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

Fiscal Year 2027-28	**Business Unit Number** 7730	**Department** Franchise Tax Board

Hyperion Budget Request Name **7730-001-BCP-2027-GB**	**Relevant Program or Subprogram** **6280**

Budget Request Title
EDR1 M&O Augmentation

Budget Request Summary
The Franchise Tax Board (FTB) requests an augmentation of $13,000,000 in FY 2027-28 and FY 2028-29, $16,300,000 in FY 2029-30 and ongoing, to the Enterprise Data to Revenue Phase 1 (EDR1) Maintenance and Operations (M&O). This funding is necessary to cover increasing costs associated with software licensing, hardware refresh cycles, and third-party support contracts that are essential to maintaining FTB's mission critical systems and ensure FTB can continue to safeguard taxpayer data, remain compliant with state and federal security requirements, and protect the State's ability to collect nearly 81 percent of General Fund revenue.

Requires Legislation (submit required legislation with the BCP) ☐ Trailer Bill Language ☐ Budget Bill Language ☒ N/A	**Code Section(s) to be Added/Amended/Repealed**

Does this BCP contain information technology (IT) components? ☒ Yes ☐ No *If yes, departmental Chief Information Officer must sign.*	**Department CIO**	**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.
Approval Date:
Project Approval Document:
Total Project Cost:

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

Prepared By	**Date**	**Reviewed By**	**Date**
Department Director	**Date**	**Agency Secretary**	**Date**

Department of Finance Use Only

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

Principal Program Budget Analyst	**Date submitted to the Legislature**

A. Problem Statement

The Franchise Tax Board (FTB) requests an augmentation of $13,000,000 in Fiscal Year (FY) 2027-28 and FY 2028-29, $16,300,000 in FY 2029-30 and ongoing, to the Enterprise Data to Revenue Phase 1 (EDR1) Maintenance and Operations (M&O). This funding is necessary to cover increasing costs associated with software licensing, hardware refresh cycles, and third-party support contracts that are essential to maintaining FTB's mission critical systems. The augmentation will ensure FTB can continue to safeguard taxpayer data, remain compliant with state and federal security requirements, and protect the State's ability to generate nearly 81 percent of General Fund revenue.

In the FY 2016-17 Enterprise Data to Revenue Phase 1 (EDR 1) Project BCP, FTB requested and received approval for $36 million annually to fund critical maintenance and operations costs. However, industry-wide changes in licensing models (from perpetual licenses to annual subscriptions), along with hardware refresh cycles and inflationary cost increases, have since significantly outpaced this funding. Recent contract renewals reflect several major agreements increasing by 100% or more. With the implementation of Enterprise Data to Revenue Phase 2 (EDR2 FY 2021-22), FTB has continued to utilize these technologies, enhancing them to provide expanded functionality as part of EDR2. This advancement has demonstrated how important these foundational components are in supporting FTB’s mission-critical operations. FTB has determined that beginning in FY 2027-28, the EDR1 M&O budget will be significantly underfunded, with an average shortfall between $13-16 million annually.

B. Justification

FTB's primary function is to administer the California Revenue and Taxation Code (R&TC) and collect the proper amount of taxes in the most cost-effective manner, ensuring timely processing of returns, taxpayer assistance, and the delivery of critical revenue to the State's General Fund. In FY 2025-26, FTB processed over 23 million tax returns, 15.4 million payments, responded to 3.1 million calls, serviced 63 million internet contacts, and collected approximately $201.4 billion in revenue, representing about 81 percent of California's General Fund.

To strengthen operations, FTB launched the Tax System Modernization (TSM) initiative in 2007, also referred to as the Enterprise Tax Systems (ETS). This three-phase effort aligned business processes with modern technologies. Phase 1, the Enterprise Data to Revenue (EDR1) project, was completed in 2016 and modernized return processing, imaging, data capture, case management, modeling, and taxpayer services. EDR1 established the foundation for subsequent modernization phases and doubled FTB's current IT infrastructure.

FTB thoroughly examined the historical costs associated with EDR1 hardware, ongoing software, and third-party support contracts. This review relied on actual expenses for the past three years and showed that overall costs have risen significantly. The increase stems from several factors, such as the shift from perpetual software licenses to annual subscriptions by many software providers, growing workloads, compliance requirements, vendor price increases, supply chain issues, and general inflation. Broader economic inflation has pushed up the cost of key technology components—especially specialized hardware components and enterprise-grade services whose prices depend heavily on global supply chain conditions. Additionally, once multi-year contracts expire, vendors frequently apply substantial price resets, especially where legacy perpetual licenses have shifted into newer, bundled subscription models. These sudden cost increases happen for reasons outside FTB’s control and often undermines and erodes and savings achieved through internal efficiencies.

