The Franchise Tax Board (FTB) requests $1.4 million General Fund and $57,000 special funds in 2022-23, $1.8 million General Fund and $76,000 special funds in 2023-24, $2.4 million General Fund and $100,000 special funds in 2024-25, and ongoing to establish a fully-funded, permanent baseline budget for FTB’s implementation of the state master agreement Microsoft 365 Government Community Cloud (M365 GCC) and enterprise agreements for Microsoft server, development tools, and support (the combined package is hereafter referred to as M365 GCC+). The tools provided through these multi-year enterprise agreements deliver FTB’s foundational productivity software toolset, play a key role in FTB’s security technology, and are relied upon by FTB’s systems and staff to carry out FTB’s mission.
A. Budget Request Summary

The Franchise Tax Board (FTB) requests $1.4 million General Fund and $57,000 special funds in 2022-23, $1.8 million General Fund and $76,000 special funds in 2023-24, $2.4 million General Fund and $100,000 special funds in 2024-25, and ongoing to establish a fully-funded, permanent baseline budget for FTB’s implementation of the state master agreement Microsoft 365 Government Community Cloud (M365 GCC) and enterprise agreements for Microsoft server, development tools, and support (the combined package is hereafter referred to as M365 GCC+). The tools provided through these multi-year enterprise agreements deliver FTB’s foundational productivity software toolset, play a key role in FTB’s security technology, and are relied upon by FTB’s systems and staff to carry out FTB’s mission.

B. Background/History

FTB’s mission is to help taxpayers file timely and accurate tax returns, and pay the correct amount to fund services important to Californians. FTB’s primary function is to administer the California Revenue and Taxation Code (R&TFC), which includes collecting the proper amount of tax revenue and operating other entrusted government programs. FTB strives to serve the public by continually improving the quality of products and services and performing in a manner warranting the highest degree of public confidence with integrity, efficiency and fairness.

Annually, FTB processes more than 22.5 million tax returns, responds to more than three million telephone calls, handles over eight million internet contacts and collects about $92.3 billion in revenue, representing approximately 74 percent of the State’s General Fund revenue. FTB’s network-dependent programs contribute to or generate the majority of California’s General Fund revenue.

FTB’s Reliance on Productivity Software. Like many government entities, FTB relies on a range of specialized technology productivity, communication, and security software tools to carry out its mission. The common tool set FTB offers staff based on work assignments, includes a computer operating system with security features and software applications that enable word processing, note taking, spreadsheets, presentation creation, surveying, diagraming, project management, software development, and communications, such as e-mail, instant messaging, voice conferencing, and team video collaboration. To carry out their revenue generating workloads and provide taxpayer assistance, FTB staff rely on these tools to work as a team, share and manage content, quickly find and connect information, and seamlessly collaborate across FTB. To offer these functions to staff, behind the scenes FTB uses on-premises server software, cloud services, and support tools for implementation, deployment, and trouble shooting. This is FTB’s base architecture for productivity software.

FTB licenses to support our nearly 6,900 permanent and temporary employees. FTB maintains another 800 licenses for contractors working on our projects and to provide licensing to comply with FTB security policy, which requires retention of former employee and contractor data for a period of a minimum of five years. FTB has discovered and progressed to the best licensing model available in terms of cost and features.

In June 2014, FTB transitioned from purchasing software bundles and individual products to its first subscription Microsoft Enterprise License Agreement (MELA) with add-ons, which provided additional products such as server software, developer tools, and specialized productivity tools (i.e., Visio and Project). In June 2019, FTB renewed the subscription and acquired the latest subscription, Microsoft 365 Government E3, with the same add-ons and an upgraded support contract.

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1 Revenue figures based on the 2019-20 Cash Report reported in the Department of Finance’s July 2020 Finance Bulletin. Due to the filing extension of April 15, 2020 to July 2020, the total revenue collected was lower than previous years.
In early 2021, the California Department of Technology (CDT) reached out to FTB about the feasibility of joining the statewide M365 E5 GCC subscription. After determining business opportunities and costs associated with doing so, key benefits would present for FTB to do this and in June 2021, FTB leveraged the new purchasing model M365 E5 GCC offered through CDT and entered into a new subscription term prior to the existing subscription expiration. Renewing one year early allowed FTB to take advantage of previous subscription credits, leverage the aggregate buying power of the new M365 E5 GCC, and move to a 5-year renewal cycle instead of a 3-year cycle. This state master enrollment (M365 E5 GCC), along with the server, developer, and support tools, is collectively referred to as M365 GCC + in this document.

