**STATE OF CALIFORNIA**
**Budget Change Proposal - Cover Sheet**
DF-46 (REV 10/20)

| Fiscal Year | Business Unit | Department | Priority No. |
|---|---|---|---|
| 2023-24 | 7730 | Franchise Tax Board | 001 |

| Budget Request Name | Program | Subprogram |
|---|---|---|
| 7730-001-BCP-2023-GB | 6280 | 6280010/6280019 |

**Budget Request Description**
Enterprise Data to Revenue Project 2

**Budget Request Summary**
The Franchise Tax Board (FTB) requests an augmentation of $135.0 million and the full time equivalent of 41.0 permanent positions, and 31.0 limited-term positions for the third-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

| Requires Legislation | Code Section(s) to be Added/Amended/Repealed |
|---|---|
| ☐ Yes    ☒ No | |

| Does this BCP contain information technology (IT) components? ☒ Yes    ☐ No | Department CIO | Date |
|---|---|---|
| *If yes, departmental Chief Information Officer must sign.* | | |

**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.**

**Project No.**          **Project Approval Document:**

**Approval Date:**

**If proposal affects another department, does other department concur with proposal?** ☐ Yes ☐ No
*Attach comments of affected department, signed and dated by the department director or designee.*

| Prepared By | Date | Reviewed By | Date |
|---|---|---|---|
| | | | |
| Department Director | Date | Agency Secretary | Date |
| | | | |

**Department of Finance Use Only**

**Additional Review:** ☐ **Capital Outlay** ☐ **ITCU** ☐ **FSCU** ☐ **OSAE** ☐ **Dept. of Technology**

| PPBA | Date submitted to the Legislature |
|---|---|
| | |

**A.     Budget Request Summary**

The Franchise Tax Board (FTB) requests an augmentation of $135.0 million and the full time equivalent of 41.0 permanent positions, and 31.0 limited-term positions for the third-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

**B.     Background/History**

FTB's primary function is to administer the California Revenue and Taxation Code (R&TC), which includes collecting the proper amount of taxes by assisting taxpayers in filing returns timely and accurately in the most cost-effective manner while 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.

In FY 2021-22, FTB received more than 22.5 million tax returns, responded to more than 2.9 million telephone calls, serviced over 70 million internet contacts, and collected about $190 billion in revenue, representing approximately 77 percent of the California's General Fund revenue[1] .

FTB uses the phrase "Blue Path" to represent the systems and processes used to process tax obligations that are filed correctly, timely, and paid. The FTB Tax Business Model (Figure 1) diagram illustrates the "Blue Path" and "Red Path", which are the conditions that taxpayers can be in with regards to FTB's Tax Business Model. Approximately 83 percent of California's taxpayers are "Blue Path" taxpayers, and they are integral to FTB's success. Conversely, FTB uses the phrase "Red Path" to represent the systems and programs used to process tax obligations that are filed incorrectly, not reported timely, require correction or activity to collect an unpaid balance. The "Red Path" processes are the most costly way for FTB to carry out its mission because they attempt to recover revenue often with insufficient data, redundant systems, and functions that are not shareable and reusable.

**Figure 1**
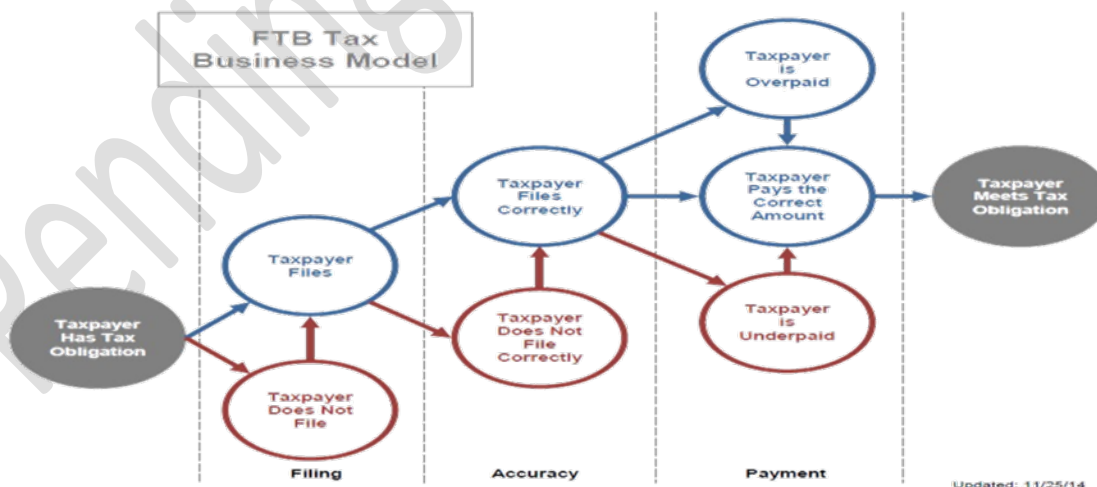


FTB's workloads break down into seven key Business Systems of Work (BSOWs), which include Return Filing, Filing Enforcement (FE), Return Validation, Audit (includes legal), Overpayment,

Underpayment, and Payment Processing. In 2007, FTB's TSM Bureau undertook an extensive effort to perform a Business Problem Analysis (BPA). The BPA involved an enterprise strategic planning session for FTB's tax systems Information Technology Strategic Plan (ITSP). The BPA targeted FTB's BSOW, specifically analyzing Return Filing; Return Validation; FE; Audit; and Underpayment, with an overall objective to align FTB's goals and strategies with initiatives designed to deliver breakthrough improvements at both the enterprise and BSOW levels. The BPA clarified, defined, and detailed FTB's Strategic Goals and Enterprise Vision which was reconciled against the vision plans of the Filing, Audit, and Underpayment business areas. In addition, the BPA defined the Strategic Business Problems (SBPs) faced by the business areas that are obstacles to achieving the Enterprise Vision and identified opportunities for solving the problems.

The Strategic Business Plan, business goals, and visions developed by the business areas were used to identify the SBPs. The BPA not only defined and highlighted business problems but illuminated strategies and opportunities to enable the business areas to achieve their visions and goals more efficiently and effectively. With validation from both the business and technology stakeholders, the SBPs produced a business focus intent on establishing a clear and comprehensive vision to increase revenue. This is accomplished by improving and streamlining processes, reducing waste, minimizing redundancy, and reducing technology maintenance and operations costs. The BPA facilitated the formulation of a strategic Information Technology (IT) portfolio that included a three-phase TSM effort to modernize FTB's systems environment and reach its strategic target architecture.

Phase 1 of FTB's TSM effort, the Enterprise Data to Revenue (EDR) project, was completed in 2016. The EDR project was successful and began to address business problems for FTB's Return Filing and Return Validation programs (specifically in the application of modeling and case management) and built the foundation for the next two phases of the TSM effort. This phase included Imaging, Data Capture, CM, Return Processing, Modeling, Taxpayer Folder, and MyFTB. The EDR project resulted in an enterprise data, modeling, CM platform and infrastructure with common services that can be expanded across the enterprise.

Phase 2 of the TSM effort is the EDR2 project, which began in 2021. This project as proposed and approved builds on the enterprise data, modeling, CM platform and infrastructure provided by EDR by expanding the enterprise CM and modeling to other BSOWs including Audit, Legal, FE, and Underpayment. Phase 2 also expands the functionality for the Taxpayer Folder and MyFTB in addition to positioning FTB to decommission multiple legacy systems.

## C. State Level Consideration

The EDR2 project represents phase 2 of an enterprise wide TSM effort to align FTB's IT infrastructure with its strategic business plan.

The EDR2 project is vital to FTB's operations. The technology currently supporting three of FTB's major legacy systems {(Accounts Receivable Collection System (ARCS), Integrated Nonfiler Compliance (INC), and Professional Audit Screening and Support System (PASS)}, which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Implementing the EDR2 project at this time is critical. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures. Additionally, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

The EDR2 project supports FTB's mission to fairly and effectively administer the state's tax system and the Strategic Plan Goals of Exceptional Service, Effective Compliance, Strong Organization, and Operational Excellence.