Based on cost projections, FTB’s EDR1 ongoing needs will be underfunded beginning in FY 2027-28. The table below outlines the projected funding shortfall for EDR1 ongoing costs. The fluctuation across fiscal years can be attributed to scheduled hardware refresh cycles occurring every five to seven years, as well as annual increases in subscription renewal costs. As a result, FTB is requesting an increase for EDR1 M&O of $13,000,000 in FY 2027-28 and FY 2028-29, $16,300,000 in FY 2029-30 and ongoing. Baselining the current proposal at $16.3M will allow FTB continue to monitor and re-evaluate costs to ensure financial decisions remain aligned with overall business priorities. As FTB completes the ongoing EDR 2 Project, in conjunction with the recently approved 2026-27 EDR 2 BCP, it is essential to maintain separation between EDR 1 services and M&O requirements and to address the funding gap identified in this proposal.

Asset Category	***FY 2027/28***	***FY 2028/29***	***FY 2029/30***	***FY 2030/31***	***FY 2031/32***
Software Refresh	$3,155,988	$3,545,168	$3,697,681	$3,857,056	$4,023,604
Software Maintenance	$30,454,557	$32,947,068	$35,656,839	$37,017,693	$40,151,903
Hardware Refresh	$11,966,702	$8,462,576	$9,372,018	$8,735,957	$10,016,417
Hardware Maintenance	$3,400,450	$3,695,148	$3,503,250	$3,934,625	$3,876,124
Asset Total	$48,977,697	$48,649,960	$52,229,787	$53,545,332	$58,068,048
Existing M&O Funding	$(36,000,000)	$(36,000,000)	$(36,000,000)	$(36,000,000)	$(36,000,000)
Deficit	$(12,977,697)	$(12,649,960)	$(16,229,787)	$(17,545,332)	$(22,068,048)

EDR1 supports essential processes that drive revenue collection and taxpayer services. Stable operations are critical not only for compliance and system availability, but also for protecting public trust and supporting California's fiscal stability. Continued funding is necessary to maintain FTB's mission-critical systems and safeguard sensitive taxpayer data.

Without sufficient resources, FTB risks operating EDR1 software without valid or reduced-level service agreements, potentially exposing the department to legal action from vendors. A lapse in software support could also prevent FTB from receiving required security patches, increasing the likelihood of system vulnerabilities, breaches, or loss of access to Federal Tax Information (FTI). Additionally, the reliability of the ETS depends on timely vendor support to address outages and prevent disruptions that could delay or reduce tax revenue. If outdated ETS hardware is not replaced, inevitable equipment failures could hinder compliance-related revenue generation. Proactive hardware refreshes help avoid costly breakdowns, productivity losses, and potential data loss. Attempting to self-fund this initiative would create significant constraints for other business processes by diverting financial resources away from critical department operations. These constraints may hinder FTB's ability to provide vital taxpayer services, cause delays in revenue collection, and restrict its flexibility in responding quickly to legislative changes. This can result in decreased efficiency and postponed or delayed projects.

C. Departmentwide and Statewide Considerations

Sustaining FTB's technology infrastructure is vital to the fiscal health of the State of California. As the collector of nearly 81 percent of the General Fund revenue, FTB's ability to process returns, collect payments and safeguard taxpayer data directly impacts the State's ability to provide core services.

The requested augmentation also supports compliance with the state and federal security mandates, including SAM 5300.5 Minimum Security Controls, ensuring FTB's systems meet statewide IT security and data protection standards. Without adequate funding, FTB risks falling out of compliance, which could jeopardize access to FTI and compromise the State's reputation for fiscal responsibility.

This proposal aligns with statewide priorities to modernize IT systems, ensure cybersecurity resilience, and protect sensitive personal information of Californians. EDR1 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

Funding will ensure the continued use of the EDR1 software service agreements, allowing FTB to receive critical software security patches from software manufacturers and utilize manufacturer's product expertise to resolve outages which could otherwise lead to a delay or loss in tax revenue. It will enable FTB to replace the aging ETS hardware on schedule, helping prevent costly hardware failures and maintaining the stability and availability of key tax systems.

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

E. Implementation Plan

- FY 2027-28: Funding augmentation approved and applied to M&O budget. Continue annual refresh cycles and maintain compliance.
- Annual and ongoing: Review and adjust licensing and hardware costs as needed

F. Supplemental Information (If Applicable)

None.