

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 05/11)

Fiscal Year 2013/14	BCP No. 1	Org. Code 1730	Department Franchise Tax Board	Priority No. 1
Program Tax Programs			Element N/A	Component N/A

Proposal Title
Enterprise Data to Revenue Project

Proposal Summary

The Franchise Tax Board (FTB) is requesting \$152.1 million (\$133.5 million is the anticipated Solution Provider (SP) payment) and 184 permanent positions in FY 2013/14 to continue implementation of the Enterprise Data to Revenue (EDR) project. Fiscal year 2013/14 is year three of the five and a half year EDR Project. This request includes reestablishing 26 positions from limited term to permanent. The proposal also includes a placeholder for the project's FY 2014/15 needs which includes 36 positions and \$87.6 million (\$68.5 million is the anticipated SP payment). The EDR contract is a fixed price contract, however, the timing of the progress payments to the SP are contingent upon the State realizing increased revenue during the life of the contract. In order to provide flexibility within our budget to address EDR revenue timing that might impact contractor payments, as a contingency, we would like to request carryover expenditure appropriation authority from FY 2013/14 to FY 2014/15 for any portion of the 2013/14 contractor payment appropriation be made part of the provisional language of the budget bill. Revenue generated from the EDR project is anticipated to be \$280.1 million in General Fund revenue for FY 2013/14, increasing to \$716.1 million for FY 2014/15. The EDR Project is a 66 month IT project that will modernize FTB's processes and systems (projected 7:1 CBR) and will generate \$4.9 billion in revenue for the State over the life of the project.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

FSR SPR Project No. 1730-191 Date: 11/14/11

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 Department Director	Date	Reviewed By Agency Secretary	Date
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Pending Board Approval

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Technology Agency

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
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Analysis of Problem

A. Proposal Summary

The Franchise Tax Board (FTB) is requesting \$152.1 million (\$133.5 million is the anticipated SP payment) and 184 permanent positions in FY 2013/14 to continue implementation of the Enterprise Data to Revenue (EDR) project. Fiscal year 2013/14 is year three of the five and a half year EDR Project. This request includes reestablishing 26 positions from limited term to permanent. The proposal also includes a placeholder for the project's FY 2014/15 needs which includes 36 positions and \$87.6 million (\$68.5 million is the anticipated SP payment). The EDR contract is a fixed price contract, however, the timing of the progress payments to the SP are contingent upon the State realizing increased revenue during the life of the contract. In order to provide flexibility within our budget to address EDR revenue timing that might impact contractor payments, as a contingency, we would like to request carryover expenditure appropriation authority from FY 2013/14 to FY 2014/15 for any portion of the 2013/14 contractor payment appropriation be made part of the provisional language of the budget bill. Revenue generated from the EDR project is anticipated to be \$280.1 million in General Fund revenue for FY 2013/14, increasing to \$716.1 million for FY 2014/15. The EDR Project is a 66 month IT project that will modernize FTB's processes and systems (projected 7:1 CBR) and will generate \$4.9 billion in revenue for the State over the life of the project.

B. Background/History

Annually, FTB processes more than 15 million Personal Income Tax (PIT) returns and one million Business Entity (BE) returns, responds to more than eight million phone calls, handles over seven million internet contacts, and collects more than \$60 billion in tax revenues, representing nearly 67 percent of the State's general fund revenues.

FTB has performed extensive enterprise strategic planning including development of an enterprise Business Vision and Technology Target Architecture documented in the FTB Tax System Information Technology Strategic Plan (ITSP). Through this planning effort, FTB identified significant opportunities to make fundamental improvements to return processing and utilization of data that would improve operational efficiency and help narrow the tax gap. These opportunities form the basis of the EDR Project.