## D. Justification

The EDR2 project will support replacement of three legacy systems, two of which are near end-of-life within the project period and one end-of-life shortly after and deploy new tools to assist taxpayers in complying with their obligations as well as enhance FTB's compliance activities. This step will provide technology to move FTB compliance workloads to a single case management system and modeling tool as well as implementing new Audit, FE, and Underpayment compliance strategies.

EDR2 takes a proactive approach in identifying noncompliant tax behavior, encouraging Blue Path behavior, and using more data to reconcile all aspects of a tax return to further support California's voluntary compliance- based tax system. Moving the Audit, Legal, FE, and Underpayment SOWs to the enterprise platform results in efficiencies across program operations. In addition, the EDR2 project presents an opportunity for FTB to address legacy systems that are using outdated technology. The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

| System | Date Implemented | System Age in Years (as of 2022) |
|--------|------------------|----------------------------------|
| ARCS | 1999 | 23 |
| INC | 2001 | 21 |
| PASS | 1997 | 25 |

The EDR2 project follows the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. The most recent document approved for the EDR2 project was the Stage 4 Project Readiness and Approval (S4PRA). The S4PRA was approved on April 1, 2021 and included the EDR2 vendor selection and project approval.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019, on the Cal e-Procure website. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Contract Award to the contractor was made in June 2021 and the project began July 1, 2021.

The EDR2 project plans to achieve the following objectives in 2023-24:
- Utilize the new data analytic tools to support the development of new work including functionality for models, treatment paths, and data visualization (reports and dashboards);
- Perform data analysis and clean-up of the PASS application data prior to the conversion of the data into the EDR2 case management platform;
- Analyze and resolve issues with collection cases that will not convert in an automated fashion prior to contractor's automated conversion from the PIT collection legacy to new system;
- Enhance the ability to successfully select best value cases for compliance efforts and complete quality cases efficiently;
- Ensure new data fields can be captured from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules which will result in increased revenue;
- Develop and implement Training and Organizational Change Management activities to support FTB enterprise including the field offices who will utilize the systems impacted by the EDR2 project implementation and changes;
- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions;
- Fully implement Automated Audit, Professional Audit and Legal Case Management solution;
- Enhance the capabilities of the previously implemented solution that is used by the Underpayment BSOW to identify available assets to levy during the Personal Income Tax involuntary collection cycle;
- Implement self-services, including allowing customers to respond to various notices without a

MyFTB account and allowing Withholding Agents to file various information returns online;

- Implement the Enterprise Knowledge Library (EKL) framework to allow for the various enterprise procedure and manuals to be transitioned to this new tool and make certain reference materials available to external customers for self-service purposes; and
- Continue design and development of deliverables to be implemented in future years, including self-services and additional case management solutions.

The department requests the following resources and funding to continue to support these activities to ensure a successful third year for the EDR2 project:

**Enterprise Business Area Positions**

<u>**Administrative Services Division**</u>
**Digital Services Section**
*Information Technology Specialist I – One two-year limited-term position*

The Digital Services Section, which manages FTB's internal and external static web content, requests one two-year limited-term Information Technology Specialist I position to ensure that published information is current, accurate, and relevant. FTB staff facilitates access to tools, best practices, and services for building web pages for FTB. The section also guides stakeholders so they can communicate with customers, meet legal requirements, and conduct business with trust and confidence. The EDR2 project creates 22 new initiatives that require the creation or modification of ftb.ca.gov webpages, including self-service solutions as well as ongoing maintenance. These webpages provide information, next actions and instruction on how to use self-services to stakeholders including taxpayers, practitioners and business partners. Without the additional position, the section risks not being able to support the new content and products added to the website. The lack of information on FTB's website providing information to stakeholders will significantly impact the success of each new EDR2 initiative. When stakeholders are unclear on what action to take, errors and delays will occur and the anticipated efficiencies of less manual work may not be realized.

**Executive Services Section**
*Senior Compliance Representative – One permanent full time position*

The Executive Services Section (ESS) requests one Senior Compliance Representative to respond to sensitive complex taxpayer issues. The ESS is responsible for handling and resolving sensitive taxpayer issues referred by FTB executive management, FTB Board Members, the Governor, and elected officials. The ESS remains independent from the Audit, Accounts Receivable Management, and Filing Divisions and strives to protect taxpayer rights and ensures that taxpayer problems are handled promptly and fairly. In addition, staff are responsible for administering the state income tax filing and collection programs for FTB employees and vendors.

**Production Services Section (PSS)**

*Staff Operations Specialist – One permanent full time position*
*Information Technology Specialist I – Two permanent full time positions*
Production Services Section, Publication Business Services (PubBiz) staff create and ensure all business forms are free of grammatical errors, contain the appropriate contact information, meet department writing standards, and are reviewed by the designated department reviewers before the form is placed into production and posted on FTB's external website for taxpayer use. The department anticipates additional workloads to be generated as new EDR2 functionalities are introduced.

PSS requests one Staff Operations Specialist position to better assist the department with creating up to 10 new business forms annually, making updates to existing forms, and creating more standardized content for use in the Enterprise Notice System (ENS). Duties include meeting with

business customers to understand the forms, reviewing forms to ensure they meet department writing standards and working with customers on revisions as needed, guiding forms through the department review process, and updating and maintaining internal records for each form. The SOS will be responsible for the more complex business forms.

PSS requests two Information Technology Specialist I position to augment the single ENS forms design position in PSS. As part of EDR2, most notices will move from legacy systems to being generated from ENS. FTB anticipates over 400 notices being added to ENS. Currently, FTB has only one position dedicated to working form design tasks for ENS notices. Given the increasing volume of ENS generated notices, two additional positions are needed. The ENS forms designers are responsible for, in part, the design of ENS templates, developing and proposing solutions to ENS form/template issues, coordinating with TSD's ENS analysis, design and testing teams, maintaining documentation related to template creation and forms design choices.

## Personnel Services Section

### *Associate Personnel Analyst – Overtime ($30,000)*
The addition of nearly 72 staff related to EDR2 increases the Personnel Services Section's volume of work. The Associate Personnel Analyst is the point of contact for the department's classification and hiring workloads. The analyst interprets and applies all pertinent state civil service laws, rules, policies, procedures, and state and federal labor laws and guidelines related to classification and hiring. The analyst consults, advises, and makes recommendations and/or provides alternatives to management in the areas of hiring, position allocation, organizational changes, duty statements, Requests for Personnel Action (RPAs) and policy interpretation. In addition, the analyst consults with managers on various hiring methods and issues to meet specific needs such as position establishment, appropriate position allocation, redirection of positions, limited-term appointments, out-of-class assignments, and reorganizations.

## Filing Division

### e-Programs and Budget Section

### *Senior Operations Specialist – One permanent full time position*
### *Information Technology Specialist I – One three-year limited-term position*
The Financial Analysis and Budget Unit within e-Programs and Budget Section requests one Senior Operations Specialist to address the increase in Filing Division's monthly revenue reports coming from the system enhancements. The new Revenue Analyst will complete the following tasks:

- Compile and develop revenue reports;
- Provide in-depth revenue trend analysis to internal and external customers;
- Develop fiscal year revenue estimates for the division's revenue streams and provide analysis of estimates to internal stakeholders.

Without this dedicated revenue position, there is a risk of inaccurate, incomplete, or delayed revenue reporting, which may negatively impact budget decisions made by FTB or the State of California.

Additionally, the e-File Program and Analysis Unit within the section requests one three-year limited-term Information Technology Specialist I to address the self-service enhancement for return verification through the e-file process. This new position will create tax return schemas and business rules, address e-file issues through the incident management process, and complete testing for new functionality. The analyst will also participate in design sessions for return verification process, collaborate with the tax software community, and update technical program publications. Without this position, the self-service enhancements for return verification

will not be utilized by the department's software vendors and they would be unable to properly pass information to FTB for taxpayers and tax practitioners seeking return validation through the e-File process.

## Withholding Services & Compliance Section

### *Program Specialist I – One permanent full time position*
The Withholding Services and Compliance Section requests one Program Specialist I to begin expanding work on preparer compliance audits by identifying potential new data opportunities and/or new withholding agent models implemented as a result of the new modeling solution. This additional position is necessary to manage the anticipated increase in work as a result of EDR2. This resource will support:

- Improvements in enforcing preparer compliance and contingent revenue;
- Increase number of audits performed to match the efficiencies that will arise from the Withholding Agents being on Case Management;
- Decrease timeframe for processing appeals and protests.

## Finance and Executive Services Division

### EDR2 Project

### *Senior Operations Specialist – One three-year limited-term position*

The EDR2 Project Business Director requests one Senior Operations Specialist to support the EDR2 Director by ensuring the business program needs are met by the new EDR2 solution. The new position will perform the following tasks:

- Identify and update the resources needed to participate in EDR2 implementation activities throughout the implementation period;
- Measure EDR2 revenue and efficiencies accurately and timely to allow FTB to meet contractual obligations related to the Compensation Model;
- Identify and mitigate impacts to the business related to project risks and issues in a timely manner;
- Complete staff work related to issues, new or changed policies, new compliance strategies/initiatives, including facilitate and/or participate in meetings with Sponsors, Steering Committee, and Executive Stakeholder that lead to effective and timely decision making and related documentation.

## Legal Division

### *Tax Counsel III – One permanent full time position*

The Legal Division represents FTB in appeals before the Office of Tax Appeals (OTA) and administers FTB's Docketed Protest program. Taxpayers have statutory rights to file protests of proposed assessments issued by FTB's Audit Division and to file appeals of disputed determinations of taxes to the OTA. The Revenue and Taxation Code (RTC) provides authority for taxpayers to file administrative appeals from, among other things, protest determinations from deficiency assessments or denial of claims for refund by the FTB appeals and protests are mandatory workloads for the Legal Division.

The Legal Division requests a Tax Counsel III position to address increased protest and appeal workloads resulting from an increase in notices of proposed assessments (NPAs) that will be generated as a result of new audit models being introduced. These protest and appeals encompass low, medium, and high complexity appeals which are worked by the Tax Counsel III.

Although the appeals workload spans all difficulty levels, the appeals are most prominently medium to higher complexity levels, therefore, FTB requires an additional Tax Counsel III.

Failure to increase staffing levels over the span of the EDR project will negatively impact the protest and appeal workloads. Insufficient staffing would result in slower case development, a larger inventory of open protests, and delays in administration of tax controversies facing the FTB.

## Technology Services Division

### EDR2 Architect
### *Information Technology Specialist III – One three-year and six month limited-term position*
The EDR2 Project team, which is responsible for modernizing FTB's technical architecture, requests one Information Technology Specialist III position to function as the EDR2 Solution Functional Architect. The EDR2 project will have two major releases and two priority production releases per year in which applications and services will be implemented and/or modified. Applications and services designed and implemented by the EDR2 project are required to be reviewed to ensure the applications and services conform with FTB technical design standards and are in alignment with TSD's IT modernization strategic goals prior to production implementation. Change requests impacting the applications, services, and scope of the EDR2 solution also need to be reviewed, and the associated change request costs need to be validated for cost reasonableness and realism. Without this position, TSD will not be able to fully support the EDR2 solution, which is not aligned with TSD's IT modernization strategic goals, and elements of the EDR2 solution could need to be reworked to bring it into conformity.

## Enterprise Training Environment

### *Analysis – Information Technology Specialist I – Two permanent positions*
As FTB implements Collections, Audit, and Filing Enforcement functionality onto an Enterprise platform with EDR2, the enterprise training needs will increase in both complexity and scope of work with the number of lessons that need to be setup and maintained in the Enterprise Training Environment.  The Enterprise Analysis Services Section requires two IT Specialist I analyst positions to manage the increase in Enterprise Training Environment data setup brought forth by EDR2, which includes:

- Update the environment with new code streams
- Create and maintain training modules
- Condition training accounts for the training scenarios identified in each module

The data created in the training environments is used by business partners to provide training to FTB's new hires, supervisors, leads, and existing staff on FTB's systems. As system functionality expands each year, each training lesson must be recreated and updated with new information. Having staff adequately trained on internal and external system updates ensures accurate and prompt customer service is delivered, taxpayers are equipped and able to fulfill their tax obligations, and revenue-processing workloads are accurately performed. These additional resources will ensure training environments are updated timely and are able to meet business areas' training needs throughout the year.

## EDR2 Deployment Tools

### *Information Technology Specialist II – Two permanent positions*
### *Information Technology Specialist I – Three permanent positions*

The Technical Services Section, which provides code management, application build and deployment services requests two Information Technology Specialist II positions and three

Information Technology Specialist I positions to support the new deployment tools brought forth with the EDR2 project and the corresponding container based deployments. Container based deployments will allow for smaller, independently deployed, integrated applications along with a more secure, cost effective and flexible deployment methodology. This approach facilitates rapid, targeted deployments resulting in users receiving more frequent incremental optimizations. With the additional positions, the section will be able to support container-based deployment of EDR2 applications along the patching, monitoring, and tuning of the container platform. The two Information Technology Specialist II positions will operate as leads and container subject matter experts, responsible for guiding deployment staff and acting as Level 3 support capable of troubleshooting the most complex deployment scenarios along with staying abreast of this emerging technology. The three Information Technology Specialist I positions will provide the capacity and support necessary to service the increase in targeted deployments.

## EDR2 Data Virtualization

### *Information Technology Specialist II – One permanent position*
### *Information Technology Specialist I – Four permanent positions*

The Enterprise Data Development and Data Analytic Development Section, which supports data integration, data analytics, and business intelligence services, requests one Information Technology Specialist II position and four Information Technology Specialist I positions to support a new data virtualization platform brought forth with the EDR2 project. The EDR2 project will introduce new technology that provides the capability to combine disparate data sources in a single virtual view that can be used for data analytical needs by development teams, analysts, and self-service consumers from the business area. Currently, business area specific data marts are created to meet data analysis needs. This creates multiple large data stores with similar data. Therefore, there is an ongoing replication of the same data in multiple data stores, requiring moving redundant data across the data ecosystem to increasingly larger stores. EDR2 will advance the use of smaller subject-oriented data marts, increase flexibility, optimize usage, and bring the data together with the data virtualization platform. Specifically, these positions will:

- Connect databases and data services
- Create virtual databases
- Develop data views
- Configure platform settings
- Manage users and role access
- Optimize performance
- Troubleshoot issues

Without additional positions, the sections will be unable to support the EDR2 data virtualization platform which includes connecting and combining data, data modeling, data security, and configuration of data views.

## EDR2 New Functionality

### *Information Technology Specialist I – six permanent positions*

The Software Development Life Cycle (SDLC) sections, which support the analysis, development, and test of all FTB applications request six Information Technology Specialist I positions starting in fiscal year 2023-24 to support three new functionality as a result of the EDR2 project. Over the life of the project, a total of nine functionality will be brought on, which will require additional resources and support. The following three EDR2 functionality will require ongoing support beginning in fiscal year 2023-24:

- New Taxpayer Models: Advanced analytic models used to identify data anomalies, generate scores, and predict outcomes which in turn are used to generate case candidate lists. The analytic models process vast quantities of data to assist business users in the identification of case candidates with the greatest likelihood of having tax compliance issues. The analytic models also leverage new data sources to improve the quality of the case candidate lists.
- Audit Selection Tool: Used to review and analyze case candidate lists to further refine the analytic model outputs. Audit Selection Tool provides business users the ability to manage case candidate lists and determine which cases to create in the Case Management system.
- Ownership Hierarchy Application: Uses network analysis and ownership hierarchy data to trace income, deduction, and filing among Pass-Through Entity (PTE) partners to aid in the identification of tax non-compliance. The Ownership Hierarchy Application automatically creates a visual representation of PTE relationships and provides business users ability to analyze and discover PTE relationships. The Ownership Hierarchy information can be used by business users to determine the number of partners in a PTE who may have tax compliance issues.

With the additional positions, FTB is positioned to meet its goal of transitioning the technical maintenance and operations of the EDR2 solution from the Solution Provider to FTB staff. FTB will be able to enhance the EDR2 solution based on changing business need and incorporate changes needed to ensure the EDR2 solution remains robust and secure. If these positions are not approved, then FTB will need to establish a contract with a vendor to provide technical maintenance and operations of the new EDR2 functionality.

