will affect the overall project health.
3. Prior to system production environment launch or go live, the Agency must work with the Department of Administration (ADOA) and Department of Homeland Security (AZDOHS) Cyber Command, to assure the System Security Plan document is completed and approved by Cyber Command in order to ensure that the selected solution will provide an appropriate level of protection for State data.

## Recommended Conditions - 2 of 2

### ADOA-ASET Conditions Cont.

4. The Agency may proceed with the proposed solution with the provisional AZRAMP authorization, however, the Agency must work with the Department of Administration (ADOA) and Department of Homeland Security (AZDOHS) Cyber Command to provide a report to Information Technology Authorization Committee (ITAC) on progress toward achieving full AZRAMP authorization by August 30, 2023. Additional reporting may be required by ITAC or ADOA-ASET.
  
5. The Agency must submit a report upon the conclusion of the discovery milestone to the Information Technology Authorization Committee (ITAC) that outlines the timeline for system validation of Internal Revenue Service (IRS) requirements and the attainment of FedRAMP authorization. IRC §6103 limits the use of FTI to certain purposes based on the authority under which it was received. IRS requires FedRAMP authorization followed by a 45 day notification prior to implementing certain operations including the ingesting any FTI into the solution, or technology capabilities that use FTI.
  
6. ADOA-ASET in coordination with ADOR will provide quarterly reports of the overall status of the project to the Joint Legislative Budget Committee (JLBC). The report will address the vendor's progress in compliance with all required cyber security controls for the system.