The project, which is now in its third year of development, has undergone a thorough initial review and approval process, as well as scheduled reporting at appropriate milestones. The EDR Feasibility Study Report (FSR), project number 1730-191 was approved on January 10, 2009. A Special Project Report (SPR) was approved on March 24, 2011 prior to awarding the contract to the SP. An SPR Addendum was approved on November 14, 2011 to include the addition of the Financial Institution Revenue Match (FIRM) due to legislation. Each year, since Fiscal Year 09/10 a Budget Change Proposal or Finance Letter has been approved to support the project. In addition, the project remains true to its original concepts. The business problems that EDR will solve have not changed and are as follows:

1. Filing Business Processes – Return processing uses limited data and is labor intensive
2. Data Availability – Data is stored in multiple systems and is difficult to access. Needed data is often in separate systems, and therefore data is underutilized, redundant and untimely, resulting in lost revenue opportunities
3. Data Analysis – Data analysis tools are limited
4. System Redundancy and Reuse – Systems are not leveraged
5. Filing Self-Services – Taxpayer self-services are limited
6. Business Entities Tax System (BETS) Maintainability –BETS is comprised of old and outdated technologies

The EDR solution adopted by the EDR Project implements improvements to FTB's enforcement and self-assessment capabilities and better positions the Department to address the business problems as well as the current annual tax gap of over \$10 billion in taxes that are due to the State but currently unpaid. The EDR solution also offers significant improvements to FTB's operational efficiency through an enterprise approach to data sharing and modernization of existing IT systems. This improved sharing of existing data will result in significant new and improved revenue streams. Additionally, EDR will enable FTB to implement new self-help tools for taxpayers and tax practitioners to ease burdens that currently exist related to filing a return or paying taxes due.

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EDR is a "benefits based" project which means the SP will be paid from the revenue generated by the EDR solution up to the total contract amount of \$399 million. The SP will be paid on a quarterly basis, based on their completed deliverables and the available benefits generated during that quarter. The first 25 percent of revenue will go directly to the state's General Fund and will not be available for the SP's compensation. Once the SP has been paid the total contract amount, all revenue generated by the EDR solution will be deposited into the General Fund. During the project reporting period (2009-2018), EDR will generate \$4.9 billion and by 2016 will annually generate \$1 billion more revenue than we currently collect.

Since July 2011, the project has implemented the following early initiatives for FTB's major programs.

- **Collections** – Added more data to payer files resulting in more effective collections; improved the prioritization process for collection cases; contacted delinquent taxpayers through an automated phone process that connects collectors with available taxpayers; improved taxpayer service by enabling installment agreements by phone and improved website application; alerted staff when a new asset has been added to a collection case and partnered with financial institutions to match asset information to collection accounts, thus improving collections.
- **Filing Enforcement**– Used predictive modeling and improved matching to enable staff to focus on the most productive cases and expanded the use of the IRS data to identify additional non-filers.
- **Refund Fraud** – Reduced refund fraud through automation of detection tools.
- **Audit** – Improved certain audit models containing additional taxpayer data.

In FY 2011/12, these early initiatives contributed to \$115.7 million in revenue, 177% of what was estimated. To date, the EDR project has \$61.6 million in expenditures (includes both BCP expenditures plus redirected staff and OE&E), but generated \$148.7 million in revenue. This proposal requests resources to continue with the implementation of the project in FY 2013/14, year three of the project, in accordance with the FTB FSR and previously approved EDR Contract.

The table below shows the historical resource data for the project.

Resource History
(Dollars in thousands)

Project Budget	2009/10	2010/11	2011/12	2012/13
Authorized Expenditures	5,218	6,935	39,115	96,491
Actual Expenditures	3,795	4,835	37,680	TBD
Revenues	7,548	25,380	115,740	150,700 Est
Authorized Positions	57	40	72	165
Vacancies	0	0	1	0

Workload History

Workload Measure	2009/10	2010/11	2011/12	2012/13
Business Entities Section Backlog				
Business Entity Backlog, Non-Remit return processing and Business Entity payment processing to reduce backlog				
Increased Volume of Returns/Payments Processed	44,553	196,773	173,181	220,000 est
Filing Enforcement				
Business Entity correspondence & answer calls.				

