

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
DF-46 (REV 03/25)

<b>Fiscal Year</b> 2026-27	<b>Business Unit Number</b> 7730	<b>Department</b> Franchise Tax Board
<b>Hyperion Budget Request Name</b> 7730-002-BCP-2026-GB		<b>Relevant Program or Subprogram</b> 6280

**Budget Request Title**

Enterprise Data to Revenue Project Phase 2 (EDR2)

**Budget Request Summary**

The Franchise Tax Board (FTB) requests an augmentation of \$61,055,000 in FY 2026-27, \$25,228,000 in FY 2027-28, \$19,403,000 in FY 2028-29, \$19,749,000 in FY 2029-30, \$20,241,000 in FY 2030-31 and ongoing, and the full time equivalent of 27.0 permanent positions for the sixth-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>Requires Legislation (submit required legislation with the BCP)</b> <input type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language <input checked="" type="checkbox"/> N/A	<b>Code Section(s) to be Added/Amended/Repealed</b> Click or tap here to enter text.
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<b>Does this BCP contain information technology (IT) components?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	<b>Department CIO</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.
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**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.**

**Project No.** Click or tap here to enter text.

**Approval Date:** Click or tap to enter a date.

**Project Approval Document:** Click or tap here to enter text.

**Total Project Cost:** Click or tap here to enter text.

**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.*

<b>Prepared By</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.	<b>Reviewed By</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.
<b>Department Director</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.	<b>Agency Secretary</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.

**Department of Finance Use Only**

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

<b>Principal Program Budget Analyst</b> Click or tap here to enter text.	<b>Date submitted to the Legislature</b> Click or tap to enter a date.
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## **A. Problem Statement**

The Franchise Tax Board (FTB)'s legacy systems are using outdated technology and need modernization. In fiscal year (FY) 2026-27, FTB will be entering the sixth year of the Enterprise Data to Revenue Project 2 (EDR2)'s project implementation. EDR2 is vital to FTB's operations. The technology currently supporting two out of 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. 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 deploy new tools to assist taxpayers in complying with their obligations as well as enhance FTB's compliance activities.

Voluntary compliance is integral to FTB's success in tax administration. Approximately 83 percent of California's tax obligations are filed timely, correctly, and paid. The remainder of tax obligations are filed incorrectly, not reported timely, require correction or activity to collect an unpaid balance. These processes are the costliest way for FTB to carry out its mission because they attempt to recover revenue often with redundant systems and functions that are not shareable and reusable. EDR2 takes a proactive approach in identifying noncompliant tax behavior, encouraging voluntary compliance behavior, and using more data to reconcile all aspects of a tax return to further support California's voluntary compliance-based tax system.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019. 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. Since then, FTB's State and vendor staff have been planning, designing, and implementing various pieces of the multi-year project. Following the statewide process to support funding for larger projects, an annual Budget Change Proposal is required for new costs related to that year. This year's proposal requests an augmentation of \$61,055,000 in FY 2026-27, \$25,228,000 in FY 2027-28, \$19,403,000 in FY 2028-29, \$19,749,000 in FY 2029-30, \$20,241,000 in FY 2030-31 and ongoing, and the full time equivalent of 27.0 permanent positions. If these additional resources are not approved, delays will occur in the implementation of the EDR2 project and risks the availability and opportunity for FTB to adequately complete the tasks and address legacy systems that are using outdated technology. FTB will not be able to meet contractual obligations associated with the EDR2 project.

Increased and unnecessary risks to the contractor will result 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.

## **B. Justification**

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 processes tax returns and payments, issues refunds to Californians, conducts audits and filing enforcement actions, collects debts owed to the state and supports numerous service functions allowing for each of these compliance activities to occur. As a result of FTB's efforts, in FY 2024-25, FTB processed more than 22.8 million tax returns, over 9.9 million payments, responded to more than 3.1 million telephone calls, serviced over 59.8 million internet contacts, and collected about \$166 billion in revenue, representing approximately 78 percent of California's General Fund revenue.<sup>1</sup> The General Fund is utilized to fund necessary services for all Californians. FTB employees are vital to the processing of tax returns, assisting taxpayers and collecting revenues for the General Fund.

In 2007, FTB undertook an extensive and strategic business process analysis effort to align FTB's goals and strategies with initiatives designed to deliver breakthrough improvement for the department's systems and processes, and therefore increasing revenue to the State. Through these strategic planning sessions, FTB identified many opportunities to streamline processes, reduce waste, minimize redundancy, and reduce technology maintenance and operations costs. The result was a three-phase Tax System Modernization (TSM) effort to modernize FTB's systems environment to 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. The first phase included Imaging, Data Capture, Case Management (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 systems and processes including Audit, Legal, Filing Enforcement (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.

This phase 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. Moving the compliance workloads and processes to the enterprise platform also 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.

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<sup>1</sup> Revenue figures based on the 2024-25 Cash Report reported in DOF's July 2025 Finance Bulletin

System	Date Implemented	System Age in Years (as of 2025)
ARCS	1999	26
INC	2001	24
PASS	1997	28

FTB has also begun and will continue to ramp up activities related to the successful transfer of knowledge regarding maintenance and operations of the new systems and processes.

As documented in the Management Requirement Deliverable (MRD) – Technology Management (TM) 21- Project Transition Plan and TM 23 – IT Asset Transition Management Plan, the EDR2 solution introduces new processes, roles, tools and technologies to FTB. Project success is dependent on FTB's ability to manage and operate the EDR2 solution in production. Solution Provider turnover of the EDR2 solution to FTB technical staff, or Technical Knowledge Transfer (TKT) Transition, starts occurring during the project as established in these plans and at defined milestones throughout the project. The purpose of the TKT Program is to prepare FTB technical staff to take over Maintenance and Operations (M&O) of the EDR2 solution seamlessly and effectively at the defined transition points. TKT is critical to maximizing the revenue-generating potential of the EDR2 solution.

FTB will continue knowledge management and transition activities during fiscal year 2025-26 for final delivery of the EDR2 solution to FTB in January 2026 with full state acceptance of the solution December 31, 2026 (end of the warranty period). The following tables and graphics represent activities that need to occur (and by when) to ensure the successful transition of the EDR2 solution to FTB.

