

**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2011/12  
DF-46 (REV 04/08)**

*Please report dollars in thousands.*

Department of Finance  
915 L Street  
Sacramento, CA 95814  
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Tax Programs	ELEMENT All Tax Programs	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

Mainframe Replacement for Workload Growth

**SUMMARY OF PROPOSED CHANGE:**

FTB is requesting funding of \$4.7 million in FY 2011/12 for replacement of the mainframe's central processing unit, additional storage space, and software. We are also requesting \$1.26 million in FY 2012/13 and ongoing to support annual maintenance. These upgrades are needed to maintain service levels required to support critical business programs and processes.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
<b>Pending Board Approval</b>			
FTB PROGRAM APPROVAL:	DATE	DEPARTMENT DIRECTOR:	DATE

DOES THIS BCP CONTAIN INFORMATION TECHNOLOGY (IT) COMPONENTS? YES  OR NO   
IF YES, DEPARTMENTAL CHIEF INFORMATION SIGNATURE DATE

FOR IT REQUESTS, SPECIFY THE DATE A SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO), OR PREVIOUSLY BY THE DEPARTMENT OF FINANCE.

DATE Pending PROJECT # FTB 10-01 FSR  OR SPR

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

YES  NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  ITCU  FSCU  OSAE  CALSTARS  OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #	DATE	Title of Proposed Change:					
		Mainframe Replacement for Workload Growth					
PROGRAM	ELEMENT	COMPONENT					
Tax Programs	All Tax Programs						
		Personnel Years			2010/11	2011/12	2012/13
		2010/11	2011/12	2012/13	2010/11	2011/12	2012/13
<b>Total Salaries &amp; Wages <u>a/</u></b>		.0	.0	.0	\$ 0	\$ 0	\$ 0
Salary Savings		.0	.0	.0	\$ 0	\$ 0	\$ 0
<b>Net Total Salaries and Wages</b>		.0	.0	.0	\$ 0	\$ 0	\$ 0
Staff Benefits <u>b/</u>					\$ 0	\$ 0	\$ 0
<b>Total Personal Services</b>					\$ 0	\$ 0	\$ 0
<b>Operating Expenses and Equipment</b>							
General Expenses					\$ 0	\$ 0	\$ 0
Printing					0	0	0
Communications					0	0	0
Postage					0	0	0
Travel-In-State					0	0	0
Travel Out-of-State					0	0	0
Training					0	0	0
Facilities Operations					0	0	0
Utilities					0	0	0
Cons & Prof Svs - Interdept'l					0	0	0
Cons & Prof Svs - External					0	0	0
Consolidated Data Center					0	0	0
California Health and Human Services Agency Data Center					( )	( )	( )
Stephen P. Teale Data Center					( )	( )	( )
Data Processing /1					0	4,700,000	1,263,000
Equipment					0	0	0
Other Items of Exp (Specify Below)					0	0	0
<b>Total Operating Expense &amp; Equipment</b>					\$ 0	\$ 4,700,000	\$ 1,263,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

1/ Software/license @ \$1,874,000 and hardware @ \$2,826,000 for DASD & CPU mainframe replacement in FY 11/12; software maintenance @ \$1,263,000 in FY 12/13 and ongoing.

				<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>				\$ 0	\$ 4,700,000	\$ 1,263,000
SPECIAL ITEMS OF EXPENSE <u>d/</u>				\$ 0	\$ 0	\$ 0
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<b>PROGRAM ADMINISTRATION</b>				\$ 0	\$ 0	\$ 0
<b>Distributed Admin</b>				\$ 0	\$ 0	\$ 0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>				\$ 0	\$ 4,700,000	\$ 1,263,000
<b><u>Source of Funds</u></b>		<b><u>Appropriation No.</u></b>				
	Org	-	Ref	-	Fund	
General Fund	1730		001		0001	
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	<hr/>		<hr/>		<hr/>	
	<hr/>		<hr/>		<hr/>	
Reimbursements	<hr/>		<hr/>		<hr/>	
<b>Totals</b>	<hr/>		<hr/>		<hr/>	
				\$ 0	\$ 4,700,000	\$ 1,263,000
<hr/>						
<b>LOCAL ASSISTANCE</b>				\$( 0)	\$( 0)	\$( 0)
<b><u>Source of Funds</u></b>		<b><u>Appropriation No.</u></b>				
	Org	-	Ref	-	Fund	
General Fund	1730		001		0001	
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	<hr/>		<hr/>		<hr/>	
	<hr/>		<hr/>		<hr/>	
Reimbursements	<hr/>		<hr/>		<hr/>	
<b>Totals</b>	<hr/>		<hr/>		<hr/>	
				\$ 0	\$ 0	\$ 0
<hr/>						

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions	<u>Positions</u>			<u>Salary Range</u>	<u>Amount</u>		
	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>		<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2011/12**

<b>Staff Benefits</b>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
OASDI /1	\$ 0	\$ 0	\$ 0
Dental /2	0	0	0
Health /3	0	0	0
Retirement /4	0	0	0
Vision /5	0	0	0
Medicare /6	0	0	0
Worker's Comp /7	0	0	0
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
<b>Total Staff Benefits</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,007 per net personnel year.
- 4/ For permanent, 16.917% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.58% of net salary for permanent.
- 8/ 0.06% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 8.95% of net salary for temporary help.

**FRANCHISE TAX BOARD  
Fiscal Year 2011/12**

**Budget Change Proposal**

**BCP No.**

**Mainframe Replacement for Workload Growth**

**DATE: August 13, 2010**

**A. NATURE OF REQUEST**

The Franchise Tax Board (FTB) is requesting funding of \$4.7 million in FY 2011/12 for replacement of the mainframe's central processing unit, additional storage space, and software. We are also requesting \$1.26 million in FY 2012/13 and ongoing to support annual maintenance. These upgrades are needed to maintain service levels required to support critical business programs and processes. Without these upgrades, FTB's ability to efficiently and effectively collect revenue and to respond to taxpayers will be negatively impacted.

This request is supported by a Feasibility Study Report (FTB FSR 10-01) as approved by the State and Consumer Services Agency on June 29, 2010, and pending approval by the Office of the State Chief Information Officer. A completed OCIO review is anticipated by January 2011.

**B. BACKGROUND/HISTORY**

The Franchise Tax Board (FTB) collects tax revenues and operates other non-tax programs. The department administers these programs through a variety of activities, including: (1) processing both paper and electronically filed returns; (2) answering taxpayer and tax practitioner inquiries; (3) pursuing audit and collection activities for both tax and non-tax debts; and (4) negotiating settlements of other civil tax matter disputes that involve protests, appeals, or refund claims.

To successfully administer its programs, FTB relies on the use of a full service data center. FTB's data center provides mainframe and distributed systems access and the necessary operating capacity for FTB to administer its programs successfully. For example, the FTB's data center processes, on average, approximately 16.5 million online transactions and 194,614 batch jobs per month. During April (FTB's individual tax filing deadline), FTB processes approximately 17.5 million online transactions and roughly 251,372 batch jobs. The data center also generates 2.8 million print pages per month of in-house documents, external notices, bills, and letters during peak filing season (January through June). In fiscal year 2009/10 FTB printed a total of 37 million pages from the mainframe.

FTB departmental programs rely heavily on the completion of the nightly batch processing window in-order to provide updates to our Taxpayer Information, Business Entities Tax, and Court Ordered Debt Expansion information systems. Industry guidelines recommend operating at less than 90 percent of available general processor capacity in order to maintain acceptable demand levels on critical systems and maintain an efficient

information system network. During the 2010 peak tax season, the department's capacity planning metric used 94.8 percent of capacity. Based on the projected workload indicators, FTB expects an additional 9.5 percent increase to the Millions of Instructions Per Second (MIPS), therefore, the current system expects to exceed capacity by more than 4 percent in 2011.

Workload growth projections cannot support the business areas without major process and performance degradation issues.

- Insufficient processing (CPU) capacity results in increased return processing time causing backlogs and revenue impacts. When the mainframe takes longer to process a request, this increases the time it takes to complete a task.
- Customer dissatisfaction and reduction in use of FTB's online services due to increased response times. Online services use information via the Mainframe to process customer requests. This could jeopardize the growing use of online services<sup>1</sup>, which helps to quickly and efficiently resolve taxpayer inquiries.

It is FTB's intent to secure project approval and authority for initially replacing the current mainframe system and incrementally increase the processing capacity (MIPS and CPU main memory) on an annual basis as necessary to meet workload growth demands through FY 2014/15. Funding is requested for FY 2011/12 and FY 2012/13 for the initial replacement and the first year increased continuing costs.