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Increased Volume of Notices	N/A	N/A	6,000	112,800 est
Taxpayer Services Center Section				
Taxpayer assistance to resolve taxpayer issues that directly affect the taxpayer's ability to file and pay their tax liability.				
Increased Volume of Calls	N/A	N/A	47,000	100,500 est
Personal Income Tax Compliance and Resolution Services - Correspondence (Backlog)				
EDR correspondence – includes Financial Statements, faxes & paper correspondence.				
			PIT- 20,365 BE- 8,761	PIT – 20,500 BE - 8,500
Increased Volume of Notices	N/A	Total = 21,974	Total= 29,126	29,000 est
Compliance and Resolution Services				
Answer phones due to additional EDR notices, cases and other impacts.				
Increased Volume of Calls	N/A	N/A	Total= 49,870	50,000 est
Field & Complex Account Collections-				
Support the field office counters in anticipation of an increase in contacts due to EDR early wins and other EDR related processes that will increase the volume of notice and levy releases.				
Increased Contacts	N/A	N/A	N/A	62,147 est

C. State Level Considerations

The EDR Project will significantly improve the department's ability to address the State's annual \$10 billion tax gap through a strategically planned Tax Systems Modernization effort consistent with the FTB Tax Systems IT Strategic Plan, FTB IT Capital Plan, and enterprise vision incorporating State IT goals and objectives. The EDR Project is a key step for aligning FTB's tax systems with the FTB Strategic Plan and FTB Enterprise Tax Business Vision. Approval of this request is critical to the success of the EDR Project and sets the stage to achieve the corresponding State revenue objectives and IT goals at the lowest possible costs.

This proposal soundly supports FTB's mission to fairly and effectively administer the State's tax system. The FTB mission is "to collect the proper amount of tax revenue, and operate other programs entrusted to us at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency, and fairness." This proposal also fully supports FTB's mission and Strategic Plan Goals for Taxpayer Centric Service, Effective Enforcement, a Strong Organization and Operational Excellence.

The added revenue coupled with the improvement to taxpayer compliance will provide many long-term benefits to the State. Associated benefits not only increase the General Fund, but also improve the public's perception and awareness in order to fully support and accurately participate in the taxation process for the benefit of all Californians.

D. Justification

Over the last 25 years, FTB's IT investments focused on improving the effectiveness of our enforcement processes with the aim of bringing non-compliant taxpayers into compliance. These investments have

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generated measurably good results, including the filing of more tax returns and the collection of more past due taxes. While these investments were effective, the enforcement processes are the most costly way for FTB to conduct its business because they concern the recovery of noncompliance revenue. The aim of the EDR Project is to improve the effectiveness of our filing processes and thereby maximize compliance, and thus revenues, much sooner in the filing process – when the returns are filed and taxes are due. The EDR Project costs are funded by the revenue benefits generated from the EDR solution. Upon implementation, the EDR solution will allow for tax revenue performance improvement and taxpayer benefits. More specifically the EDR Project will assist in narrowing the \$10 billion tax gap by:

- Replacing the current return filing processes to improve efficiency, image and capture more return data, and correct more returns earlier in the filing process.
- Providing additional tools to identify noncompliance patterns and prevent fraudulent activity.
- Providing data as an enterprise asset to all authorized users, including taxpayers.
- Improving the assignment of non-filer, audit, and collection cases based on highest CBR.
- Providing reusable services to make functionality available and reduce maintenance cost.
- Retiring redundant systems.
- Expanding customer self-services by implementing new self-help tools for taxpayers and tax practitioners to ease burdens that may currently exist related to filing a return or paying taxes due.

In June 2011, FTB awarded the contract to the SP. FTB is using a solution based procurement model and a benefits-based compensation model to acquire a best value, business driven and innovative solution. These models enable the State to acquire innovative solutions to strategic business problems that when solved result in increased tax revenues. Under these models, the contractor is compensated only when new tax revenues are generated from the EDR solution and after certain State costs have been recouped. Revenue benefits over and above State costs are shared with the contractor based on a fixed price contract. In this way, the project budget is funded from project benefits so that the State does not incur out-of-pocket expenses to compensate the contractor. This compensation model also reduces risk to the State from the project since payment is only due after tangible monetary benefits to the State are achieved.