Transition Steps
Identify and Define New Solution Components
Identify and Define New Processes
Identify and Define New Roles
Map New Processes and Roles to Solution Component
Perform Resource Assessment (identify number of resources needed to support components)
Define TKT Plan for each role (knowledge, skills, abilities, training curriculum, individual development plan)
Start TKT for each role (See TKT Role Stages)

TKT Role Stages	Description
	The transition period for the resource(s) identified for the various roles is a minimum of nine months before transition occurs and the ownership role transitions to FTB at which time the FTB resource(s) are in the "Passenger Seat" (FTB has completed TKT and is working alongside the SP Project team) and

they will move to the “Drivers Seat” starting in January 2026 with full transition by the end of the warranty period. See graphic below.	
Pre-Crawl	Engage & prepare for Role Transition. <ul style="list-style-type: none"> <li>• Time to come up to speed on role prerequisites or engage in TKT tasks (if applicable to role)</li> <li>• Work with SP mentor and FTB lead to set due dates for EDR2 Individual Training Plan (EITP) tasks</li> </ul>
Crawl	Role Transition and shadowing begins with the SP Counterpart
Walk	Role Transition progresses to more independence with simple tasks
Run	Task execution becomes more independent.
Transition	Ownership of role has transitioned to FTB SP continues to manage project work until system transition

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 Special Project Report (SPR) #2. The SPR #2 was approved on January 10, 2025.

The EDR2 Project implementation efforts are scheduled to be completed in January 2026. At that time, the EDR2 project moves into the warranty period which will end December 31, 2026.

During the warranty year, the EDR2 project plans to achieve the following objectives in 2026-27:

- Partner with the contractor to mature the system, including prioritizing and resolving defects in the delivered solution;
- Complete the transition of the operations of the system from the Contractor to FTB, including completing project closeout activities;
- Fully retire the ARCS and PASS legacy systems and prepare for the retirement of the INC system;
- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions;
- Complete technical knowledge transfer between SP and FTB staff;
- Transition ownership of IT assets from SP to FTB;
- Migrate Case Management and Splunk to the Cloud.
- Increase revenue and efficiencies by:
  - Using the new tax return, stand-alone forms, third party and unstructured data delivered during the project in FTB's Audit, Collections, and Non-Filing processes;
  - Continuing to optimize the solutions delivered during the project to successfully select best value cases for compliance efforts using the innovative technology delivered in the project, including analytic modeling using machine learning;

- Expanding the use of the enterprise knowledge library accessed by users and external customers;
- Perfect procedures and processes implemented during the project to maximize efficiency.

The department requests the following resources and funding to continue to support these activities to ensure successful completion of the EDR2 project:

## **Enterprise Business Area Positions**

### **ARM Division**

- **Business Entity Collection Bureau**
  - **BE Collection Operations Late Stage Section (PUC 636)**
    - ***Compliance Representative – One permanent position in FY 2026-27***

The Business Entity Late Stage Manual Process Collection Unit (BE MP) proactively pursues Business Entity collection accounts. BE MP teams are responsible for performing a variety of more difficult and/or time consuming collection tasks and analysis to effectively resolve delinquent tax liabilities by responding to and initiating contacts with taxpayers and their representatives. These activities include gathering entity, asset, and other collection information and utilizing skillful negotiations to obtain timely and voluntary resolution. Liabilities are verified for accuracy and to ensure due process has been served before initiating involuntary collection actions. Collectors evaluate financial statements and make determinations for ability to pay and installment agreements and educate taxpayers of their tax obligations to prevent future delinquencies and/or non-compliance.

BE MP anticipates higher proactive case volumes and more complex collection cases, including discharged cases, as a result of EDR2 improvements. Without additional resources this could result in aged, backlogged accounts, making it more difficult and time consuming to collect and resolve cases, leading to a loss of program revenue.

To address this increased workload, BE MP is requesting one permanent Compliance Representative position in FY 2026-27 to work business entity collection cases proactively by locating and contacting the taxpayers or third parties via telephone to secure payment in full and bring final resolution to the case. Resolving cases involves research and analysis of taxpayer information combined with the application of skillful negotiation techniques to obtain timely and voluntary resolution. In addition to the increased Business Entity workload, this resource will also be utilized to assist with the increased inventory in its sister unit, the Complex Account Resolution Team (CART), which manages the proactive collection of delinquent Personal Income Tax accounts.

If this position is not approved, FTB risks backlogged inventory, creating aged collection cases which reduce the collectability of the case and could result in a reduction in revenue.

- ***Senior Compliance Representative Overtime: 196 hours in FY 2026-27, 266 hours in FY 2027-28, 338 hours in FY 2028-29, 379 hours in FY 2029-30 and ongoing***

In addition to the one permanent Compliance Representative position, BE MP is requesting overtime for the Senior Compliance Representative classification to address the following workloads.

The Senior Compliance Representative will use overtime hours to review cases to ensure the most effective and appropriate collection methods and tools are being utilized, staff are timely processing their assigned workloads, and final resolutions are appropriate. These agents also consult with internal partners, regional offices, and other departmental resources in resolving difficult cases and may be required to respond to taxpayer calls and resolve accounts as needed.

Overtime hours fluctuate due to an anticipated gradual increase to Filing Enforcements (FEs), Notice of Proposed Assessments (NPAs), and Audit cases that will filter ARMD for manual collections as a result of new EDR2 functionalities.

- **Special Programs Bureau**
  - **Decedent Program (PUC 622)**
    - ***Compliance Representative Overtime: 136 hours in FY 2026-27, 299 hours in FY 2027-28, 302 hours in FY 2028-29, 219 hours in FY 2029-30, 135 hours in FY 2030-31.***

The Decedent Program is responsible for collecting outstanding tax liabilities on deceased taxpayer accounts. Compliance Representatives in the Decedent Program determine if accounts are collectible and initiate adjustments and abatements and determine collectability. They initiate collection activities and follow up on account assignments regularly to ensure commitments are met, collection actions are taken timely and pursue the status of probate proceedings on decedent cases.

With the improvements created by the EDR2 project, the Decedent Program anticipates having to file more claims due to a greater number and higher quality collection cases being created and available to pursue. The Decedent Program is requesting overtime for Compliance Representatives to file timely creditor claims, withdraw resolved claims, take legal action on rejected claims, process probate settlement offers, and pursue beneficiaries. Without overtime hours, the program risks increased backlog of probate work, leading to missing crucial dates claims must be filed by, which would lead to a loss of revenue from claims.

Overtime hours fluctuate due to an anticipated gradual increase to Filing Enforcements (FEs), Notice of Proposed Assessments (NPAs), and Audit cases that will filter to ARMD for collections as a result of new EDR2 functionalities. In addition, Decedent overtime hours start to decline in FY 29-30 due to new EDR2 Self-Service efficiencies.

- **Special Programs Bureau**
  - **Bankruptcy Section (PUC 625)**
    - ***Compliance Representative Overtime: 252 hours in FY 2026-27, 450 hours in FY 2027-28 and ongoing***

- **Senior Compliance Representative Overtime: 97 hours in FY 2026-27, 131 hours in FY 2027-28, 167 hours in FY 2028-29, 187 hours in FY 2029-30 and ongoing**

The Bankruptcy Section ensures that the department honors all bankruptcy laws to collect amounts owing in a debtor's bankruptcy and serves as a resource to the department in all bankruptcy matters. The Bankruptcy section functions as a point of contact between the Attorney General's Office and FTB. The section receives objections and adversaries and then determines if they need to be referred for representation to the Attorney General. Responsibilities of the Compliance Representatives and Senior Compliance Representatives within Bankruptcy include ensuring the Department honors Bankruptcy Laws for Automatic Stays, collecting the correct amount of taxes owed to the state by meeting deadlines to file Proof of Claims against taxpayers, reviewing bankruptcy plans and filing missing years and To Be Determined claims.

With the improvements created by the EDR2 project, the Bankruptcy Section will see an increase in the number of Personal Income Tax and Business Entity cases with a greater collection potential. Many of these cases come with strict deadlines mandated by the courts. Without overtime hours, this could result in a backlog of work, leading to missing important legal dates, which in turn could lead to a loss of revenue from bankruptcy filings, and possibly expose the department to Bankruptcy Court sanctions.

The Bankruptcy Unit is requesting Compliance Representative and Senior Compliance Representative overtime hours to manage the additional cases, maintain productivity, meet deadlines, and uphold FTB's standards of excellence. Overtime hours fluctuate due to an anticipated gradual increase to FEs, NPAs, and Audit cases that will filter to ARMD for collections, which could then result in an increase to bankruptcy filings.

- **Statewide Collection Bureau**
  - **PIT Manual Process Section (PUC 642)**
    - **Compliance Representative Overtime: 217 hours in FY 2027-28, 357 hours in FY 2028-29, 366 hours in FY 2029-30, 376 hours in 2030-31 and ongoing**

Statewide Collection Bureau leverages tools and technologies to collect debt owed to the State of California and collaborates with internal and external stakeholders to become the foremost revenue collection organization.

The Personal Income Tax Manual Process (PIT MP) team is responsible for proactively performing a variety of more difficult and/or time consuming collection tasks and analysis to effectively resolve delinquent tax liabilities by responding to and initiating contacts with taxpayers and their representatives. These activities include gathering entity, asset, and other collection information and utilizing skillful negotiations to obtain timely and voluntary resolution. Liabilities are verified for accuracy and to ensure due process has been served before initiating involuntary collection actions. Collectors evaluate financial statements and make determinations for ability to pay, installment agreements, or garnishment modifications using set criteria. They also educate taxpayers on their tax obligations to prevent future delinquencies and/or non-compliance.



With the efficiencies created by EDR2, PIT MP anticipates higher volumes and more complex collection cases being created and available to pursue. Without additional resources this could result in aged accounts, making it more difficult and time consuming to collect and resolve cases, leading to a loss of program revenue.

PIT MP is requesting overtime hours to resolve collection accounts in the new Enterprise Tax System. This staff will continue to respond to taxpayers and third parties reactively, who call or write in response to automated and manual collection notices, analyze collection accounts for asset information to determine the next plan of action such as issuing and modifying wage garnishments, bank levies, and liens.

### **Audit Division**

- **Audit Services, Administration, and Protest Bureau (PUC 392)**
  - **Protest Section:**
    - ***Program Specialist II – Six Permanent Positions: One position in FY 2027-28; one position in FY 2028-29; one position in FY 2029-30; and three positions in FY 2030-31***

The Protest Section within the Audit Division is responsible for resolving protest cases resulting from taxpayers disagreeing with a proposed assessment from a tax return audit. Taxpayers have statutory rights to file protests of proposed assessments. Resolving protested audit cases is a mandatory workload per Revenue and Taxation Code (R&TC) Section 19041. If a Protest is filed as a result of an FTB Notice of Proposed Assessment(s), the Protest section shall reconsider the assessment of the deficiency and grant an oral hearing if requested per R&TC Section 19044.

EDR2 technology enhancements include the introduction of new audit models, which will result in an increase of proposed assessments for individual, business, and pass-through entity taxpayers. The increase in proposed assessments will result in additional protest cases at all levels of complexity. The Protest Section is requesting six Program Specialists II for the upcoming years to address the increase in protest cases.

These positions will fulfill the role of Hearing Officers who are responsible for reviewing the entire audit file, performing research, conducting oral hearings, ascertaining facts, weighing the evidence, and applying the facts to the applicable law to make an objective and unbiased decision to resolve the case.

Failure to adequately increase the staffing level will negatively impact the protest workload. Insufficient staffing would result in slower case development, a larger inventory of open protests, and delays in administration of tax controversies facing the FTB.

### **Filing Division**

- **Filing Methods and Budget Bureau**
  - **Tax Forms Development & Distribution Section (PUC 723)**
    - ***Overtime: 613 hours in FY 2026-27 and ongoing***

The Tax Forms Development & Distribution Section (TFDDS) is responsible for updating tax form products including tax forms, schedules, instructions, booklets, and publications. The implementation of EDR2 has led to enhancements that will allow an expansion of data captured from tax forms via automation. This additional tax form data will be utilized by downstream business areas to assist with compliance and collecting revenue. To capture additional data, applicable tax forms need to be revised to include new data capture fields and reviewed annually for any changes due to tax law changes or other impacts.

The TFDDS is requesting 613 hours of overtime for staff to coordinate, update, test, and provide both technical and policy review of the revised forms each fiscal year. These activities are required for both e-file and paper forms. Without these hours, new data fields will not be captured, resulting in the loss of new data needed by downstream business areas that conduct compliance and revenue collection activities.

- **Filing Compliance Bureau**
  - **Filing Enforcement Section: (PUC 765)**
    - **Compliance Representative - Two Permanent Positions: One in FY 2026-27 and one in FY 2028-29**
    - **Senior Compliance Representative Overtime: 232 hours in FY 2026-27, 308 hours in FY 2027-28, 393 hours in FY 2028-29, 459 hours in FY 2029-30 and ongoing**

The Filing Enforcement Section within the Filing Division is responsible for the department's processes that gather income and business activity information, identify and contact potential non-filers, and issue appropriate assessments to individuals and business entities that fail to comply.

EDR2 will improve data matching, through automated business rules, to allow for the right data to be used when determining an individual's filing requirement. EDR2 will also yield new data sources from third parties and additional data captured from returns. The new data sources and improvements in matching the data to the correct account will increase the number of non-filer cases.

The Filing Enforcement Section is requesting two permanent Compliance Representatives to perform three workloads related to the increase in business entity non-filer cases. The first workload entails processing and responding to correspondence resulting from a request or demand notice issued to taxpayers. Second, these staff will conduct quality assurance tasks, which include reviewing cases to determine if a non-filer notice should be mailed. This workload ensures we are not contacting customers erroneously. When a taxpayer receives an erroneous notification, it increases contacts that would otherwise be avoidable and creates frustration for the taxpayer.

In addition, some of the new data (i.e., income records) provided by the EDR2 solution will not be automatically associated with a taxpayer. Therefore, these positions will review the unassociated income records and perform a manual web

search to associate the income records to the correct taxpayer and determine if a filing requirement exists.

If these positions are not approved, FTB may not be able to respond timely to correspondence or avoid erroneous non-filer notifications and increased processing times of non-filer accounts. Sending erroneous notifications and delaying the review and resolution of taxpayer accounts will lead to a delay in or lost revenue, increased customer contacts, poor customer service, and a negative perception of the Franchise Tax Board.

The increased correspondence worked by the additional Compliance Representatives will result in an increased volume of items for review. The Filing Division is requesting overtime hours for the Senior Compliance Representatives Lead to provide quality review and technical support to staff to resolve the most complex technical and filing enforcement issues for each fiscal year. The additional hours will also be used to assist with the increase in protest work due to the new business entity filing enforcement matching improvements and new business entity data sources for models resulting in additional business entity audits. Without the overtime hours, EDR2 business entity work and taxpayer accounts will not be reviewed timely, resulting in increased contacts and poor customer experience.

- **Filing Compliance Bureau**
  - **Withholding Services and Compliance Section: (PUC 767)**
    - **Program Specialist I – Two Permanent Positions: FY 2026-27**
    - **Senior Compliance Representative Overtime: 360 hours in FY 2026-27 and 180 hours in FY 2027-28**

The Withholding Services and Compliance Section (WSCS) within the Filing Division is responsible for educating and auditing withholding agents as well as collecting withholding payments.

In addition to expanding Case Management to include withholding agents, new data and modeling solutions resulting from the EDR2 solution contribute to WSCS being able to conduct more audits. Therefore, WSCS is requesting two permanent Program Specialist I positions to conduct audits and address Notice of Proposed Assessment (NPA) protests and appeals. This position is also needed to perform oral hearings for Filing Enforcement protests.

This resource will support improvements in enforcing preparer compliance, contribute to increased revenue associated with increased compliance, and contribute to reduced timeframes for processing protest and appeals.

WSCS also manages the Voluntary Disclosure Program (VDP) and the Filing Compliance Agreement (FCA) program. Both programs were established to encourage entities and their shareholders to voluntarily disclose, file, and make full payment for all years they failed to file a California tax return. Voluntary compliance is the preferred path, as involuntary compliance is more costly and time consuming.

To participate, taxpayers must submit an application for either VDP or FCA and fully disclose all material facts for FTB to determine eligibility. EDR2 will be implementing an online service for taxpayers to submit these applications. WSCS is requesting overtime hours for the Senior Compliance Representatives to review the applications and supporting information to determine applicant eligibility, respond back to the applicant regarding their eligibility, request and prepare returns and payments for processing, and maintain records. With the implementation of an online service, the staff will need to work on processing both paper submissions and electronic submissions. Without these overtime hours, FTB may be unable to appropriately support this taxpayer-requested online channel that will aid in taxpayer compliance and revenue.

### **Legal Division**

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. California R&TC 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 following positions address projected workload increases during FY 2026-27 and FY 2027-28. While we recognize Legal Division workload volumes will continue to increase in subsequent fiscal years, we are only requesting resources through the M&O period and dependent on workload trends, additional resources may be requested in a future BCP.

#### ***Attorney III – Seven permanent positions: Four in FY 2026-27 and three in FY 2027-28.***

Legal Division currently utilizes attorneys for protest and appeal workloads resulting from Notice of Proposed Assessments. To address the additional volume of these workloads resulting from an increase in Notice of Proposed Assessments (NPAs) generated as a result of new audit models being introduced, Legal Division requests four Attorney III positions in FY 2026-27 and three positions in FY 2027-28. Although the workloads span all levels of difficulty, they are most prominently medium to higher complexity levels, therefore, FTB requires positions filled at the Attorney III classification.

Failure to increase staffing levels over the span of the EDR2 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.

#### ***Attorney Supervisor – One permanent position in FY 2027-28.***

The Legal Division requests an Attorney Supervisor in FY 2027-28 to be added to the Tax Administration & Procedure Unit. Currently, there are three units in this section, each with its own Attorney Supervisor. Due to the additional seven Attorney III positions that will be added from this proposal, there will be a fourth unit added to

this section. The Attorney Supervisor position will oversee this new unit and is needed to prevent a span of control issue due to the additional positions that will be added in this proposal. Authorizing this position ensures the Attorney Supervisor will train and develop staff, as well as assess the effectiveness of employees. The addition of an Attorney Supervisor will allow the supervisors in this unit to effectively lead, coach, and support their staff while maintaining an appropriate supervisor to staff ratio.

### **Legal Secretary – One permanent position in FY 2027-28.**

Legal Division utilizes Legal Secretaries to ensure administrative support in processing additional docketed protest and appeal workloads and preparing final documents for all program specialists and attorney classifications. Currently, the ratio within the Legal Division is one secretary to every 17 attorneys.

The additional seven attorneys and one Attorney Supervisor resulting from this proposal will require administrative support due to increase in the docketed protest and appeal workloads resulting from an increase in NPAs that will be generated as a result of new audit models being introduced. The request for an additional secretary will bring the ratio down to one secretary to every 14 attorneys, to allow for a more manageable level of work for the secretaries without sacrificing quality. To address this need, the Legal Division requests one legal secretary in FY 2027-28 to proofread, edit, and prepare briefs and exhibit documents and various letters for docketed protests, settlements, agreements, stipulations and appeal briefs.

If this position is not approved, Legal may see a delay in preparing information requests and determination letters for Docketed Protest cases, processing correspondence and response time to taxpayers regarding their protest and appeal cases.

## **Technology Services Division**

### *IT Learning & Development Program*

- **Chief Technologist Office (PUC 210)**

- Information Technology Manager II – One Permanent Position in FY 2026-27***

Upskilling of new and existing staff supporting IT systems traditionally depended on staff attending technical training classes to gain technical skills and acquiring knowledge through on-the-job training. This staff upskilling model proved successful when staff are required to support siloed IT systems hosted on technologies that did not evolve rapidly. However, this model is not efficient at upskilling staff when staff are required to support complex, highly integrated technical ecosystems like FTB's Enterprise Tax System (ETS). The EDR2 project has increased the ETS complexity by transitioning tax compliance functionality to ETS from siloed systems. In addition, ETS is hosted on a large number of key software and hardware components produced and supported by different manufacturers. The manufacturers of these key components frequently introduce new features and capabilities in their products increasing the need for staff to continually acquire new knowledge and skills to leverage these new features and capabilities. Thus, a holistic approach, which

considers both the complexity of ETS and the rate at which new software and hardware features are released, is needed to effectively upskill staff to support ETS.

The Chief Technologist Office is requesting an Information Technology Manager II (ITM II) to develop a holistic approach and program to upskill staff and leadership to ensure knowledge and skills are acquired to meet the continual needs of ETS.

