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Tata Pays \$26 Million to Settle Lawsuit over Failed Software

Global software vendor Tata Consultancy Services and its U.S. affiliate have paid the County \$26 million to settle litigation over a failed replacement to the County's automated property tax system that initially was to have been completed in 2010 but was never delivered.

Following mediation held late last month, the Board of Supervisors approved the settlement proposal of United States Magistrate Judge Jay C. Gandhi. Tata also approved the mediator's proposal, which resulted in a binding agreement. On Friday, August 19, 2016, the County received notification that the \$26 million settlement payment from Tata had been wired to the County Treasurer-Tax Collector.

In exchange for this payment, the County will now dismiss its lawsuit against Tata, which in turn will dismiss its cross complaint.

In its legal complaint, the County alleged that Tata fraudulently induced the County into selecting Tata to develop the property tax system and then presented false claims in the form of invoices and reports, provided false and unachievable milestone completion dates, and intentionally understaffed the project to maximize profit. In the litigation, the County alleged that Tata took what was originally promised to be a two-year, \$6.4 million contract and tried to stretch it into a six-year, \$17 million project. The County intended to ask the jury to award punitive damages for fraud against Tata.

The amount of the settlement is more than four times the stated \$6.4 million cost of the contract, and more than five times the amount the County actually paid to Tata.

"Tata substantially misrepresented the capabilities of their system and then made substantial efforts after the fact to conceal their misrepresentations," said [Supervisor Shawn Nelson](#), Fourth District, who attended the mediation session with Magistrate Judge Gandhi and the County's outside counsel Todd Theodora of Theodora Oringher PC.

"We knew their system didn't work because they lied about their capabilities," Nelson said. "They flat-out lied to us and I caught them. Thank heavens that my colleagues agreed to fight to the last minute for justice and were willing to take this to trial."

Had the litigation not settled, trial would have begun on August 2, 2016.

"The County takes very seriously its responsibility to hold vendors accountable and assure that they deliver what they've promised to deliver," Board of Supervisors [Chairwoman Lisa Bartlett](#), Fifth District, said.

“We were paying for something we did not receive and the taxpayers deserved to be compensated,” said [Vice Chair Michelle Steel](#), Second District.

[Supervisor Andrew Do](#), First District, said efforts now can shift to properly replacing the County’s aging mainframe computer system, known as ATS (for Automated Tax System), which was developed in the 1980s and uses software that can no longer be supported. “We cannot make up for lost time but the settlement will cover the costs of providing a more responsive property tax system for our residents,” he said.

“The key here was that the Board held firm and was adamant we go to trial, and Tata knew that,” said [Supervisor Todd Spitzer](#), Third District. “The Tata settlement represents the most money recovered for the County since the 1994 bankruptcy. Brokerage giant Merrill Lynch ultimately paid \$400 million in 1998 to settle claims that it had pushed the County into bankruptcy with reckless investment advice. People need to expect that quality services will be demanded when vendors enter a contract with the County,” he said.

The County sued Tata in 2013, claiming the software giant, based in Mumbai, India, violated the California False Claims Act and engaged in fraud, intentional misrepresentation, negligent misrepresentation and fraudulent concealment, as well as breach of contract. The software program was to interface on behalf of the Assessor, Treasurer-Tax Collector and Auditor-Controller departments to generate annual tax bills for secured and unsecured property, including land, buildings, boats, aircraft and business equipment.

Tata filed a cross-complaint and also asked the court to dismiss the County’s fraud claims. In a court order filed April 1, 2016, the United States District Court denied Tata’s attempt to persuade the Court to dismiss the County’s fraud claims, noting that Tata’s internal emails, obtained during discovery, revealed Tata employees “appearing to strategize as to how to mislead the county about the status of the property tax management system.”

The initial contract with Tata America International Corporation, operating as TCS America, was approved by the County in July 2008 for \$7.97 million—reduced to \$6.4 million a year later—with a promised delivery date of July 2010. In June 2010, supervisors extended the delivery date for a year and approved another \$1.2 million, bringing the contract total to \$7.6 million.

In June 2011, after Tata officials attended a Board of Supervisors meeting and promised to fix several ongoing issues, the Board reluctantly approved another \$2.7 million to bring the total cost of the contract to \$10.3 million, with a new delivery date of July 2012.

In January 2013, when Tata requested a third extension, claiming that it needed an additional two years to finish the system at an additional cost of \$7 million, the County terminated the contract and the Board authorized the initiation of litigation against Tata. Before terminating its contract with Tata, the County had paid a total of \$4,925,541 to the software vendor. To prepare for trial, the County spent approximately \$10 million on legal fees, expert fees and related court costs.

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