The one-time IT project cost is \$479 million with projected revenue of \$4.9 billion over the life of the 66-month project (refer to Project 1730-191). Once the project is completed, the ongoing benefits from the EDR Project are estimated at \$1 billion annually. As referenced in Appendix 1, annual revenue generated from the EDR Project will continue to exceed the annual project cost over the life of the project.

The EDR solution will introduce a new Personal Income Tax (PIT) and Business Entity (BE) return processing system including expanded imaging, data capture and return validation with an enterprise data warehouse and common services. In order for the EDR Project to be successful, the department requires the following:

- a. Additional Program Positions
- b. Extension of Project Management Support Consultant Contract
- c. Hardware and Software to Support FTB Infrastructure
- d. Contract Services to Support Genesys/Windows Server 2008 Upgrade
- e. Compensation Payments to the Solution Provider

It is worth noting that FTB remains concerned regarding ongoing and future restrictions on resources during the EDR Project development period, such as furloughs and hiring freezes, and the potential impacts those restrictions would have on the project - including project delays, reduced revenue collections, unnecessary cost increases, and potential breach of contract issues if we were unable to provide adequate project support.

a. Additional Program Positions

The positions requested in FY 2013/14 are required to support the business operations enhanced by the EDR Project. FTB has worked diligently with the California Technology Agency and the vendor to conservatively identify resource needs to ensure this project is a success. Positions identified here are critical to meet revenue commitments in the business areas and exclude positions that FTB is able to redirect from existing

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workloads. Additional redirections are not possible, since this would negatively impact baseline operations, including baseline general fund revenue. That in turn would impact FTB's ability to meet the EDR contract obligations. Any modification to the resources requested herein would need to be reevaluated by FTB and the SP to determine the impacts to scope, schedule, and/or revenue of the EDR Project.

FTB is requesting an additional 184 permanent positions in 2013/14 to continue implementation of the EDR Project and to address the additional revenue producing workloads generated as a result of the on-going implementation of the project phases as follows:

Compliance Positions

This proposal requests position authority in FY 2013/14 for 153 permanent collectors and related support staff to support the anticipated increase in volumes for the Manual, Voluntary, Involuntary, Private Debt Collection, Field and Support Personal Income Tax and Business Entity collection case workloads and complex accounts. These workload impacts are triggered by the implementation of the EDR Early Wins and Collection Modeling components as well as the expansion of asset and income sources identified with EDR. These positions are critical to the State in achieving the benefits associated with the EDR Project.

Re-establish Limited Term Positions

The project's 26 limited term positions from Business Entities workload backlogs are set to expire in June 2013. FTB is requesting approval to reestablish these positions permanently and reclassify them appropriately to address EDR related program increases in FTB's Compliance, Legal, Return Validation and Correspondence workloads. These positions are critical to meeting EDR Project revenue goals which are foundational to making contract payments to the project vendor.

- **Audit** - The five redirected positions will be used to support the increase in workload as a result of EDR Discovery efforts as well as the EDR solution. FTB will be capturing and using more data from tax returns for audit selection. This will result in additional audit workloads. These positions will provide technical expertise in conducting EDR identified workloads in individual audits.
- **Business Entity Correspondence** - The three redirected positions will be used to provide supervision, lead and review responsibilities for a team of Tax Technicians resolving Business Entity Correspondence. These positions are currently dedicated to Business Entity Correspondence backlogs resulting from backlog clean up for EDR. These positions will also be dedicated to the additional correspondence activities resulting from EDR Early Initiatives and the upcoming implementation of the EDR solution.
- **Compliance** - The two redirected positions will be allocated to the increased workload for Executive and Advocate Services which is the Executive Level Correspondence and Call Center for FTB, handling cases referred by the Governor, