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April 14, 2016

The Honorable Mark Leno, Chairman
The Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

Dear Senator Leno:

In accordance with the Supplemental Report of the 2014-15 Budget Package, Item 0890-001-0228, attached is my office's quarterly report on the progress of the California Business Connect project. If you have any questions about this report, please feel free to contact me at (916) 653-7244, or have your staff contact my Chief of the Business Programs Division, Betsy Bogart, at (916) 651-6973.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Padilla", written over a horizontal line.

Alex Padilla
Secretary of State

Attachment

cc: Mr. Daniel Alvarez, Secretary of the Senate
Mr. E. Dotson Wilson, Chief Clerk of the Assembly
Ms. Diane Boyer-Vine, Legislative Counsel
Mr. Mac Taylor, Legislative Analyst

Secretary of State's Office
Business Programs Division
BL 14-23 Supplemental Language Report
Item 0890-001-0228
April 14, 2016

Introduction

The "Supplemental Report of the 2014-15 Budget" of the Legislative Analyst's Office requires the Secretary of State to provide a quarterly report on the progress of the California Business Connect project on or before October 15, 2014, and on or before every January 15, April 15, July 15, and October 15, thereafter, to the chairs of the Joint Legislative Budget Committee and the fiscal committees of the Legislature. The Secretary of State (SOS) also is required to certify whether the SOS: (a) anticipates making or has made any changes to the project's scope, schedule, or budget; and (b) believes there are any problems that would preclude meeting the approved project schedule and budget. This reporting requirement will end upon the completion or termination of the California Business Connect project.

Background

The California Business Connect project is intended to change how people interact with the Business Programs Division of the Secretary of State's office. The California Business Connect project solution affects nearly every Business Programs Division process, including most of the business filings for corporations, limited liability companies, limited partnerships, statements of information, and other statutorily-required filings which currently are processed and filed in a paper driven production environment (exceptions include Uniform Commercial Code filings and corporate statements of information, which have online services). California Business Connect is proposed as an integrated automated solution that has configurable components requiring minimal customization, while still being robust, secure, and easy to operate and maintain. In the new California Business Connect environment, the processes will be almost entirely paperless, with many of the filings and requests for information completely automated through online services.

April 2016 Report

The Secretary of State received approval of Special Project Report #2 from the Department of Technology on April 1, 2016. Within Special Project Report #2, the Secretary of State proposed additional time and resources to complete additional business process reengineering, business process analysis and requirements refinement, including adding a narrative context for the business requirements to help bridge the gap between business needs and enabling the computer programing/configuration of the new solution. Lessons learned from the execution of previous project activities highlighted the downstream benefit of making these refinements prior to solution procurement. Performing this additional work in advance of procurement will improve the quality of

the bids by clarifying the business needs for potential vendors. After the business process analysis and requirements refinement work are complete, the Secretary of State will conduct another business-based procurement solicitation for California Business Connect.

The Special Project Report #2 includes changes in scope, schedule and budget:

- The project completion date moves from June 30, 2017 to January 31, 2022.
- The total budget increases from \$26,925,079 to \$53,350,155. See attached cost variance table for a breakdown of costs from Special Project Report #1 to Special Project Report #2.
- The scope of the project reduces from over 500 filing types to approximately 100 filing types, to focus on the higher volume filings, thus maximizing project benefit while reducing overall risk and project complexity.
- The implementation of the functionality will be in phases rather than “big bang” to maximize business value, minimize project risk and decommission legacy systems.

The revised scope focusing on the higher volume filings includes the following lines of business:

- Business Entities:
 - Limited Liability Companies
 - Limited Partnerships
 - Corporations (including Foreign Name Registrations, Foreign Associations, and Unincorporated Associations)
- Uniform Commercial Code (UCC)
 - Financing Statements
 - Federal and State Tax Lien Notices
 - Other lien notices including Judgment Liens and Attachment Liens
- Trademarks and Service Marks

Timeline

Major Milestones	Special Project Report Estimated Completion Date	Actual Completion Date
Receive Special Project Report Approval	2/1/2016	4/1/2016
Release of Request For Proposal	8/01/2017	
Contract Awarded	9/01/2018	
Vendor On-board	11/01/2018	
Phase 1: LLC & LP Deployment	8/31/2019	
Phase 2: Corporations Deployment	2/29/2020	
Phase 3: Uniform Commercial Code Deployment	8/31/2020	
Phase 4: Trademarks Deployment	1/31/2021	

First Year Contract Maintenance and Operations	1/31/2022	
Post Implementation Evaluation Report	1/31/2022	

SPR Cost Variance Table				
Project Costs	Costs per SPR1 Approved December 2013	Costs per SPR2 Approved April 2016	Variance	Reason for Variance from SPR1 to SPR2
One-Time IT Project Costs				
Staff (Salaries, Benefits, Training & OE&E)	\$10,325,673	\$21,264,036	\$10,938,363	Staff costs reflect a larger team for a longer duration than what was budgeted in SPR1.
Hardware, Software and Customization	\$8,225,395	\$15,836,046	\$7,610,651	New Hardware, Software and Customization cost estimate is based on the results of a Request for Information.
Other Contract Services	\$3,300,495	\$8,833,443	\$5,532,948	Contract services costs are higher due to the additional duration of the project, and additional contracted services such as Business Process Reengineering and Organizational Change Management.
Other including Agency Facilities and Procurement Fees	\$294,174	\$1,136,649	\$842,475	Additional costs in SPR2 related to DGS and Department of Technology contract procurement charges.
Total One-Time Costs	\$22,145,737	\$47,070,174	\$24,924,437	
Continuing Costs				
Staff (Salaries, Benefits & OE&E)	\$3,247,022	\$5,638,731	\$2,391,709	In SPR1 the implementation date was the end of the fiscal year and budgeted only 1 year in on-going costs. In SPR2, implementation date is at the end of the calendar year and budgets 1.5 years of on-going staff costs.
Hardware, Software and Customization	\$732,320	\$641,250	(\$91,070)	Based on an analysis of industry costs, it was determined that Hardware and Software maintenance costs were over budgeted in SPR1.
Contract Services	\$800,000	\$0	(\$800,000)	Disaster recovery has been removed from the scope of the project. This effort will be handled at an enterprise level.
Total Continuing Costs	\$4,779,342	\$6,279,981	\$1,500,639	
Total Project Costs	\$26,925,079	\$53,350,155	\$26,425,076	