

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> 7730-003-BCP-2026-GB		<b>Relevant Program or Subprogram</b> 6280

**Budget Request Title**  
Mainframe Workload Growth

**Budget Request Summary**

The Franchise Tax Board (FTB) requests an augmentation of \$13,111,000 in Fiscal Year (FY) 2026-27 and \$389,000 in FY 2027-28 and ongoing, to replace primary and disaster recovery mainframe servers to increase memory and processing capacity, and upgrade software to meet workload growth projections.

<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Code Section(s) to be Added/Amended/Repealed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.	
<b>Does this BCP contain information technology (IT) components?</b> <input 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.

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

**Approval Date:** Click or tap to enter a date. **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 primary and disaster recovery mainframe servers have reached End of Market (EOM), necessitating a critical refresh to ensure continued system reliability, performance, and security. As components reach EOM, the availability of new replacement parts diminishes, making it increasingly difficult to maintain and upgrade the systems. The lack of availability of replacement parts and software due to EOM pose the following significant operational risks:

- **Network Constraints:** High-speed adapter cards that connect the mainframe to the network are no longer available to purchase, restricting our ability to scale network connectivity.
- **Software Compatibility Risks:** With memory components at EOM, FTB risks being unable to upgrade critical software or may be forced to use unsupported versions, introducing security and compliance concerns.
- **Performance Degradation:** Without the ability to expand processing capacity, unexpected increases in CPU demand, due to software updates or application changes, could slow down mission-critical operations.
- **Limited new component availability:** Availability of new manufactured components for replacement of defective parts will be limited, further increasing the risk of prolonged system downtime in the event of hardware failure.

These mainframe servers process data essential to FTB's multiple mission-critical tax and non-tax applications that support filing, collections, audit, and non-filer processes as well as web self-services. These applications have a substantial dependency on the mainframe servers to have sufficient capacity to support efficient, effective, and secure operations.

If the mainframe servers are not refreshed before they reach EOM, FTB may not be able to timely process tax returns, payments, and issue tax refunds. Additionally, FTB may experience failures in the systems that house vital and confidential information and risk the ability to recover mainframe services and applications in the event of a disaster or ransomware attack. These risks may lead to the loss of revenue and critical information, inhibit recovery from an unplanned disruption, and prevent taxpayers from filing their taxes in a timely and accurate manner.

The current primary mainframe server was purchased in Fiscal Year (FY) 2020-21 and reached EOM on 12/31/2024. FTB frequently monitors capacity and has determined the primary mainframe has adequate capacity until FY 2026/27. The current disaster recovery mainframe server was purchased in FY 2019-20 and reached EOM on 9/30/2022. FTB has mitigated risks associated with EOM by extending the disaster recovery mainframe maintenance agreement, allowing it to remain in service until April 2027.

To mitigate risks, FTB requests an augmentation of \$13,111,000 in FY 2026-27 and \$389,000 in FY 2027-28 and ongoing.

## **B. Justification**

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.

FTB is responsible for administering the income and franchise tax laws for the State of California. FTB's Data Center, which hosts the mainframe environment, provides the necessary operating and storage capacity for FTB to administer its programs successfully. 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 provides funds to maintain and improve necessary services for all Californians across the state, including, but not limited to, education, safety and welfare programs, and law enforcement.

### Primary Mainframe Server

A mainframe is a high-performance computer equipped with vast memory and powerful processors, capable of handling billions of transactions and calculations in real time. It is a mission-critical system known for its exceptional resiliency, security, and agility; essential qualities for industries that demand reliability at scale. FTB relies on its mainframes to ensure seamless operations and unparalleled processing power. When information is modified on FTB systems, programs, or applications, the data is updated/processed on the mainframe server.

During April 2025, FTB's individual tax filing deadline, FTB's Data Center processed over 120 million transactions and over 150,000 batch application processes. It is essential that FTB maintain adequate mainframe capacity to efficiently process a large number of transactions which include processing returns, refunds, and payments.

The metric used to measure the capacity of a mainframe server is Millions of Instructions Per Second (MIPS). FTB's current annual growth rate averages approximately 3 percent in MIPS usage. Current mainframe capacity is 2,858 MIPS. FTB is not able to upgrade the current primary mainframe server's memory or processing capacity due to reaching EOM. The current capacity will not support the projected annual growth. The primary mainframe server replacement will require enough capacity to support the current service levels plus an annual growth rate of 3 percent.

	Actual				Forecast					
Fiscal Year	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Peak MIPS	2,371	2,456	2,541	2,626	2,711	2,796	2,881	2,967	3,052	3,137

### Disaster Recovery Mainframe Server

The disaster recovery mainframe server is a critical component of FTB's disaster recovery plan. FTB's disaster recovery plan adheres to the State Information Management Manual (SIMM 5325-A) and is governed by California Department of Technology's (CDT) Office of Information Security. The disaster recovery mainframe server at the off-site disaster recovery location enables recovery of all mainframe applications and services in the event of a ransomware attack or disaster.

To ensure optimal performance, the disaster recovery mainframe must be equipped with sufficient processing capacity and memory to support the recovery of mission critical applications and run current production workload.

Manufacturers for FTB's current mainframe servers have reached EOM status. FTB will have sufficient capacity until 2026-27, at which time FTB will need to replace the servers.

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

FTB's mainframe servers support the Tier 0 Critical Function described in FTB's Business Continuity Plan. A Tier 0 Critical Function is the first process restored following an emergency allowing FTB to recover operations as quickly as possible. Therefore, it is critical that these servers are refreshed before they exceed capacity. Refreshing the servers ensures FTB's ability to provide a data processing infrastructure with sufficient capacity to support the on-going and peak revenue generating workloads and provide maximum performance. This planned refresh mitigates the EOM, capacity, and performance limitation risks associated with these servers.

The mainframe hardware and software costs include the following:

Component	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Hardware (Primary)	\$7,140,000	\$0	\$0	\$0	\$0
Hardware Support (Primary)	\$1,615,000	\$0	\$0	\$0	\$0
Hardware (Disaster Recovery)	\$1,426,000	\$0	\$0	\$0	\$0
Hardware Support (Disaster Recovery)	\$67,000	\$0	\$0	\$0	\$0
Software	\$2,863,000	\$389,000	\$389,000	\$389,000	\$389,000
Total	\$13,111,000	\$389,000	\$389,000	\$389,000	\$389,000

Purchasing these critical hardware and software components allows FTB to maintain current and future mainframe needs, backup of data, and mitigate risks associated with running a system past its EOM dates.

The primary function of the FTB is to administer the Revenue and Taxation Code (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 unequitable impacts.

### C. Departmentwide and Statewide Considerations

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 its Foundational Principles and Values. FTB's mainframe environment is essential in supporting many of FTB's transactions and services and this proposal aligns with three of FTB's Strategic Goals.

**Goal #1: Exceptional Service** states that FTB will, "Strive to continuously enhance our customers' experience." FTB uses modern technology to leverage the data it collects, generates, and stores to administer its tax and collection processes effectively, which results in more efficient operations, better customer service, and higher levels of transparency. The mainframe environment is essential to the department's mission-critical applications, including systems that support our filing, collections, audit, non-filer processes, and web self-services.

**Goal #2: Effective Compliance** states that FTB will, "Fairly administer the law to ensure taxpayers file and pay the correct amount." FTB's mainframe is host to the legacy systems providing the data necessary for FTB's mission critical operations. FTB's systems and applications have a substantial dependency on memory and processing capacity to support the efficient, effective, and secure operation of the systems and applications. Refreshing the

mainframe provides FTB with the ability to continue to administer and enforce California Tax Laws effectively.

**Goal #4: Operational Excellence** states that FTB will, "Optimize our processes, products, services, and resources to better serve our internal and external customers." FTB's mainframe is pivotal to providing additional information to taxpayers through the numerous online self-service tools offered to taxpayers, such as MyFTB, which allows taxpayers to access personal information when they need it thus enhancing their ability to self-comply. Replacing the mainframe ensures the continued ability of FTB to provide excellent customer service.

It is vital to support and keep pace with FTB's growing technologies, programs, applications, and information systems. By replacing equipment at the appropriate time, FTB avoids equipment failures and any associated data loss that could burden California with additional outlays and place FTB's mission critical operations at risk. This infrastructure was last refreshed in FY 2019-20 and 2020-21. Both technology and business needs have evolved significantly since then. The security and availability of current, state-of-the-art infrastructure ensures that FTB can provide sound, stable, connectivity to mission critical administrative systems. FTB's infrastructure has increased in size and complexity, and it is critical that the mainframe infrastructure meets the growing needs of FTB's operations. FTB's mainframe is pivotal to providing sufficient processing capacity and memory to support efficient and effective operations of the agencies systems and applications.

#### **D. Outcomes and Accountability**

This proposal will ensure FTB's mainframe infrastructure is replaced to meet workload growth projections and to support the efficient, effective, and secure operation of its critical tax and non-tax systems.

The management of resources received from this proposal will be the responsibility of the Chief Information Officer (CIO) or a delegate. The fiscal oversight of the resources is the responsibility of both the CIO and the Chief Financial Officer.

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**

- July 2026: Funding approved and available
- July 2026: Complete procurement process and award contract
- September - November 2026: Install/Configure mainframe hardware/software for the primary mainframe server replacement
- November 2026: Implementation of the primary mainframe server replacement into production at the primary location (system acceptance)
- April - May 2027: Install/Configure mainframe hardware/software for the disaster recovery server replacement
- May 2027: Implement disaster recovery server replacement into production at secondary location (system acceptance)

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

None.