

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

Fiscal Year 2023-24	Business Unit 7730	Department Franchise Tax Board	Priority No. 004
Budget Request Name 7730-030-BCP-2023-A1		Program 6280/6290/6295	Subprogram 6280010/6280019/6280025

Budget Request Description
 IBM Microsoft Enterprise Licensing Agreement Renewal

Budget Request Summary

The Franchise Tax Board (FTB) is requesting \$1.83 million, \$1.81 million General Fund and \$27,000 Special Funds in Fiscal Year (FY) 2023-24, \$1.91 million, \$1.88 million General Fund and \$29,000 Special Funds in FY 2024-25 and ongoing to establish a fully funded, permanent baseline budget to continue existing licensing and support subscription for existing mainframe software that allows FTB to keep its existing mission critical applications running.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

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
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A. Budget Request Summary

The Franchise Tax Board (FTB) is requesting \$1.83 million, \$1.81 million General Fund and \$27,000 Special Funds in Fiscal Year (FY) 2023-24; \$1.91 million, \$1.88 million General Fund and \$29,000 Special Funds in FY 2024-25 and ongoing to establish a fully funded, permanent baseline budget to continue existing licensing and support subscription for existing mainframe software that allows FTB to keep its existing mission critical applications running.

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&TC), 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.

In FY 2021-22, FTB processed more than 22.5 million tax returns, over 10 million payments, 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 California's General Fund revenue¹. The General Fund is used to fund necessary services for all Californians across the state, including but not limited to education, safety and welfare programs, and law enforcement.

FTB's mainframe is essential to the mission-critical accounting and noticing systems and is relied on by all tax processing systems. The mainframe supports application systems essential to the filing, collections, audit, non-filer, and refund processes, websites, and phone lines. All these systems have substantial dependency on the data that resides within the mainframe and processing that is done by the mainframe and therefore, rely on the mainframe to support the efficient, effective, and secure operations of those applications.

The authorized software entitlements, maintenance, and support that allow FTB to perform these operations are licensed through an Enterprise Licensing Agreement (ELA). Historically, FTB partners with California Department of Technology (CDT), and CDT works with the Department of General Services (DGS) to negotiate the contract renewal for software licenses under a common ELA with the goal of achieving volume pricing and lower total cost for the state. The current contract was negotiated by CDT in September 2022.

C. State Level Consideration

FTB's administration of California's income tax laws are facilitated by a committed focus to fulfilling FTB's Strategic Plan. Within the Strategic Plan, FTB's Mission is "to help taxpayers file timely and accurate tax returns and pay the correct amount to fund services important to Californians". To accomplish this mission, FTB established four Strategic Goals and Strategies, and has proven successful by considering them while maintaining FTB's Foundational Principles and Values. FTB's mainframe is host to the applications and services which provide important data necessary for FTB to carry out its Strategic Goals. This BCP request aligns with two of FTB Strategic Goals:

Goal 1: Exceptional Service states the FTB will "Strive to continuously enhance our customers' experience." The renewed ELA for mainframe software licensing and support allows FTB to continue return and refund processes, and self-service applications, that enhance our customers' experience.

Goal 2: Effective Compliance states the FTB will "Fairly administer the law to ensure taxpayers file and pay the correct amount." FTB's compliance activities rely on data within and processed by the mainframe. Renewing the contract for the mainframe software licensing and support allows FTB to continue its compliance activities that align with Goal 2.

¹ Revenue figures based on the 2021-22 Cash Report reported in the Department of Finance's July 2022 Finance Bulletin.

D. Justification

The CDT has provided the most economical solution to support FTB's mainframe ELA. The ELA permits FTB to run and provide maintenance and security patches on the mainframe software which is necessary for FTB to maintain core business functions. FTB has adopted multi-year subscription and licensing contracts to obtain tools, licensing, and support for the best value.

FTB's current budget allocation is not able to absorb ongoing funding increases associated with this contract without impacting existing business operations. The prior mainframe ELA resulted in annual payments of \$2.40 million each year and a lump-sum cost of \$4 million the first year. The new ELA results in costs of \$4.10 million in FY 2022-23, \$4.23 million in FY 2023-24, \$4.31 million in FY 2024-25. This creates a funding gap of \$1.70 million, \$1.83 million, and \$1.91 million respectively. FTB's proposal is requesting funding in FY 2025-26 and ongoing as this level of costing for these products and services has been consistent year over year and FTB has no information to suggest the succeeding contract would offer a price reduction. Funding is requested ongoing.

Fiscal Year	Baseline FY 21-22	Cost for FY	Underfunded Amt
FY 22-23	\$2,397,773	\$4,096,842	(\$1,699,069)
FY 23-24	\$2,397,773	\$4,228,926	(\$1,831,153)
FY 24-25	\$2,397,773	\$4,309,356	(\$1,911,583)
Total	\$7,193,319	\$12,635,124	(\$5,441,805)

During FY 2022-23, FTB has experienced a higher-than-normal vacancy rate, which has resulted in personnel services savings. These savings were redirected to cover the FY 2022-23 unfunded amount of \$1,699,069. FTB is enhancing recruiting methods and efforts to address the unusual increase in vacancies and does not expect the personnel services savings to be an ongoing circumstance.

For the previous contract, FTB was able to internally fund the lump-sum cost of \$4 million by identifying cost savings to offset the upfront lump-sum payment in FY 2019-20. For the new contract, the lump-sum cost of \$4 million is being amortized over the three-year contract term, creating a significant ongoing funding gap. In addition to the amortization of the lump-sum cost, the funding gap is further widened by an approximate 5% annual increase in contract costs. As noted above, FTB does expect this costing level and amortization strategy will carry over to future contracts and accordingly ongoing funding is requested.

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 mainframe support exist.

The software entitlements and support subscriptions that this funding pays for enable FTB to process tax returns, payments, refunds, and engage in compliance activities utilizing the mainframe operating system, applications, services, and tools that run on the platform. Not paying these licensing fees and support costs would have resulted in the inability to perform these functions because we would not be permitted to operate the software.

The primary function of the FTB is to administer the R&TC. Tax policy is determined by tax laws enacted by the Legislature, and it is FTB's duty to correctly apply the laws and to perform in a fair and impartial manner. The California Taxpayer's Bill of Rights Act codified many existing FTB procedures, established a Taxpayer's Rights Advocate, and clarified rights for all California taxpayers and FTB's obligations to the taxpayers. The policies and principles guiding FTB ensures the R&TC will be administered with fairness and equity for all California taxpayers. As a result, for this proposal, FTB is not aware of any equity issues this proposal addresses or that this proposal would result in un-equitable impacts.

E. Outcomes and Accountability

The FTB mission is to help taxpayers file accurate and timely tax returns and pay the proper amount owed. To accomplish this mission, FTB has a technical infrastructure, which consists of a mainframe and distributed server environments, a network infrastructure, and storage solutions. This proposal will fund the licensing, maintenance, and support of mainframe software that is critical to our mission. The management of resources received from this proposal will be the responsibility of the Chief Information Officer or a delegate. The fiscal oversight of the resources is the responsibility of the Chief Financial Officer.

The FTB will continue to carry out its mission in a manner that is fair, equitable and consistent with the California Taxpayer's Bill of Rights Act.

F. Analysis of All Feasible Alternatives

Alternative 1: Provide \$1.83 million, \$1.81 million in General Fund and \$27,000 in Special Funds for FY 2023-24, \$1.91 million, \$1.88 million in General Fund and \$29,000 in Special Funds for FY 2024-25 and ongoing. This alternative provides full funding to cover the increased licensing costs of existing software and eliminates the need to reduce software licensing or stop critical program functions.

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 support the CDT-leveraged buying power, which benefits the state and therefore, Californians. Ongoing funding is necessary as FTB has no information to suggest the succeeding contract would offer a price reduction.

Cons:

- Cost to the General Fund.

Alternative #2: Provide \$1.83 million, \$1.81 million in General Fund and \$27,000 in Special Funds for FY 2023-24; \$1.91 million, \$1.88 million in General Fund and \$29,000 in Special Funds in FY 2024-25 and 2025-26. This alternative provides funding to cover the increased licensing costs of existing software for the next three years, which includes the last two years of the current contract and the first year of the renewal period and eliminates the need to reduce software licensing or stop critical program functions during that time.

Pros:

- This alternative ensures FTB's continued success in providing a robust and secure computing environment for staff carrying out FTB's mission.

Cons:

- We may not have sufficient funds to cover the negotiated costs of the contract in future years. Impacts could result in the inability to process tax returns, payments, refunds, and engage in compliance activities.
- Cost to the General Fund.

Alternative #3: Deny Request.

Pros:

- Avoid a General Fund expenditure.

Cons:

- FTB would need to self-fund this request as these software licenses 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

This contract renewal is for the licensing, maintenance, and support of existing software that is already installed, configured, and in use. There is no additional implementation plan.

H. Supplemental Information

None.

I. Recommendation

Alternative 1: Provide \$1.83 million, \$1.81 million in General Fund and \$27,000 in Special Funds for FY 2023-24; \$1.91 million, \$1.88 million in General Fund and \$29,000 in Special Funds for FY 2024-25 and ongoing. This alternative provides full funding to cover the increased licensing costs of existing software and eliminates the need to reduce software licensing or stop critical program functions.

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 support the CDT-leveraged buying power, which benefits the state and therefore, Californians.

Pending Board Approval

BCP Fiscal Detail Sheet

BCP Title:

BR Name:

Budget Request Summary

Personal Services

Pending Board Approval