In alignment with California Department of Technology's (CDT) *Envision 2026, Goal 3: Strengthen CA Public Sector Technology Workforce* for Today and Tomorrow, the IT Learning & Development (ITL&D) Program is FTB's solution to strengthen and upskill technical staff and leadership. The program will comprise multiple sub programs, such as:

- TSD's onboarding program,
- formal technical mentoring program,
- formal IT leadership mentoring program,
- multiple branches of technical role-based training programs, and
- potential for a technical rotation program.

The ITM II will operate as the ITL&D Director, formulating, designing, and executing TSD's long-range IT professional development program. In addition, the ITL&D Director will oversee all aspects of IT employee learning and development to ensure the program aligns with enterprise and IT business and strategic goals, supports IT leadership and staff development, and creates a culture of continuous learning to support the evolving technologies on which ETS is built. Furthermore, the ITL&D Director will be responsible for program oversight and execution including concept, analysis, design, development, implementation, operation, evaluation, and continued modernization phases of the program to ensure the program's effectiveness in supporting ETS current state architecture while maintaining flexibility to upskill staff and leadership on implementing and supporting new software and hardware features required as they become available.

Working primarily through a matrix organization to achieve program objectives, the ITL&D Director's span of control extends across 1100+ technology staff and leadership. This newly established and dedicated executive provides leadership to support FTB's Strong Organization Goal where we value, invest in, challenge, and empower our employees to have an enterprise view, be experts in their field and achieve their full potential. The ITL&D Director cultivates an environment where program participants respect and adhere to departmental standards of integrity and ethics by integrating these values into all programs, policies, and practices; actively participating in Departmental governance with respect to internal business operations.

Failure to establish this position could lead to a lack of ETS system quality, availability, and/or stability, impede professional development growth of IT staff and leadership required to align with IT strategy, and potentially impact IT staff ability to meet strict IT and IT security policies and standards required for external data sharing and data security.

- **Chief Technology Office: Enterprise Architecture Office (PUC 213)**
  - **Information Technology Specialist II to Information Technology Specialist III – One Permanent Upgrade in FY 2026-27**

Enterprise Architecture (EA) provides strategic plans, frameworks, models, standards, and roadmaps to guide FTB's staff and vendors toward FTB's best and most fiscally prudent business and technological future in support of FTB's mission. EA also provides an essential oversight role to ensure proposed IT solutions leverage existing technology investments and do not introduce unnecessary technical complexity that negatively impacts long-term maintenance costs and resource needs, system uptime and availability.

EDR2 has further built upon the Enterprise Tax Systems software platform that EDR brought in for Case Management & Taxpayer Folder services. EDR2 expanded the use of the existing software platform to meet the needs of the new business functionality. The addition of new software components increased complexities with software integrations between the new and existing software making software upgrades more challenging to plan and execute and the risk to FTB's mission critical operations more serious.

In the second quarter of FY 2025-26, the project took its first steps toward migrating key technology components to the Cloud. This event was precipitated by a highly impactful change to supported relational database management systems (RDBMS) for Pega Infinity, the technology underpinning Case Management, announced by Pega Systems, Inc., in the fourth quarter of FY 2024-25. In the FY 2025-26 EDR2 BCP, the EAO requested an Information Technology Specialist II to provide dedicated focus on the buildout and successful integration of EDR2 technologies within the existing ETS platform. With Pega Infinity moving to the Cloud, we expect many if not all the remaining ETS components to follow it. While this migration creates many exciting opportunities, it also introduces significant risks to FTB's operations that were not anticipated in the FY 2025-26 BCP. These risks will require careful consideration, planning, and expert level understanding of Cloud technology and FTB's existing and future state architecture to mitigate. To be effective, this expertise must be channeled through the ability to translate direction given by the Chief Enterprise Architect into actionable plans, build consensus among executive-level stakeholders across the enterprise, provide clear direction to departmental subject matter experts (SMEs) regarding implementation decisions, and establish sound departmental IT policy if it is to be effective.

The requirement to act under administrative direction, establish strategic and highly impactful IT policy, advise executive-level leadership on said policies and their anticipated operational impacts, and give direction to SMEs at the IT Specialist II level exceed the appropriate duties for an IT Specialist II.

The Enterprise Architecture Office is requesting funding to support an upgrade of an Information Technology Specialist II to an Information Technology Specialist III due to increase in complexity of FTB's existing and future state architecture to migrate to Cloud technology.

Failure to establish this upgraded position could lead to a fragmented, inconsistent, and ultimately ineffective migration of a key component of the ETS to the cloud. It may also jeopardize the EAO's ability to provide expert and strategic guidance to the enterprise on how to undertake a deliberate, informed migration of a mission critical tax system to a new computing paradigm.

### *Enterprise Notice Services*

- **Development Bureau**
  - **Services Development Section: (PUC 230)**
    - **Information Technology Specialist I – Two Permanent Positions in FY 2026-27**

FTB utilizes Enterprise Noticing Services (ENS) to generate and print both automated and manually prepared notices to send to taxpayers. The EDR2 project will incorporate underpayment notice types as part of ENS. This allows the notices to be stored in a central location which will increase FTB's ability to support taxpayers and collect the proper amount of tax. The Services Development Section is requesting two Information Technology Specialist I positions to support the new notices through ongoing and routine maintenance to ensure notices meet evolving policy, law, and other mandated annual changes.

Additionally, the ENS functionality will significantly expand allowing additional systems and processes to provide notices to taxpayers and will add dynamic computations and features for managing notices. ENS generates and sends notices directly to taxpayers, thus it is imperative that the noticing service is stable, accurate, and timely which requires additional oversight and support. If notices are issued incorrectly or in error, taxpayers may lose trust and confidence in the communication they receive from FTB, which will impact our ability to help them file and pay the correct amount of tax, which could delay revenue collection.

### *Enterprise Tax System Support*

- **Development Bureau**
  - **Integration Tax System Services Section (PUC 232):**
    - **Information Technology Specialist I to Information Technology Specialist II – One Permanent Upgrade in FY 2026-27**

FTB utilizes its Enterprise Tax System (ETS) to process tax returns, payment, and taxpayer correspondence. The EDR2 project is expanding the use of ETS by incorporating audit, collections and filing enforcement compliance workflows into ETS. As these compliance workloads are migrated onto ETS, ETS grows in complexity due to the increased number of automated and manual business workflows processed through ETS. Many of these business workflows require integration between ETS, legacy systems, and numerous technical services provide data needed during processing. In addition, FTB's mission critical functions will be performed in ETS, which increases the importance of making sure ETS is stable, available, and resilient to ensure FTB's revenue generating activities are not compromised.