**EDR2 Database Administrator**

*Information Technology Specialist I – One permanent position*

The Database Support Section, which supports database design, configuration, performance tuning, and troubleshooting for all FTB databases, requests one Information Technology Specialist I to support the increased number of databases brought on by EDR2. The EDR2 project will introduce a 12 percent increase in the number of databases that will require support. The additional position will troubleshoot, maintain, and performance tune the new databases that support EDR2 functionality.

**EDR2 Services Support**

*Information Technology Specialist I – One permanent position*

The Data Processing Services Section, which preforms 24x7x365 technical monitoring, and responds to system events, requests one Information Technology Specialist I position starting in fiscal 2023-24 to support the increased number of applications and technologies added by EDR2. The EDR2 project introduces nearly 50 percent growth in technology services that will require support such as maintaining system availability and validating data integrity. Over the life of the project, additional functionality will be brought on, which will require additional resources and support.  The additional positions will actively monitor, troubleshoot, analyze, and fix batch job processes that enables business users to utilize the EDR2 applications.

**Data Analytic Function (Various Divisions)**

The EDR2 project will provide new and enhanced data analytic tools that will allow the business areas to perform functions that are currently limited and most often require IT support to implement. These functions include performing modeling activities to identify and implement new compliance strategies, identify, and implement more effective and efficient treatment paths for taxpayers and visualize data in the form of reports and dashboards. Users will be able to self-serve and use data from the Enterprise Data Stores to create and modify compliance

models, analytic models, customer segments, trend analyses, dashboards, and reports. The enterprise will be utilizing these tools to improve accuracy and compliance in their respective programs. Business Areas that support the enterprise will also use the enhanced tools. FTB's Data Management and Governance Strategy will support the tools and data that the EDR2 project will provide. This strategy involves the users being more involved in the acquisition and quality of data. This will ensure that data that is used by the business is being acquired and is delivered to users in a way that is correct and meaningful. Each business area will take an active role in data governance.

In support of the EDR2 project, FTB requests permanent resources in the third year to aid in the design and implementation of the new tools and to utilize the new and enhanced data analytic tools and realize the full potential of EDR2 new models, strategies, and products to increase automation and process efficiencies.

## Audit Division

### *Program Specialist III – Six permanent full time positions*

The Audit Division requests six Program Specialist III positions to develop the division's data analytics and innovation program as it relates to the business entities (BE) workloads. This centralized program will use the new data analytic tools to support the division in developing new models, treatment paths, data visualizations and reports. These positions will support all BE case selection functions for all professional audits conducted nationwide including the wealthiest Californians and largest corporations. With new functionality delivered in EDR2, the Audit Division will be increasing its contacts to tens of thousands of taxpayers each year through the use of new audit strategies. These analysts will support this new workload by conducting the analyses of those taxpayer segments, conducting studies on effective approaches for changing non-compliant behavior, and analyzing results and post-contact behavior for improvements. These positions will be utilizing the new EDR2 business and analytical tools that will springboard the division's analytic capabilities from traditional business intelligence activities to predictive analytics for forecasting future patterns and prescriptive analytics that help determine the optimal course of actions before making decisions. These highly technical analysts will create expert models, analytic models, taxpayer segmentation analyses, marketing campaigns, trend analyses and dashboard reports that will be used to increase audit compliance activities which generate revenues for the state.

The Program Specialist III level is necessary since most of the data the audit division analyzes is from tax returns regarding audit issues. These data analysts need a thorough understanding of all the income tax laws and how items are properly reported on each of the various tax return types to build, run and analyze models and studies. To identify what data is needed, how it should be queried, whether data is contaminated and results properly interpreted, the audit data analysts need the broad depth of knowledge regarding income tax laws, policies and procedures which comes from the experiences attributable to the Program Specialist III level. Additionally, the Program Specialist III needs to have the experience and understanding how taxpayers avoid or shelter their items on their tax returns in order to interpret data to detect the most egregious taxpayers. The Program Specialist III is also capable of providing the expert consultation and advice to Audit senior management regarding sensitive compliance or data trends.

The Program Specialist III will need to be familiar with the new modeling, analytics, and visualization tools available. These positions will become centralized resources for the audit division in the use and application of these new tools. The Program Specialist III will use tax knowledge and income tax examination experience to identify new data needs and collaborate

with enterprise subject matter experts and Technology Services Division on the acquisition of data in order to address new and emerging noncompliance issues.

Using the current and new data available in the Audit Division Data Marts, and the Enterprise Data Stores, the Program Specialists III will perform the most complex data analytic functions to identify trend analyses, create and support EDR2 new Audit expert and analytic models, develop new audit strategies such as self-correct and self-audit letters, and create data visualizations such as dashboard reports and data plotting for management decision making.

Using their income tax law background, these positions will identify new auditing opportunities and discovery efforts to address emerging trends for income tax reporting. With assistance from workload SME's they will assist with developing and evaluating these opportunities as well as evaluating sources for collecting data that will improve Audit Division operations.

Utilizing current and new EDR2 tools, the Program Specialists III will identify taxpayer segments using statistical and data visualization platforms for leveraging educational outreach and marketing campaign efforts to encourage taxpayer self-compliance. This includes conducting or overseeing complex data-driven studies aimed at improving the Audit Division's operations.

Using their expertise with new data analytics and visualization tools, the Program Specialists III will act as a resource to the various Audit workloads and collaborate with Audit Division modeling teams to compliment expert model and inventory development. The positions will evaluate and troubleshoot expert model effectiveness to improve sustainability of audit cases. These positions will assist Audit management with developing division specific data governance strategies to ensure data is managed and consumed in a manner that protects taxpayer confidentiality and promotes audit efficiency. As data becomes more of an enterprise-wide asset, the Program Specialists III will serve as Business Data Owners or Line of Business Data Stewards to evaluate current and new third party data sources, ensure data is fit for business use, and resolve data quality issues in collaboration with Technology Services Division. The positions will also represent Audit on enterprise teams, committees, or projects when necessary.

EDR 2 will introduce new data analytic tools and systems that will allow the Audit Division to perform functions that currently do not exist or currently require IT support. As users begin to interact with the new tools and systems around them, the need to implement improvements to enhance the new systems to better align with the Division's strategic goals will emerge. The Program Specialists III will advise and assist with documenting business requirements that will be necessary in order to improve the systems surrounding the new tools EDR 2 will provide. These positions will also assist with identifying data not currently captured from current and future tax forms that may be needed to improve case selection or model effectiveness. The Program Specialists III will work closely with business area SMEs to write requirements and submit change requests to ensure improvements are addressed timely, follow enterprise protocols, and are properly prioritized against other requests in the Enterprise.

The Audit Division will use analytics as a means to make more informed decisions to achieve its strategic goals. Analytics can provide insights into information that would not be known under normal circumstances. As EDR2 brings more capability to use tools that allow for Predictive, Descriptive, and Prescriptive analysis, the Program Specialists III will perform such analyses and utilize the results to advise executive management on their findings, including patterns in filing behavior and industry trends. Such findings will assist executive management in communicating areas of concern to the public as well as strategize allocation of resources to combat areas of non-compliance via the new audit strategies.

In addition, the Program Specialists III will advise senior audit program management on any findings collected from research, data analyses, and their extensive knowledge of the tax law, so that new audit strategies, as well as existing workloads can be evaluated more efficiently. Advice will help senior audit program management prioritize division workloads and determine what strategy to use to promote compliance.

<u>**Filing Division**</u>

**Senior Operation Specialists – Four permanent full time positions**

The Filing Division requests four Senior Operations Specialist positions in the Information Validation, Business Entity, and Filing Enforcement Sections. These three business areas currently have the responsibility to identify taxpayers who may not have reported an item correctly on their tax return, or who do meet filing requirements but have not yet filed a tax return and it is past the required due date to file. These identified situations of non-compliance and non-filing become the business area's inventory of cases to be resolved. Staff must work with IT resources to identify, prioritize and rate the inventory of cases. The EDR2 project will bring new functionality to these business areas that will increase or improve the quality of their existing workloads and enhance the ability to identify non-compliance and non-filers. The Senior Operation Specialists will create, maintain, and improve Personal Income Tax and Business Entities data analytic models and create, modify, and maintain new data model visualizations, including dashboards, reports, and division metrics. This new work includes functionality for a business user to create models, customer segmentation, treatment paths, and data visualizations (reports and dashboards) without the need for IT assistance. Specifically, these positions will:

- Work collaboratively with the existing analysts, EDR2 vendor, and EDR2 project team to support the development of replacement functionality;
- Work collaboratively with the EDR2 vendor and EDR2 project team to develop new functionality;
- Provide ongoing support and validation for new functionality delivered from the vendor;
- Support the development of new functionality that will not be completed by the vendor to support continuous improvement;
- Perform data analytic functions to support the Filing Division's continuous improvement to support efficient and effective compliance activities; and
- Research and analyze data to create better cases to pursue for tax filing compliance and filing enforcement. This requires continued manual review on cases to validate revenue capabilities and prevent unnecessary contacts to FTB from taxpayers who received a notice who believe there is not a filing requirement.