The decision to move to this new agreement was both financially strategic and feature rich, as this state master enrollment offered significant initial savings and additional feature opportunities, particularly for security tools. FTB was able to transition to the top-tier enrollment (Federal Risk and Authorization Management Program (FedRAMP) certified) to leverage the added security and privacy features, top-tier support, deployment services, and simplified administration. FTB also enhanced its video conferencing and data analytics tools.

FTB’s current M365 GCC+ architecture includes base productivity tools, server tools, developer tools, and support. It provides a dependable and adaptable base productivity software architecture, cloud computing, and access to the most current versions of Microsoft software. This flexibility enables FTB to upgrade at a pace that aligns with FTB’s business needs, such as the increased demand for licenses due to FTB security retention policy and emergency implementations of collaboration tools such as was needed with COVID-19.

For the various purchases comprising the 2014, 2019, and 2021 subscriptions, generally FTB was able to fund these subscription contracts primarily utilizing funds previously used to buy the individual products that were being offered in the MELA bundle, and carry that forward as the baseline. While FTB was able to fund the first year costs for this new subscription, annual costs continue to increase and FTB’s baseline budget for this subscription is insufficient to cover future year costs.

C. State Level Consideration

Having M365 GCC+ aids FTB to carry out its mission as well as comply with required policies, such as software asset management policy. FTB complies with software policy through the purchasing model, tracking, and through the true-up process.

Software asset management is a critical function of any organization with legal and ethical requirements. Organizations must maintain knowledge of governing laws (e.g., copyright laws) and set policy, standards, and processes that support proper management for the full spectrum of the asset lifecycle. The State of California and FTB are aligned with this need. The State has established policy in the State Administrative Manual (SAM) and process and procedure in the Statewide Information Management Manual (SIMM). FTB has established an Asset Management Policy and supporting standards and processes. FTB’s IT Security Policy and Enterprise Architecture Office also have jurisdiction over the asset lifecycle.

Participating in M365 GCC+ enables FTB’s access to technology tools, security features, and support to ensure the department can continue to fulfill its mission to help taxpayers file timely and accurate tax returns, and pay the correct amount to fund services important to Californians. These tools also help FTB fulfill important security goals and requirements, which protect FTB’s IT infrastructure from threats that could compromise the privacy and security of the data entrusted to FTB.

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2 True-up process: We adjust our on-premises software and cloud services to best suit our deployment needs during the year and then account and pay for the license changes on our yearly anniversary. Since we only need to place one order per year, this streamlines our procurement process and reduces the time spent managing Microsoft licenses.
M365 GCC+ enables appropriate software management practices in alignment with SAM and SIMM and ensures the licenses are used legally and within the contract terms.

**This proposal supports FTB’s Strategic Plan goals:**

**Goal 1: Exceptional Service** states, “Strive to continuously enhance our customers’ experience.” FTB is a General Fund revenue generating department. Providing exceptional service contributes to faster outcomes for taxpayers, reduces rework and errors, and underwrites FTB’s ongoing ability to collect more revenue as efficiently as possible. Staff provide better service when they have the tools they need to do so.

**Goal 4: Operational Excellence** states, “Optimize our processes, products, services, and resources to better serve our internal and external customers.” FTB’s productivity software architecture and associated security architecture are fundamental to FTB’s ability to carry out its mission. Staff need timely delivered, reliable productivity tools to deliver FTB’s products and services.

### D. Justification

Productivity software costs along with needs for more collaborative features in the cloud, including security needs, have necessitated FTB to adopt multi-year subscription contracts to obtain tools for the best value. And CDT has provided the most economical and feature-rich solution to obtain the subscription. FTB’s current budget allocation for this subscription is not able to absorb ongoing funding increases associated with this subscription. This proposal seeks to augment FTB’s budget to ensure FTB can adequately fund these costs consistent with known costs and without modifying our existing business operations. No other more feasible alternatives for productivity software exists and while FTB has many ways to acquire these products, the subscription we are enrolled in provides the software assets we need to engage in business operations at the cheapest cost. Similarly, for the security tools included in this subscription, if FTB were to acquire them as separate products, and retain our prior MELA subscription, costs would exceed the equivalent costs under this new and inclusive subscription.

The way these products are acquired and managed satisfies SAM, SIMM, and FTB policy, and helps FTB remain compliant with asset management and security policy and practices. M365 GCC+ made license renewal less frequent and license administration much easier and as such requires less software audits. Version updates are easier to coordinate, plan, and deploy across FTB’s entire software platform, releasing new features for our users markedly faster. The speed of deployment reduces vulnerabilities and unnecessary maintenance of old versions. This helps FTB reduce software versions and improves performance and security.

### E. Outcomes and Accountability

The M365 GCC+ implementation is an elegant solution, solving or preventing a host of issues, concerns, frustrations, challenges, and failures. FTB will procure its license renewals with a fully-funded budget and manage the software timely to the needs of the department and in compliance with all policies. In turn, this will benefit nearly every FTB employee to productively and collaboratively carry out their mission-critical responsibilities and empower and support an excellent working culture. FTB will keep software current, and upgrade operating systems timely. FTB will continue to improve its security stance to safeguard FTB from the constant onslaught of evolving security challenges and threats. The integrated product offering with safety nets for license need and compliance will make tracking and timely deployment reliable, which has the added benefit of preventing software audit issues.

Oversight of the project will be the responsibility of the Chief Information Officer. Financial oversight will be the responsibility of the Chief Financial Officer.
F. Analysis of All Feasible Alternatives

**Alternative 1:** Approve $1.4 million General Fund and $57,000 special funds in 2022-23, $1.8 million General Fund and $76,000 special funds in 2023-24, $2.4 million General Fund and $100,000 special funds in 2024-25, and ongoing to establish a fully-funded, permanent baseline budget for FTB’s implementation of M365 GCC+ (i.e., the state master agreement Microsoft 365 Government Community Cloud (M365 GCC) and enterprise agreements for Microsoft server, development tools, and support). The tools provided through these multi-year enterprise agreements deliver FTB’s foundational productivity software toolset, play a key role in FTB’s security technology, and are relied upon by FTB’s systems and staff to carry out FTB’s mission.

**Pros:** This alternative best ensures FTB’s continued success in providing a robust and secure computing environment for staff carrying out FTB’s mission. FTB will remain compliant with security policy and be able to leverage new and enhanced security tools. FTB will support the CDT-leveraged buying power, which benefits the state and therefore, Californians.

**Cons:** Cost to the General Fund.

**Alternative 2:** Approve $2.2 million General Fund and $90,000 special funds in 2022-23, $2.4 million General Fund and $103,000 special funds in 2023-24, $2.7 million General Fund and $112,000 special funds in 2024-25, and ongoing to establish a fully-funded, permanent baseline budget for FTB’s implementation (without benefit of the statewide contract) of employee productivity tools, which include specialized technology, productivity, and communication software. The tools deliver FTB’s foundational productivity software toolset, assist with FTB’s security posture (but not provide the full suite of security tools), and are relied upon by FTB’s systems and staff to carry out FTB’s mission.

**Pros:** This alternative ensures FTB’s continued success in providing a robust and secure computing environment for staff carrying out FTB’s mission.

**Cons:** FTB would no longer be able to take advantage of all of the security tools included in M365 GCC+ and would have to continue to acquire the tools separately as well as pursue new contracts for additional security tools to address new and emerging threats. Also, FTB would lose the discounts provided by the statewide contract and, as compared to Alternative 1, would pay between $500,000 and $1 million additionally each year, as these software products are required for FTB to perform its functions. This does not account for price increases of shorter term contracts, which tend to cost more. Once FTB is no longer using the statewide contract, there would also be adverse impacts to the state and to other departments engaging in the statewide contract because discounts are computed and applied to each department’s contract based on the total usage of the statewide contract. Cost to the General Fund.

**Alternative 3:** Deny Request

**Pros:** No additional funds will be directed to FTB.

**Cons:** FTB would need to self-fund this request as these software products are required for FTB to perform its functions. Self-funding this request would result in modifications to our operations and would most likely trigger notification to the Joint Legislative Budget Committee as Provision 1 funding would be impacted.

G. Implementation Plan

M365 GCC+ is like a library with feature-rich applications. FTB is currently planning future implementations that will take advantage of these products to further increase productivity, capability, and collaboration at FTB. Some of the applications FTB is considering for deployment in 2022-23, 2023-24, and 2024-25 include business intelligence and data analytics tools and security tools.
H. Supplemental Information
   None.

I. Recommendation

   **Alternative 1:** Approve $1.4 million General Fund and $57,000 special funds in 2022-23, $1.8 million General Fund and $76,000 special funds in 2023-24, $2.4 million General Fund and $100,000 special funds in 2024-25, and ongoing to establish a fully-funded, permanent baseline budget for FTB’s implementation of M365 GCC+ (i.e., the state master agreement Microsoft 365 Government Community Cloud (M365 GCC)) and enterprise agreements for Microsoft server, development tools, and support). The tools provided through these multi-year enterprise agreements deliver FTB’s foundational productivity software toolset, play a key role in FTB’s security technology, and are relied upon by FTB’s systems and staff to carry out FTB’s mission.

   This alternative best ensures FTB’s continued success in providing robust and secure computing environment for staff carrying out FTB’s mission. FTB will remain compliant with security and asset management policies and be able to leverage new and enhanced security tools. FTB will support the CDT-leveraged buying power, which benefits the State, and therefore, Californians.