The Integrated System Services Section is requesting funding to support an upgrade of an Information Technology Specialist I to an Information Technology Specialist II. The Information Technology Specialist II will be the subject matter expert on the interdependencies and integration of ETS with legacy systems and technical services required to support audit, collections, and filing enforcement workflow processing. This upgraded position will be instrumental in driving performance improvements and automation to ensure ETS is robust, stable, and able to meet or exceed peak performance demands. The Information Technology Specialist II will be responsible for proactively monitoring ETS performance, performing root cause analysis when system issues arise, and coordinating with other IT subject matter experts to resolve system issues and maintain optimal stability and availability of audit, collections and filing enforcement workflows in ETS.

#### *New Self-Services*

- **Development Bureau**
  - **Web & CCP Applications Development Section (PUC 250):**
    - **Information Technology Specialist I – One Permanent Position in FY 2026-27**
    - **Information Technology Specialist I to Information Technology Specialist II – One Permanent Upgrade in FY 2026-27**

The EDR2 project will introduce new self-service capabilities to taxpayers. The Web & CCP Applications sections will be responsible for maintaining, supporting, and managing the following four new self-service applications; 1) Business Entity Exempt Organization, 2) Personal Income Tax Offer in Compromise, 3) Business Entity Offer in Compromise, and 4) PIT Innocent Joint Filer.

The Web & CCP Applications Development section is requesting one Information Technology Specialist I position and funding to support an upgrade of an existing Information Technology Specialist I to an Information Technology Specialist II to maintain and support the new self-service capabilities.

These staff will ensure the four new self-services are aligned with business requirements and objectives and are compliant with federal and state tax law and mandates, so taxpayers can leverage FTB's services easily with confidence in the services being reliable and accurate.

The IT Specialist I will perform a variety of technical tasks including high- and low-level solution design, coding, unit testing, configuration management, performing technical software upgrades, developing solutions, documenting technical specifications, documenting unit test cases and results to comply with IRS and state policies, resolving self-service production issues, and deploying changes to FTB's website in a seamless and safe manner.

An Information Technology Specialist II is needed to support the ongoing software architecture design, coding, and integration of the new compliance self-service capabilities. This position serves as an advanced level programming resource to ensure these complex services are reliable, perform highly, and are highly available, and ensure that deliverables adhere to departmental guidelines, including

architecture, security, accessibility, and usability, and will be responsible for architecting design changes to the MyFTB Application, its dependent web services, and supporting services that launch other applications.

If these requests are not approved, vendor services would be required to support the new self-services beyond project implementation at a higher annual cost of \$320 thousand to the state. Otherwise, FTB would have to delay tax year related changes, legislative changes, optimization, and other maintenance which will impact taxpayer satisfaction with FTB's self-services which will negatively impact FTB's ability to provide self-services to assist taxpayer in meeting their tax obligations and increase taxpayer frustration and complaints. This would also result in more contacts via contact center platforms and/or correspondence, which will require more costly manual support from program staff, that could otherwise be processed through automated self-services.

### *Third-Party Data*

- **Quality Assurance Bureau**
  - ***Intake, Data & Integration QA Section: (PUC 261)***
    - ***Information Technology Specialist I – Two Permanent Positions in FY 2026-27***

FTB acquires and leverages third-party information to improve tax return processing and ensure accurate income and asset information is reported and the proper amount of tax is paid. Third-party information supports compliance activities, including identifying better audit cases, detecting fraud, and issuing correct notices and bills.

The EDR2 project introduces fifteen new third-party data sources and nine new data marts to support audit, underpayment, and filing enforcement activities. The Intake, Data & Integration Quality Assurance Section is requesting two permanent Information Technology Specialist I positions to support (though system testing and validation activities) the new third-party data sources, data marts, enterprise reports and data visualizations that will continue to define the long-term strategy for building the enterprise data lake. This additional data usage assists FTB's program areas in performing their mission-critical work and making informed planning and operations decisions. These resources will collaborate with other IT business areas to ensure data aligns to the system and to the operational and analytical data needs of the department. These activities include ongoing and routine maintenance to ensure the applications meet evolving policy, law, and other mandated tax year changes. These resources will also ensure that third-party data is loaded, integrated, and processed consistently with FTB's technical standards.

## **Training and Procedures**

### **Administrative Services Division**

- **Organizational Development and Talent Management Bureau**
  - ***Enterprise Talent Development Section:***

- **Administrator I – One permanent full-time position in FY 2026-27**

The Enterprise Talent Development Section is responsible for providing training and development for FTB's staff. This is achieved by developing and delivering instructor-led and online training, providing procedures for enterprise-wide systems, and individual staff development opportunities. It is made up of two teams, each consisting of 12 permanent staff and two Administrator Is (one permanent and one limited term) for supervision and overseen by one Administrator II. Team 1 primary workloads include delivering system functionality training, division specific local training, and creating and maintaining enterprise procedures. Team 2 primary workloads include the creation and maintenance of Interactive Computer-Based Trainings (iCBTs) as well as creating and maintaining job aids, reference guides, and videos which have significantly increased due to additional EDR2 functionalities to FTB enterprise-wide systems.

The Enterprise Talent Development Section requests permanent funding beginning in FY 2026-27 to support the limited term Administrator I position ongoing to continue providing supervisory support for Enterprise Training workloads and prevent a span of control issue. This position was previously granted through FY 2022-23 EDR2 BCP, as a four-year limited-term position and expires in FY 2025-26. Without a supervisor for Team 1, the 24 staff will be too inordinate for one supervisor to successfully manage. Additionally, the Administrator II would need to further support staff in a supervisor capacity, limiting their ability to collaborate with high level FTB groups and business areas to ensure departmental training and procedure needs are developed and delivered timely.

The Administrator I provides leadership, guidance, and oversight to staff who are responsible for managing procedures, training materials, and training classes. This position will continue to oversee process enhancement initiatives for training deliverables and participate in collaboration efforts with business customers to incorporate any new products to support the core Enterprise Tax System training.

## **Operating Expenses and Equipment**

### **Compensation Payments to the Contractor – \$32,833,000 in FY 2026-27**

This funding is necessary to ensure FTB can pay the contractor the final withhold payment. Ten percent (10%) of all project compensation deliverables were subject to an initial ten percent (10%) payment withhold as stipulated in the EDR2 contract. The contract terms allowed the contractor to submit an invoice for fifty percent (50%) of the initial ten percent (10%) withhold amount at the end of the fourth quarter following FTB's acceptance of a compensation deliverable provided the contractor's performance was in good standing. The contractor can submit an invoice for the remaining five percent (5%) withhold amount at the end of the project Warranty Period when Final State Acceptance criteria are met.

### **IT Asset Transition Software - \$13,000,000 in FY 2026-27 and ongoing**

Per the EDR2 contract, the Solution Partners (SP) is responsible for procuring, installing, and configuring all the necessary hardware and software capacity needed to host the EDR2 functionality, meet performance requirements, and meet security

requirements. Since the EDR2 solution is built upon the FTB's Enterprise Tax System (ETS), the SP has augmented FTB's infrastructure and software with additional capacity for existing components like the Enterprise Case Management system. The SP has also brought in several new key technologies into ETS. In both situations, the SP procured and holds title to the hardware and software entitlements they have procured. By the end of the EDR2 project, all hardware and software titles held by the SP need to transition to FTB to ensure the stability and availability of the EDR2 solution. Starting in FY 2025-26, FTB began to transition a portion of the software entitlements from the SP. The remaining hardware titles and software entitlements will transition in FY 2026-27 with the completion of the EDR2 project's Warranty Period on 12/31/2026. The IT asset transition requires collaboration with the SP, hardware and software manufacturers, and state approved reseller to ensure the seamless transfer of existing software licenses and entitlements to FTB.

The transition process focuses on four key IT asset categories: productivity software solutions, server software solutions, hardware, and cloud connectivity. Productivity software solutions will equip FTB staff with the necessary tools to maintain and enhance the EDR2 solution, implement new features, apply critical patches, and support operational needs. Server software solutions including operating systems, data capture software, data processing software, application hosting software, database software and security tools. These server software solutions are essential for hosting EDR2 components, curating enterprise data, ensuring security compliance, and protecting taxpayer data. EDR2 hardware component provide the infrastructure necessary to ensure the stability, availability, and resiliency of the EDR2 components to meet peak performance demands. With EDR2, FTB established an Azure cloud tenant and will establish an Amazon Web Services (AWS) cloud tenant in support of the Case Management cloud migration effort describe below.

Beginning in FY 2026-27, FTB requests \$13 million per year ongoing to fund these critical costs. The table below shows the estimated funding need by fiscal years for the EDR2 IT assets based on current government pricing. The \$13 million annual funding request is the average projected funding need for the fiscal years in the table below. The variation in funding need by fiscal year is due to an assumed 7% inflation rate for software costs and the 5-year hardware refresh cycle. In addition, to address any ongoing refresh costs exceeding \$13 million per year, FTB may propose future budget requests as needed.

<b>IT Asset Transition</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>FY 2029-30</b>	<b>FY 2030-31</b>
<b>Software Refresh</b>	\$5,260,490	\$5,628,619	\$6,022,518	\$6,443,995	\$6,894,970
<b>Software Maintenance</b>	\$3,644,830	\$4,099,386	\$4,386,444	\$4,693,593	\$5,022,266
<b>Hardware Refresh</b>	\$1,287,348	\$1,754,927	\$0	\$844,700	\$0
<b>Hardware Maintenance</b>	\$876,719	\$907,973	\$861,177	\$1,124,408	\$1,042,024

<b>Cloud Connectivity</b>	\$961,620	\$1,028,933	\$1,100,959	\$1,178,026	\$1,260,488
<b>Total</b>	\$12,031,007	\$13,419,838	\$12,371,098	\$14,284,722	\$14,219,748

Funding is critical to ensure the continuity of FTB's mission critical operations, safeguard sensitive taxpayer data, and maintain compliance with the State's SAM 5300.5 Minimum Security Controls. Without funding, FTB runs the risk of legal action from software manufacturers if FTB continues to use the EDR2 software without establishing service agreements. This may result in negative press and tarnish FTB's public reputation. In addition, FTB will not be able to safeguard taxpayer information, because FTB will not receive software security patches from software manufactures which may lead to a degradation in FTB's security posture, system breach and/or prevent FTB from receiving FTI data. Furthermore, ETS stability and availability may be compromised, because FTB would not be able to leverage the manufacture's product expertise to resolve outages which may lead to a delay or loss in tax revenue. In addition, if FTB is unable to replace the aging ETS hardware, there is a risk that these items may fail as they age and impact FTB's revenue-generating compliance capabilities. By replacing ETS hardware at the appropriate time, FTB will avoid costly hardware failures which could result in staff productivity, revenue, and data loss.

**CDT's Gov Cloud Services - \$1,260,000 in FY 2026-27, to be increased by 7% annually, as displayed in the table below.**

<b>Fiscal Year</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>FY 2029-30</b>	<b>FY 2030-31</b>
<b>Cloud Services</b>	\$1,260,000	\$1,349,000	\$1,443,000	\$1,544,000	\$1,652,000

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 EDR 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 vendor, 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 \$1,260,000 in FY 2026-27 to fund the continued utilization of the interagency agreement with CDT for Microsoft Azure IaaS services. For subsequent fiscal years, FTB requests a 7% increase in funding from the prior fiscal year to accommodate rate increases due to inflation. The funding need by fiscal year is shown in the table below. With this 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.

**Independent Verification and Validation (IV&V) and Quality Assurance (QA)  
Consultant Service – \$1,406,000 in FY 2026-27**

IV&V oversight consultants primarily focus on ensuring 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 period.

**Independent Security Assessment Consultant Service – \$400,000 in FY 2026-27**

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 – \$37,000 in FY 2026-27**

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 Planning, Project Oversight, and Risk Management

(PPORM) Bureau 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 in December 2027 and funding is requested annually throughout this period. Cost of IPOC services increased and funding requested reflects the updated CDT rates.

### **Printing and Postage - \$110,000 in FY 2026-27 and ongoing**

As a result of the EDR2 project, the number of notices sent to taxpayers will increase due to multiple new compliance initiatives, i.e., more Notice of Proposed Assessments issued and other compliance contacts. The EDR2 project introduces new compliance efforts that will allow FTB to identify more instances where tax returns were filed incorrectly and additional tax and/or penalties are due, tax returns were not filed and a filing requirement exists, and potential compliance issues exists, and the taxpayer is notified to self-correct the issue via a compliance campaign. FTB requests annual ongoing funding of \$110,000 for printing and postage of the increase in notices.

### **IT Training – \$50,000 in FY 2026-27**

In anticipation and for planning purposes, FTB requests an appropriation of a \$50,000 training budget in FY 2026-27 to support the demanding and emerging technologies that come with a project of this magnitude. During 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.

### **EDR2 Maintenance & Operations (M&O) Option - \$11,158,000**

- **\$5,579,000 in FY 2026-27**
- **\$5,579,000 in FY 2027-28**

The final EDR2 deliverable is scheduled to be implemented on January 20, 2026, after which the EDR2 Warranty Period begins and concludes on December 31, 2026. By the end of the EDR2 Warranty Period, the SP will fulfill their contractual obligations and can transition off the EDR2 project. The EDR2 contract includes provisions allowing FTB the flexibility to exercise four different M&O options to have the SP provide M&O services for one year beginning on January 1, 2027. FTB can exercise these M&O options annually for up to five years. These are the four different M&O options available:

- A. Maintenance Option – This option provides 65,000 hours of SP capacity to mature and maintain the EDR2 functionality.



