STATE OF CALIFORNIA

Budget Change Proposal - Cover Sheet

DF-46 (REV 03/25)

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

Hyperion Budget Request Name	Relevant Program or Subprogram
7730-006-BCP-2027-GB	6280

Budget Request Title
Accounting Systems Business Rules Extraction

Budget Request Summary
Franchise Tax Board (FTB) is requesting one-time funding augmentation of $3.52 million in FY 2027-28, $2.5 million in FY 2028-29 and $216,000 in FY 2029-30 and ongoing for vendors services and software to implement an automated tool solution to generate complete, accurate, and standardized system documentation to support modernization of FTB's most critical internal enterprise accounting systems.

Requires Legislation (submit required legislation with the BCP)	Code Section(s) to be Added/Amended/Repealed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

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

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

Franchise Tax Board (FTB) is requesting an augmentation of $3.52 million in FY 2027-28, $2.5 million in FY 2028-29 and $216,000 in FY 2029-30 ongoing for vendors services and software to implement an automated tool solution to generate complete, accurate, and standardized system documentation to support modernization of FTB's most critical internal enterprise accounting systems.

FTB's Taxpayer Information (TI) system and Business Entities Taxation System (BETS) are mission-critical systems built on mainframe technology. These systems serve as the official system of record and the foundation of FTB's tax processing and accounting functions and form the foundational infrastructure supporting all other operational systems and processes. Together, TI and BETS manage revenue that accounts for approximately 81% of the State of California's general fund.

Comprehensive system documentation of TI and BETS is needed as FTB is in the initial early stages of Phase 3 of the Enterprise Tax System Modernization project, known as Enterprise Data to Revenue 3 (EDR3). This phase focuses on the replacement and modernization of internal enterprise accounting systems that support both Personal and Business Entity income tax programs. This proposal addresses the critical need for system documentation and functionality evaluation to effectively support these future EDR3 efforts.

B. Justification

FTB is responsible for administering California's income and franchise tax laws, some of the most complex and expansive in the nation. As a result, the systems required to maintain and enforce these laws are equally complex, containing intricate logic that evolves with legislative changes. Comprehensive system documentation is critical to ensure compliance with these requirements and to support the EDR3 replacement efforts.

Prior to initiating any modernization project, it is considered industry best practice to thoroughly review and update all application documentation. This process helps to clarify existing system logic and identify areas that may require adjustments or enhancements as part of the replacement effort. By carefully evaluating existing documentation and system functionality before implementation, organizations can ensure a smoother transition and maintain the integrity of essential processes.

System application documentation provides a comprehensive and organized record of a system's technical design, architecture, functionality, and maintenance requirements. FTB's legacy accounting systems were implemented in the 1990s and have approximately 22 million lines of code collectively. These aged and highly complex systems have outdated documentation and are not aligned with current standards. These systems run on mainframe technologies built with COBOL and Natural code, programming languages that are increasingly difficult for staff and are misaligned with the department's target architecture. Target architecture outlines an organization's desired future IT state and serves as the roadmap to bridge gaps between current capabilities and future needs. Although original design specifications exist, decades of updates to keep the systems aligned with tax law have caused the documentation to become outdated and unsuitable for modernization efforts. The functionality has grown more complex and has evolved over time, making even routine changes to documentation time-consuming and complex. Without clear and current documentation of business rules, FTB cannot efficiently maintain existing systems, implement required changes in response to new laws, or move forward with modernization initiatives without introducing great risk to the department operations and state revenue.

Partnering with a vendor enables the department to immediately access specialized expertise and scalable tools, avoiding the significant time, cost, and resource investment required to build and maintain these capabilities internally. The team will collaborate to conduct a comprehensive pre-implementation assessment, which is a vital step in preparing for system modernization. Such an assessment helps mitigate risks, including system failures and the potential loss of critical business logic. Documenting the process will provide the following benefits:

- Enable successful scoping and sizing for EDR3 modernization.
- Reduce reliance on code analysis and mitigates risk of critical knowledge loss due to staff attrition.
- Prevent EDR3 project delays resulting from incomplete documentation, impairing modernization efforts and increasing operational risk.
- Use of an Artificial Intelligence (AI) tool will increase efficiency, improve accuracy, provide scalability, reduce cost, and avoid negatively impacting the maintenance of the current systems.

FTB is requesting an ongoing $216,000 funding allocation through 2036 to cover OE&E costs for the software tool, ensuring continued integration of code-base changes into the EDR3 solution. This investment will allow FTB to view the requirements in a chat-enabled environment, leverage forward-engineering features, and repeatedly run the extraction process to ensure system documentation remains current.

If this proposal is not approved, FTB will lack the documentation necessary to safely modernize TI and BETS, increasing the risk of system failures, delayed legislative implementations, and loss of critical institutional knowledge. Insufficient documentation will also slow EDR3 scoping and may increase project cost, duration, and overall risk.

Existing staff will validate the outputs of this effort, and no additional FTB staffing resources are being requested for this effort.

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 accounting systems serve as the system of record and core foundation for FTB's tax processing and accounting operations. This proposal directly aligns with FTB's mission to optimize processes and resources and supports broader department-wide and statewide goals for operational efficiency and modernization. By improving system documentation and leveraging automation tools, this initiative ensures that FTB remains a leader in delivering accurate, transparent, and equitable tax administration. Accurate documentation ensures that tax rules are applied consistently, reducing disparities in taxpayer treatment and ensuring equitable administration across diverse populations.

- Aligns with FTB Strategic Plan Goal #4: Operational Excellence
    - Strategy 4.3: Modernize and streamline IT systems and processes; and leverage emerging technologies to support and improve business and administrative activities.
    - Strategy 4.5: Standardize and modernize our IT service delivery to optimize operations.
- Statewide IT Modernization Initiatives: Supports California's commitment to digital transformation and improved service delivery.

Comprehensive and accurate documentation is essential in supporting equity and maintaining public trust in tax administration. By increasing transparency, it reduces ambiguity and ensures taxpayers receive fair and consistent treatment. Modernized systems and reliable documentation strengthen confidence in FTB's ability to administer tax laws effectively, accurately, and fairly.

Operational and Fiscal Impacts:

- No direct impact on other state departments.
- Improved interoperability and readiness for future statewide modernization efforts, reducing long-term costs and risks.

D. Outcomes and Accountability

This proposal will allow FTB to develop comprehensive, accurate, and standardized system documentation that supports modernization efforts, reduces operational risk, and ensures compliance with California's complex tax law. By leveraging automated tools, FTB will achieve measurable improvements in efficiency, accuracy, and scalability.

Expected Outcome:

- Complete, standardized documentation for critical tax administration systems.
- Improved modernization readiness for EDR3 and future IT initiatives.
- Reduced reliance on manual code analysis, lowering risk of critical knowledge loss due to staff attrition.
- Strengthened compliance with legislative and regulatory requirements.
- Increased operational efficiency, including faster onboarding and reduced maintenance costs.

Projected Workload Metrics:

- Documentation Coverage: Increase from current baseline from 20% to 100% for targeted systems.
- Time Savings: Reduce documentation effort by up to 90% compared to manual processes for conventional design documentation (high level). Manual generation of business rules (estimated at 1,000 lines of code per week) indicates that roughly 22 million lines of code would require a team of about 80 FTEs over a 5-year period (detailed business rule documentation).
- Risk Mitigation: Decrease dependency on subject matter experts by 80%, ensuring continuity of knowledge.
- Modernization Readiness: Achieve full documentation alignment with EDR^{3} scoping requirements.

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

The following timeline outlines key milestones and deliverables to ensure successful execution of this proposal:

July 2027

- Funding approved and available
- Initiate vendor procurement to begin the contracting process for tool acquisition and implementation support.

FY 2027-2028

- Phase 1 – Extraction and Documentation: Start automated extraction of system logic and initial documentation.
- Phase 2 – Documentation Output: Continue documentation efforts, ensuring coverage of all targeted systems.

FY 2028-2029

- Phase 3 – Completion and Validation:
    - Finalize documentation for all systems.
    - Validate completeness and accuracy with business and technical teams to ensure readiness for EDR3 implementation which begins in 2031.

F. Supplemental Information (If Applicable)

None