The Senior Operations Specialist level is necessary for these workloads since most of the data the Filing Division analyzes is from tax returns and/or third-party data sources regarding compliance issues. These analysts need an understanding of the income tax laws, taxable income sources, and how items are properly reported on each of the various tax return types to build, run, and analyze models and studies. To identify what data is needed, how it should be queried, whether data is contaminated, and if results are properly interpreted, the analysts need knowledge regarding filing requirements, common filing errors, and filing trends which comes from the experiences attributable to the Senior Operations Specialist classification.

<u>**Legacy System Data Clean-Up/Conversion Function (Various Divisions)**</u>

PASS was designed to support audit tasks and serve as Audit Division's case management system for electronic audit files. The PASS application was implemented in 1997 and has since evolved

to support case functionality for multiple business areas within FTB. The PASS application currently contains over 1 million case units with 108,000 open cases units and 942,000 closed case units. The EDR2 project will transition the PASS application data to the new case management platform.

The ARCS is a legacy case management system that includes PIT and BE Tax delinquent debts and collection/contact history. The PIT Collection System houses approximately 3.47 million taxpayer collection accounts. The EDR2 project will replace PIT Collection System and ARCS cases will be converted to the new case management system.

INC was developed and implemented in early 2001 for 1999 and later tax years. INC is an automated systems that identifies and manages non filer cases. The EDR2 project will transition INC application data to the new case management system.

In support of the EDR2 project, FTB requests permanent and limited-term resources in the third year to perform the legacy system data clean-up/conversion activities.

### Audit Division

*Tax Auditor – Four two-year limited-term positions*

The Audit Division requests four Tax Auditor positions to perform data analysis and clean-up of the PASS application open case unit data prior to the conversion of the BE data into the EDR2 case management platform. These positions will also perform post conversion validation of case unit data in the new case management system. These positions need to be knowledgeable of the PASS system and the various case components in order to understand the accuracy and completeness of data elements needing conversion. Ensuring the data's integrity during and after the conversion process is essential to the overall success of the project to replace the legacy Case Management (CM) system and may impact future modeling activities.

Currently, the vendor expects the audit case management solution for BE to begin in July 2024. The four Tax Auditor positions need to be in place January 1, 2024 in order to perform the PASS data analysis and cleanup essential to ensuring the data is ready for the conversion processes. The data will be analyzed to create an automated conversion plan. Business rules will be put in place to automate the conversion from the legacy Data System to the Enterprise Data Store for use by EDR2. However, with such a large volume of data there will be instances that require manual intervention to perform clean-up in the legacy system before conversion can take place. The clean-up will take place in preparation for implementation of the solution during the System Development Lifecycle. It is anticipated a small percentage of cases may need manual clean-up, but due to the size of the data contained in each case, review and preparation will be time consuming.

### Accounts Receivable Management Division

*Compliance Representative – Three one-year and six-months limited-term positions*
*Administrator I – One two-year limited-term position*

ARMD requests three Compliance Representative (CR) Collectors positions to manually analyze and resolve collection cases prior to, and after the vendor's automated conversion from the BE collection legacy to new system. Beginning January 2024, the new staff will attend classroom training for the first eight weeks, followed by pre-conversion activities and or post-conversion activities for the duration of the term.  The CR's will perform the following tasks:

- Analyze and resolve accounts in the legacy collection system to ensure data integrity and maximize the effectiveness of the automated data conversion to the new case management system.

- Track and report common issues to assist with account conversion by analyzing and resolving accounts in the legacy collection system that did not convert to the new case management system.

ARMD requests one Administrator I (AD I) position to oversee staff that will manually analyze and resolve collection cases prior to, and after the vendor's automated conversion from the PIT collection legacy to new system. The supervisor will have oversight and responsibility for the PIT and BE data conversion work as we transition to the new collection system as part of EDR2.

The AD I will perform the following tasks:

- Provide guidance and direction to staff that will analyze and resolve accounts in the legacy collection system to ensure data integrity and maximize the effectiveness of the automated data conversion to the new case management system.
- Act as implementation leader for PIT/BE conversion including attending JAD's and communicating across the Division for conversion.
- Track, report, resolve and mentor staff on challenges and obstacles throughout the account conversion process from ARCS to the new collection system.
- Assist staff analyze and resolve accounts in the legacy collection system that did not convert to the new case management system.
- Conduct wrap up activities in year two including a retrospective and or transition activities to the System Analysis Team.

## Filing Division

### Filing Enforcement Section

*Tax Technician – Nine one-year and six months limited-term positions*
*Compliance Representative – One permanent full time position*
*Administrator I – One permanent full time position*
*Administrator II – One permanent full time position*

The Filing Enforcement Section is requesting nine Tax Technicians to assist with the clean-up of data in the Integrated Non-Filer Compliance system to allow for critical Filing Enforcement information to be available in the new Enterprise Tax System. Having clean data in the new system will allow staff to work more efficiently when performing case selection. With these positions, additional opportunities and efficiencies will materialize by having these income records in Taxpayer Folder, which will reduce unnecessary contact with taxpayers.

The section is also requesting one Compliance Representative to review the accounts worked by the Tax Technicians, and on an ongoing basis provide feedback for training and development for all staff, resolve more complex account issues, review local procedures and guidelines to provide one-on-one assistance, evaluate and recommend process improvements, and perform various other lead duties. This lead position will provide the Tax Technicians adequate support to perform their duties, resulting in staff productivity, efficiency, and accuracy.

The increase in staff by ten positions requires an additional supervisor at the Administrator I level. This supervisory position is needed to initially oversee this increase in limited term staff but also to balance the various workloads for the unit, to monitor staff development and production rates, search for process improvements to assist staff in performing their duties and address any performance issues.  Currently, the Filing Enforcement program has an extremely high supervisor to staff ratios, which makes it difficult for the existing supervisors to provide adequate guidance and oversight of the work being performed and address performance issues timely. When the limited term positions expire, this additional, ongoing supervisor position will create a more manageable supervisor to staff ratio and ensure appropriate supervisory oversight of the workloads.

Similarly, an additional manager at the Administrator II level is needed to ensure the span of control is appropriate and consistent with other areas in the department. With the addition of this new team, there would be seven teams reporting to two Administrator IIs. While the initial request for an AD II was triggered due to this work, FTB has noted a span of control issue in this business area and this management position is needed ongoing to assist with the development of subordinate supervisors and staff, coordinate and manage workflows amongst the section, and help meet other business goals. Without this position, there would be high manager to supervisor ratios, making it difficult for existing managers and supervisors to provide adequate guidance and oversight of the work being performed and address workload management issues timely.

## Enterprise Knowledge Library (Various Divisions)

The Enterprise Knowledge Library (EKL) will be a repository for storing information and a collaborative platform where users can create, capture, share knowledge and information related to business processes, user skills, procedures and training materials. The EKL will allow FTB to manage and access its documentation and enterprise knowledge in an efficient, effective, and user-friendly manner from a single location. The new EKL will also allow external customers to access consistent and published information on laws and procedures in order to self- serve. This new enterprise tool will also allow for internal and external users the ability to provide feedback on the usefulness of the published information for potential improvements to the tool.

Currently, information is stored in various formats, systems, databases, applications, PC hard drives, and network drives. Without regular oversight and back up, information can become outdated or lost. Lack of governance for content management prevents proper procedures for data integration, retention, quality assurance, utilization, standardization, and retirement. EDR2 places further demands to properly manage FTB's information assets impacting virtually every area of FTB, making updating, adding, and maintaining information even more essential to FTB's business goals. The EKL will replace the current disparate sources of storage for business processes, procedures and materials, which will be accessed by internal customers in the Accounts Receivable Management (ARM) Division, Legal Division, Audit Division, Filing Division, and Administrative Services Division.

The Enterprise Training and Development (ETD) Team will collaborate with the Divisions on the local and enterprise procedures and processes. With the increased number of process and procedure changes coming with EDR2 project deliverables, it is extremely important to have a "one-stop-shop" for technical (law, policy, legal briefs, etc.) procedures and references contents to ensure accuracy, consistency, effectiveness, and the ability to manage those new procedures, training, and processes. As a result, three year limited-term resources are being requested by the ARM, Audit, Filing, and Legal Divisions to implement this new solution. The positions will perform the following tasks within each division:

- Work collaboratively with the EDR2 vendor and EDR2 project team to facilitate new functionality
- Transition current procedure manuals to the EKL, including reviewing current pages to determine what needs to be redacted for external pages
- Provide ongoing support and ongoing validation for new functionality delivered from the vendor
- Develop new functionality that will not be completed by the vendor to support continuous improvement.

## Accounts Receivable Management Division

*Principal Compliance Representative - One three-year limited-term position*

The ARMD requests one Principal Compliance Representative (PCR) position will supplement Collection Advisory Team's existing positions for new work.

## Audit Division

*Program Specialist I – One three-year limited-term position*

The Audit Division requests one Program Specialist I position to support the implementation of the EKL. EDR2 will replace several audit systems, including PASS which is Audit's system of record. As such, a resource is needed to plan, organize and implement the new EKL.

## Filing Division

*Senior Compliance Representative – two three-year limited-term positions*

Filing Division requests two Senior Compliance Representatives to supplement the division's Correspondence, Education, Analysis, Support, and Education and Taxpayer Services Center Sections' existing positions to assist in the development of the EKL.

## Legal Division

*Staff Operations Service Analyst – One three-year limited-term position*

The Legal Division requests one Staff Operations Specialist to ensure Legal's contents and processes, updated technical and procedural manuals as well as other training and reference guides transition to the new solution.

## Training and Procedure (Various Divisions)

Training and procedures are critical to the EDR2 project to ensure enterprise and field office staff are trained and understand how to perform their job with EDR2 project implementation and changes. FTB needs to have adequate resources to continue to manage procedures, training materials, and training classes with the significant new processes and solutions being introduced to ARMD and Filing Division as a result of EDR2.

In support of the EDR2 project, FTB requests permanent and limited-term resources in the third year to manage training and procedure activities at both the enterprise and local level.

## Administrative Services Division

### Enterprise Function: Enterprise Talent Development Section

*Senior Operations Specialist – One permanent full time*
*Senior Operations Specialist – Four two-year limited-term positions*

Enterprise Procedures & Training Program request one Senior Operations Specialist permanent position who will be responsible for ensuring FTB employees have relevant training materials and procedures to utilize the enterprise systems enhanced or implemented by the EDR2 project. These materials will be utilized by approximately 6,000 employees, who support revenue collections for California. This position is necessary to support the additional increased enterprise procedure needs associated with the project.

Enterprise Talent Development Section requests four Senior Operations Specialist two-year limited-term positions to provide in-classroom training regarding new enterprise EDR2 functionality. These positions will deliver the functionality training developed by vendor/Enterprise Procedures & Training Team (EPT) and division specific local training will be completed at the business area

level. Without the positions, the enterprise will be unable to coordinate and provide the enterprise training to staff on new EDR2 functionality ensuring consistent information is shared throughout the enterprise. Inadequate training will result in difficulties adapting to new functionality and implementing in procedures and processes, which will impact customer experience, enforcement efforts, and revenue.

## Filing Division

### Local: e-Program & Budget Section

*Senior Compliance Representative – One three-year limited-term position*

The e-Program & Budget Section requests for one three-year limited-term Senior Compliance Representative will be imperative to successfully implementing all EDR2 applications to Filing Division staff of over 1,600 permanent employees. The technical trainer will be required to train on local procedures related to all EDR2 applications, including enhancements to Taxpayer Folder, CM, and MyFTB. Additionally, trainers are required to attend JAD sessions, Training for Trainers (T4T), implementing and training of computer-based training, and instructor led training classes for the major application implementations of Audit, Underpayment and Filing Enforcement. Because the Filing Division supports FTB's main customer service center, all customer experience enhancements within EDR2 will also be trained through these two positions. Training staff are required in order to train the entire division as new EDR2 functionality is implemented, and the work processes and procedures change for the employees.

Additionally, the Filing Division on boards hundreds of new employees, annually, who will also need EDR2 training in addition to new hire training. With the increase in Filing Division's permanent staff, the division projects annual training classes, which onboard new employees to the EDR2 application, among other baseline training, may increase from three to four classes annually. The Senior Compliance Representative will be responsible for learning new system functionality, creating local training materials and procedures, and providing local training for the workloads resulting from EDR2 project.

### Operating Expenses and Equipment

*Compensation Payments to the Contractor – $116.5 million*

This funding is necessary to ensure FTB can pay the contractor for services performed. The EDR2 contract is a fixed price contract. The state must pay the contractor seventy (70) percent of the cost of the functionality that has been delivered and accepted by the state. The remaining thirty (30) percent of this cost is subject to the state realizing benefits. The compensation payable cannot exceed costs incurred and is subject to various caps under the terms of the contract. The amount payable is calculated using the total cost of the state-accepted and successfully deployed compensation deliverables. For the third year, the maximum potential payment for the 2023-24 contractor compensation is estimated at $116.5 million assuming the vendor was already paid for cost incurred in 2022-23 and the state realized enough benefits to cover the costs incurred in 2023-24. These costs have been reduced by the statutory holdback amount deployed across the entire project.

Total compensation paid must not exceed the Total Contract Amount (TCA) in any quarter or year. The cumulative amount of compensation paid out over the term of the EDR2 contract must not exceed the percentages of the TCA, listed below, which is inclusive of the required withholding rule:

a. 5 percent of the TCA at the end of quarter one (1) through quarter two (2) of the EDR2 contract;

b. 15 percent of the TCA at the end of quarter three (3) through quarter four (4) of the EDR2 contract;

c. 34 percent of the TCA at the end of quarter five (5) through quarter six (6) of the EDR2 contract;

d. 44 percent of the TCA at the end of quarter seven (7) through quarter eight (8) of the EDR2 contract;

e. 55 percent of the TCA at the end of quarter nine (9) through quarter ten (10) of the EDR2 contract;

f. 65 percent of the TCA at the end of quarter eleven (11) through quarter twelve (12) of the EDR2 contract;

g. 75 percent of the TCA at the end of quarter thirteen (13) and fourteen (14) of the EDR2 contract;

h. 84 percent of the TCA at the end of quarter fifteen (15) through quarter sixteen (16) of the EDR2 contract;

i. 92 percent of the TCA at the end of quarter seventeen (17) through quarter eighteen (18) of the EDR2 contract; and

j. 100 percent of the TCA at the end of quarter nineteen (19) through the end of quarter twenty-two (22).

Under the terms of the contract, FTB will seek an appropriation equivalent to the maximum potential payment for any year. This is a requirement even in years where the contractor's projected revenue for the year is not estimated to be sufficient to cover the maximum payment and therefore will bar payment of the maximum amount. Full and robust information is not known to accurately determine the revenue on which payment is based and in the event projections are lower than actuals and the vendor is entitled to a higher payment, this strategy will allow FTB and the state to accurately compensate the vendor for reimbursable amounts.

As the maximum payment may not be due and payable in any one year, FTB is requesting the following annual provisional language to allow for any funding not used to carry over to the next fiscal year.

Of the funds appropriated for EDR2 vendor compensation, any unused amount is allowed as one-time carryover funds to the subsequent fiscal year to support the vendor payment due to the solution provider for services performed and subject to payment.

In FY 2023-24 the contractor tasks include EDR2 project management activities; procurement and installation of hardware and software for the EDR2 solution; EDR2 project deliverables, such as the Management Requirement Deliverables (MRDs); implementation of scheduled business functionality (in the form of compensation deliverables); data conversion; and operational support for implemented business functionality.

*Contingency Compensation Payments to the Contractor*

Under the terms of the contract, up to 5% of the total contract amount should be funded for unexpected contingencies. This contingency amount is for an event where additional work must be performed which was wholly unanticipated and is not specified in the Statement of Work (SOW), Request for Proposal (RFP), or the contractor's proposal, but is necessary for the successful implementation and/or operation of the system; and the successful accomplishment of the EDR2

project goals. To meet the terms of the contract and protect all parties to the contract, FTB will annually request $5 million or 5 percent of the vendor compensation payment, whichever is greater, as an annual appropriation through December 31, 2026, not including the maintenance and operations portion of the contract. Annually, any unused amount will be subject to re-appropriation in the following years and available for expenditure over the life of the project. Any funds provided that are not expressly used for the specified purposes shall revert to the fund from which they were appropriated at the end of the project.

For 2023-24 fiscal year, FTB requests $5.8 million as a contingency payment. Additionally, FTB is requesting the following annual provisional language to allow for any funding not used to carry over for to each succeeding fiscal year over the life of the project.

> Funding in this item includes an amount for contingency payments for the EDR2 project in order to accommodate an event where additional work must be performed which was wholly unanticipated and is not specified in the Statement of Work (SOW), Request for Proposal (RFP), or the contractor's proposal, but is necessary for the successful implementation and/or operation of the system; and the successful accomplishment of the EDR2 goals. Of the funds appropriated for the EDR2 contingency payment, any unused amount is re-appropriated in the next fiscal year and each subsequent fiscal year over the life of the project until utilized. All amounts unused at the end of the project shall revert to the General Fund.

*New contractor software – $92,000*

To support the EDR2 project objectives, as reflected in the EDR2 SOW, this software will be utilized by FTB staff and contractor consultants for the EDR2 project to plan, design, build, test, and deploy the EDR2 solution. Funds are requested for the basic FTB standard and non- standard software to allow the consultants to do the job and also to comply with FTB security requirements. These software elements must be secured for the EDR2 project to achieve the strategic goals of EDR2 project and to meet the state's Statement of Work (SOW) mandate.

*Non-standard Software Refresh and Maintenance – $343,000*

To support the EDR2 project objectives as reflected in the EDR2 contract, FTB is responsible to provide and maintain necessary non-standard server software to be used during the implementation of the EDR2 solution. The non-standard server software will be used by software development staff to manage and deploy software code and will be used by testing staff to create, update, manage, and execute testing scripts. The non-standard server software must be refreshed to ensure FTB meets its EDR2 deliverables and to ensure the necessary tools to deliver a quality EDR2 solution remains in place.

*Independent Verification and Validation (IV&V) and Quality Assurance (QA) Consultant Service – $3.5 million*

IV&V oversight consultants primarily focus on ensuring the project development adheres to project management best practices and standards to deliver high quality products/solutions and provide on-going insight into complex projects. The IV&V consultants identify and document any project findings that are used to drive continuous improvement in the quality of products/solutions with regular evaluations, reporting, and communications. The project findings provide clarity about the overall state of the project, identify process improvement opportunities, and help forecast roadblocks before they become project impediments. This involves both verification of project processes and validation of work products.

QA consultants primarily focus on optimizing processes and standards that deliver quality products/solutions and ensure that they meet the specified requirements and standards, and that customers consistently receive a high quality product/solution. QA is a proactive approach where defects are detected before a product/solution is implemented.

Per the SAM Section 4940.3, "IV&V services are required for all reportable projects classified as medium or high criticality and must begin on or before the proposed project start date." The EDR2 project is classified as medium criticality. In addition, the CDT strongly recommends that FTB procures QA services in addition to IV&V services.

IV&V services began June 2021 and conclude when the EDR2 solution is implemented in December 2026. QA services began July 2021 and conclude when deliverables are met in December 2026. Funding is requested annually throughout this time period.

*Independent Security Assessment Consultant Service – $300,000*

The EDR platform allows FTB to modernize the information technology systems and processes across the enterprise. This effort to FTB's operations is to increase efficiencies and services to taxpayers, maximize transparency, and ensure compliance. EDR laid the foundation for Tax System Modernization by delivering the infrastructure and software architecture for a consolidated platform with common business functions and services. EDR was the largest technology project ever implemented by FTB. EDR included ten major releases over a five-year period. The state-of-the-art technologies and reengineered business processes impacted over 4,000 staff with the potential to impact every taxpayer. EDR focused on capturing more data, using this data for enhanced return and fraud analysis, sharing the enhanced data across multiple business areas, and connecting standalone IT systems.

Phase 2 of the project (EDR2) builds upon the platform implemented by EDR to deliver enterprise case management and modeling, decommission outdated legacy systems, and increase services to taxpayers.

Both EDR and EDR2 platforms are very large, complex systems that contain Federal Tax Information and personally identifiable information on every California taxpayer. Due to the type of confidential data FTB collects and stores, this makes FTB a target for adversaries including criminals, inside attackers, and hacktivists. FTB must stay one step ahead of these adversaries and protect the data.

A project with the size and scope of EDR2 will need outside security assessments to ensure that the vendor is not introducing new risks via security vulnerabilities to the state. These independent assessments bring in not only SMEs to perform penetration testing but also an outside look at the system as a whole. The objectives of the proposed independent security assessment are twofold:

1. To establish a baseline for evaluating and performing vulnerability and penetration testing against EDR systems, which include Internal Taxpayer Folder, CM, and MyFTB online application. In addition, a security assessment will be conducted annually throughout the EDR2 project life-cycle. Both the initial baseline and the annual assessment report will provide an objective assessment of the level of risk to these systems and provide options to remediate them.

2. The initial baseline compared with the annual assessment report will help the EDR2 project team identify the vulnerabilities introduced by changes for EDR2. FTB's EDR2 contractor will call for these independent security assessments, including the initial baseline, and require the vendor to address any new vulnerabilities that are introduced as a result of the EDR2 solution.

If the vulnerabilities are not identified during the EDR2 project and attributed to the project, the contractor will not be responsible for fixing them. The independent security assessment will allow FTB to identify security gaps during the duration of EDR2 project, as well as, reduce FTB's risks of confidential data leakage, breaches, and unplanned outages of EDR/EDR2 systems for business.

Independent security assessment consultant services began July 2021 and conclude when the EDR2 solution is implemented in December 2026 and funding is requested annually throughout this time period.

*CDT's Independent Project Oversight Consultant Service – $216,000*

The CDT's Independent Project Oversight Consultant (IPOC) service is responsible for developing an Independent Project Oversight Report (IPOR) for projects classified as medium or high criticality. The IPOC analyst ensures the project and department is following their internal processes, procedures, and project plans. The IPOC analyst also works with the IV&V and Project Oversight and Guidance (POG) units to ensure the department is following policies stated in the SAM and State Information Management Manual (SIMM). Per SAM Section 4819.36 and 4940.1, the IPORs must be completed by the CDT's IPOC monthly. The EDR2 project is classified as medium criticality.

IPOC services began July 2021 and conclude when the EDR2 solution is implemented in December 2026 and funding is requested annually throughout this time period.

*CDT's Gov Cloud Services - $193,000*

With the EDR2 Project, FTB is building upon and leveraging much of the technical architecture implemented during the EDR1 Project while introducing new, key technologies to advance the technical architecture implemented during the EDR1 Project. A common theme across those new, key technologies is that those technologies are "Cloud" ready. The EDR2 Project will leverage Microsoft Azure government cloud Infrastructure-as-a-Service (IaaS) to deploy the new, key technologies into development and test environments. This measured approach minimizes risk to production workloads while allowing FTB to take advantage of IaaS features such as the ability to easily provision new development and test environments and decommission environments no longer needed, performing system maintenance activities, applying software upgrades, and applying security patches. The ability to provision and decommission environments based on need allows FTB to only pay for infrastructure that is actively being used by development and test teams. Finally, during EDR2 contract negotiations with the Solution Partners (SP), FTB agreed to establish and pay for an interagency agreement with the California Department of Technology (CDT) for Microsoft Azure IaaS services. FTB reached this agreement with the SP because the cost of cloud services through CDT are more cost effective than the costs that the SP was able to negotiate directly with cloud service providers. The agreement between FTB and the SP is included in the EDR2 contract.