- B. Operations Option – This option provides SP services to run, operate, and monitor the EDR2 Solution.
- C. Software License Support Option – This option provides SP services to acquire and manage all required EDR2 software and hardware components.
- D. Total M&O Option – This option includes all the SP services from the above three M&O Options.

FTB requests funding to exercise the first year of the optional five-year Maintenance Option available in the EDR2 contract. The Maintenance Option will provide FTB with 65,000 hours of SP capacity, which equates to thirty-three full-time equivalents, for one year to support EDR2 functionality. This option will provide the necessary capacity to optimize EDR2 functionality in support of critical FTB tax compliance functions. The costs for the Maintenance Option will span two fiscal years as follows:

FY 2026-27 (\$5,579,000)

January 1, 2027 to June 30, 2027:  $\$11,158,000/2 = \$5,579,000$

FY 2027-28 (\$5,579,000)

July 1, 2027 to December 31, 2027:  $\$11,158,000/2 = \$5,579,000$

**Case Management Cloud Migration Professional Services - \$4,000,000**

- **\$3,000,000 in FY 2026-27**
- **\$1,000,000 in FY 2027-28**

With the EDR1 project, FTB modernized the technology used to process tax returns, payments, and taxpayer correspondence. The foundation for this modernization was built on a Case Management (CM) platform developed by Pega Systems. In EDR2, FTB is building upon CM by transitioning Audit, Collections, and Filing Enforcement workloads onto CM. CM has a Rules Engine that defines and implements business rules that are then applied as workloads are processed through the system. CM is built on a standard set of software infrastructure supported by Pega Systems. These components include application server software used to host the user-facing application, business rules engine, and database software along with support for a limited number of database software products. Since the implementation of CM, Pega Systems has continued to consolidate their platform's supported infrastructure products to better align them with their consumer and government Cloud offerings.

In February 2024, Pega Systems released their list of supported infrastructure components for their (then) next major release: Pega Infinity '24. It showed that the application server and database software utilized by FTB's CM implementation will not be supported after September 2027. The list also shows that FTB's current CM deployment model, which relies on deploying CM to a traditional application server, will no longer be supported by September 2028. Pega Systems is standardizing their deployment model on cloud-friendly application container-based deployments. These changes to supported infrastructure components and the deployment model require FTB to re-design CM's technical architecture to conform with Pega Systems' support model if we are to remain on a supported configuration.

Given the scope of these changes, FTB has concluded that the timing is optimal to migrate CM to Pega Systems' cloud offering, Pega Cloud for Government (PCFG) for several reasons. First, Pega Systems has clearly communicated to their clients that their support model is moving towards focusing on cloud implementations. Pega Systems' most recent support model clearly favors cloud-based technologies and deployment model. Second, PCFG recently achieved a FedRAMP High authorization to operate, the level required by the Internal Revenue Service (IRS), allowing FTB to migrate its data to PCFG without compromising taxpayer data or jeopardizing data sharing agreements with other government agencies. Third, FTB performed independent market research and found that many Pega Systems clients have already migrated or are in the process of migrating to PCFG. The IRS, also a Pega Systems customer, falls into the latter group. Lastly, Pega Systems has gained much expertise in migrating clients to PCFG, including State and Federal agencies, and FTB stands to benefit from this unique expertise.

FTB is requesting a one-time funding for Pega Professional Services spanning two Fiscal Years to assist in making the critical and necessary CM architecture changes and migrating CM to PCFG. Pega Systems is uniquely positioned, as the manufacturer of the technology platform underpinning CM and the operator of PCFG, to assist FTB in transitioning the mission-critical workloads processed through CM. The funding request breakdown by fiscal year is as follows:

- FY 2026-27 (\$3,000,000)
- FY 2027-28 (\$1,000,000)

If FTB does not receive this additional funding, the CM infrastructure in FTB CM will not be supported after September 2027 which may jeopardize FTB's mission critical operations and negatively impact FTB's revenue generating capabilities. In addition, efforts to migrate FTB's CM to PCFG will fall solely on FTB staff with existing workloads which would extend the migration timeline and increase the risk of disruption to FTB's mission critical workloads.

### **Splunk Cloud Migration Professional Services - \$153,000 in FY 2026-27**

As FTB continues to increase its utilization of cloud services with multiple cloud tenants (Microsoft Azure and Amazon Web Services (AWS)), the current on-premises Splunk implementation to capture and ingest network security logs will not be able to meet FTB's security needs as FTB's infrastructure continues to migrate into the cloud and the volume of network security logs increases. Transitioning the on-premises Splunk implementation to Splunk Cloud is essential for FTB to continue to have a strong security posture to prevent, detect, and respond to cyber threats. Splunk Cloud's inherent scalability and flexibility are critical features that will allow FTB to effectively monitor network activity to and from Azure and AWS. In addition, Splunk Cloud's optimized infrastructure and architecture will deliver faster search performance and reduce latency in detecting cyber threats. FTB will also benefit from being able to immediately access Splunk Cloud's latest features including advanced analytics, machine learning capabilities, and seamless integration with cloud services.

FTB is requesting a one-time funding for Splunk Professional Services in FY 2026-27 to migrate FTB's on-premises Splunk implementation into Splunk Cloud. Ongoing Cloud Services costs are included in IT Asset Transition Software request.

### **STP's Contract Amendment – \$146,000 in FY 2026-27**

The CDT Statewide Technology Procurement (STP) unit is responsible for overseeing the procurement contract and amendment process when contracts are valued over the FTB procurement delegation of \$5 million. The STP analyst ensures the procurement is following their internal processes and procedures. The STP analyst also works with the FTB Procurement Bureau to ensure the department is following statewide strategies, policies, and procedures stated in the State Contracting Manual (SCM), State Administrative Manual (SAM), and State Information Management Manual (SIMM). The primary vendor contract will be amended to include the EDR2 Maintenance & Operations (M&O) Option listed elsewhere in this BCP. STP will charge FTB 1.31% for the total amendment amount.

### **C. Departmentwide and Statewide Considerations**

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 two out of 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 supports FTB's Strategic Plan Goals of Exceptional Service, Effective Compliance, Strong Organization, and Operational Excellence.

### **D. 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 PPORM 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.
- The ownership of EDR2 solution IT assets are transitioned from the SP to FTB.
- FTB staff is equipped with the necessary tools, skills, and knowledge to ongoing EDR2 M&O support.
- New software and hardware will be acquired for increased activities planned for the EDR2 technical component Cloud migration.

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.

#### **E. Implementation Plan**

- June 2026 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.
- July 2026 – Department of Finance notifies FTB of position approvals.
- July 2026 – Permanent and limited-term positions are established and FTB begins hiring.

#### **F. Supplemental Information (If Applicable)**

None.