### **C. STATE LEVEL CONSIDERATIONS**

Replacing FTB's antiquated equipment to effectively and efficiently handle the growth of current application workloads projected beyond FY 2010/11 reduces the risk that these items fail and impact FTB's revenue-generating capabilities.

FTB is required to exchange information with external entities including, but not limited to, private citizens, businesses, state entities, and federal entities such as the IRS. The requirement to exchange information quickly and accurately makes it necessary for FTB's technology to be compatible with the technology used by its customers.

### **D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS**

No facilities alterations are required to accommodate this request.

### **E. JUSTIFICATION**

This equipment replacement will provide risk avoidance for our Taxpayer Information, Business Entities Tax, and Court Ordered Debt Expansion systems, and all other FTB stakeholders using data storage and mainframe processing resources.

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<sup>1</sup> Use of online services increased 21% between 2007 and 2008.

The mainframe and storage device replacement as well as supporting software meets all of the business objectives and functional requirements necessary to maintain the existing systems without risking major equipment or software failure. In addition, given the current structure of the mainframe, upgrading the processor best utilizes the system resources and effectively handles growth in both existing traditional workloads and e-Business workloads, while maintaining service level objectives, allowing higher levels of security and adding the ability to take advantage of specialty engines with no additional cost.

#### **F. OUTCOMES AND ACCOUNTABILITY**

This request is supported by a fully developed Feasibility Study Report, which provides detail of the project implementation plan. The FSR was developed by a project team made up of members from across the enterprise. The progress of the project is overseen by a Project Manager who works in conjunction with the department's Project Oversight and Guidance office to ensure all applicable guidelines and procedures are addressed. The FSR is the responsibility of the Department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both Chief Information Officer and the Chief Financial Officer.

#### **G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES**

**Alternative #1 – BCP Funding Request of \$4.7 million in FY 2011/12 and on-going maintenance of \$1.26 million starting in FY 2012/13 and thereafter.**

Provide one-time BCP funding of \$4.7 million in FY 2011/12. This augmentation will fund replacing the existing mainframe, storage device and supporting software licenses.

Also, FTB requests an ongoing augmentation of \$1.26 million beginning in FY 2012/13 and thereafter to support annual maintenance.

**Alternative #2 – Use Mainframe Services provided by the State's Office of Technology Services (OTech).**

To utilize OTech Mainframe services, FTB would have to convert from our current platform of Top Secret (provided by Computer Associates) to OTech's Resource Access Control Facility (provided by IBM). This conversion would incur the following issues:

- It would take a minimum of nine months for the conversion process - this will put FTB at risk of not being capable of meeting its processing requirements.
- FTB has limited resources to devote to completing the conversion therefore additional costs will be required.
- Excessive cost due to PYs, platform license purchases, IBM consultant fees, etc.
- This alternative requires that OTech be approved by the IRS to house Federal Tax information. Currently, OTech is not approved by IRS for Federal Tax Information access.

- FTB already has a significant investment in raised floor capacity.
- Because of FTB's business model, FTB requires the ability to be extremely agile and to make changes to its operating environment on demand. It is much easier to make infrastructure changes with a single customer than in a mix customer environment.
- FTB collects 65% of General Fund dollars which requires FTB to have a high level of agility to upgrade computing environments.

### **Alternative #3 – Competitive bid with another vendor.**

At this time, IBM is the only vendor that supplies the mainframe CPU with the capabilities necessary for the requirements specified under our solution.

### **H. TIMETABLE**

Funding to be provided on July 1, 2011.

### **I. RECOMMENDATION**

Alternative #1 is recommended.

This proposal will provide the appropriate IT infrastructure to support the department's revenue activities with the least possible financial impact to the state especially in the current fiscal climate.

With this funding, the department will be able to replace the existing mainframe CPU (hardware and software) and storage device. Also, provide on-going maintenance to support annual costs - 20% additional CPU mainframe cost (CPU/Memory Upgrades) - to meet workload growth demands through FY 2014/15.

Alternative #1 meets the business objectives and functional requirements necessary to maintain existing systems without risking major equipment or software failure, as identified in FTB's FSR Mainframe Replacement for Workload Growth FY 2011/12.