FTB requests funding to establish an interagency agreement with CDT for Microsoft Azure IaaS services. By establishing an interagency agreement with CDT, FTB can leverage pre-negotiated, lower rates for cloud services and fulfill its contractual obligation to the SP. If this request is not funded, FTB will not be able to meet its contractual obligation, fully capitalize on the "Cloud" ready technology implemented by the EDR2 Project and elevate development and test environment contention during peak phases.

*IT Training – $200,000*

In anticipation and for planning purposes, FTB requests an annual appropriation of a $200,000 training budget to support the demanding and emerging technologies that come with a project of this magnitude. During the course of the EDR2 project, staff workloads will be migrating from

their current legacy platform to the enterprise platform which most likely will require additional training, so that staff can gain the necessary knowledge and skills to successfully complete their new enterprise platform workloads. This budget is to support those on-demand needs that are outside the scope of knowledge management that the contractor supplies. In addition, this budget is required to prepare state staff to assume maintenance and operations support responsibilities once the EDR2 solution is fully implemented.

*Organizational Change Management – $10,000 In-State Travel and $7,000 Out-of-State Travel*

FTB requests an annual appropriation of $17,000 for Organizational Change Management (OCM) to travel to field offices for the EDR2 project. The replacement of the Audit Division and ARMD legacy case management systems and modeling systems will significantly impact technology, workflows, business processes, procedures, and work culture at an enterprise level. Workflows and techniques practiced for many years will have to be reorganized, amended or relearned. The purpose of traveling to FTB field offices is to conduct in person OCM meetings with FTB field staff to increase EDR2 project implementation readiness, reduce resistance, accelerate adoption, increase efficiencies for post implementation and create a positive experience for FTB employees.

*Audit Travel for Training for Trainers – $13,000*

FTB requests an annual appropriation of $13,000 for Audit Division to send a few select trainers from the thirteen offices to attend a T4T session in one location. The EDR2 project is replacing Audit's current case management, modeling and reporting systems. This will require training 1,000+ Audit staff, located in California, Texas, Illinois, and New York, and located across thirteen different offices. This allows the trainers to become EDR2 SMEs who will return to their offices to train the business areas. T4T is provided directly to division specific trainers by the EDR2 vendor. FTB anticipates T4T training to be one to two weeks with classes running six to eight hours per day.

*ARMD Travel for District Office Training – $10,000*

FTB requests an annual appropriation of $10,000 for ARMD Trainers to deliver in-person training to field office staff. ARMD's career center plans to facilitate the development and presentation of EDR2's training to 1,225 staff including 171 field collection and public counter staff in five public field offices throughout California in the tax programs on the new systems and functionality.

## E. Outcomes and Accountability

The CDT's approved S1BA, S2AA, S3SD, and S4PRA supports this Budget Change Proposal (BCP) request and provides the details about the project scope, solution requirements, procurement and staffing strategy, solution development, evaluation methodology, and cost/payment model.

The EDR2 Business Director and EDR2 Technology Director will work with FTB's POG and Procurement units to oversee project activities and ensure all applicable policies, rules, guidelines and procedures are followed, as well as, perform communication management, including status reporting, consistent with stakeholder and overseer needs.

The fiscal oversight of the project is the responsibility of both the Chief Information Officer (CIO) and the Chief Financial Officer (CFO).

- FTB has taken various steps and requested funding to ensure a successful EDR2 implementation.
- A CDT IPOC will continue to be engaged to ensure project management activities, including schedule management; earned value analysis; and risk management, are executed consistent with industry best practices and standards.
- An IV&V and QA consultant will continue to be engaged to oversee and perform QA of the

EDR2 project contractor and state activities to ensure execution is consistent with requirements.

- The independent security assessment consultant will continue to ensure that the EDR2 project contractor is not introducing new risks via security vulnerabilities to the state.
- FTB's ability to maintain the data integrity of Federal Tax Information, State Tax Information, or Personally Identifiable Information in its critical information systems is ensured to reduce the risk of losing public trust.
- New audit models, strategies, and products are realized. Audit Division has the ability to successfully select best value cases and complete quality cases efficiently, increase automation and process efficiencies, and ultimately reduce audit timeframes.
- PASS case unit data analysis and cleanup tasks are completed to ensure the data is ready for the modeling and conversion processes. Business rules are put in place for automating the data conversion from the legacy system data to the Enterprise Data Store for use by the new case management system in the EDR2 project.
- Cases in the ARMD collection legacy system are analyzed and resolved by the PIT Data Conversion staff prior to the contractor's automated conversion to the new case management system. Data integrity in the legacy collection system has been ensured and account issues have been resolved for the maximized effectiveness of the automated data conversion to the new case management system.
- New data fields from paper returns and stand-alone tax forms are timely captured and utilized for processing, modeling, noticing, validating, and verifying to create additional notices and increase revenue.
- Additional time sensitive workload in Health and Safety Unit related to the increase of enterprise staff will be addressed.
- Training and OCM activities will be created and developed to support FTB enterprise and field offices who will utilize the systems impacted by the EDR2 project.
- Creation of new ftb.ca.gov webpages from EDR2 project 22 new initiatives are successfully completed and provide information, next actions, and instruction on how to use self-services to taxpayers, practitioners, and business partners.
- New software and hardware will be acquired for increased activities planned for the EDR2 project.

**F. Analysis of All Feasible Alternatives**

**Alternative 1**: Approve augmentation of $135.0 million and the full time equivalent of 41.0 permanent positions, 31.0 limited-term positions to begin third–year implementation of the EDR2 project in FY 2023-24.

This alternative represents a fully-loaded request for resources needed to successfully begin the third year of the EDR2 project. The EDR2 project supports replacement of three legacy systems that are near end-of-life (ARCS, INC and PASS) which will improve efficiency and provide a better taxpayer experience. This will be accomplished by transitioning the Audit, Legal, Filing Enforcement and Underpayment SOWs to FTB's enterprise platform and implementing Audit, Filing Enforcement, and Underpayment strategies that will identify new revenue streams.

This alternative requests an augmentation to:

- Acquire additional permanent and limited-term enterprise business/program positions to support the increased workload generated by the EDR2 project on Training, Audit, ARM, FESD, Filing, Legal, TSD, and Communication Services Bureau.
- Acquire additional permanent and limited-term IT positions to support the enterprise security for the duration of the EDR2 project.
- Acquire overtime funding for Personnel staff to manage the increase in hiring workloads as a result of the EDR2 project.
- Acquire IV&V, QA, and CDT IPOC and Gov Cloud contract services.
- Acquire independent security assessment consultant service.
- Secure the contractor's compensation and $5.8 million for the contingency compensation payments.
- Fund new software to provide equipment for contractor staff.
- Fund IT travel and training to support the demanding and emerging technologies with the EDR2 project.
- Fund ARM, Audit, and Organizational Change Management travel for training activities.

**Alternative 2**: Do not approve the BCP.

If these additional resources are not approved, delays will occur in the implementation of the EDR2 project and risks the availability and opportunity of FTB to adequately complete the tasks and address legacy systems that are using outdated technology.

Increased and unnecessary risks to the contractor would also occur resulting in the cessation of project activities or increased litigation risks to the state for failure to timely pay for services performed. Failure to ensure this project moves forward timely will eliminate FTB's ability to replace aging systems before end-of-life which could jeopardize the generation of revenue of approximately $4 billion annually. FTB will not be able to meet contractual obligations associated with the EDR2 project.

**G. Implementation Plan**
- June 2023 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.
- July 2023 – Department of Finance notifies FTB of position approvals.
- July 2023 – Permanent, limited-term and permanent-intermittent positions are established and FTB begins hiring

## H. Supplemental Information

None

## I. Recommendation

Approve augmentation of $135.0 million and 41.0 permanent positions, and 31.0 limited-term positions to begin third–year implementation of the EDR2 project in 2023-24.

This alternative provides the most efficient and effective solution to meet the project and contractual needs when the EDR2 project begins third-year implementation on July 1, 2023. This alternative is the most desirable alternative to minimize costs and risks and maximize the benefits of the EDR2 project.

**BCP Fiscal Detail Sheet**

BCP Title:

BR Name:

Budget Request Summary

Personal Services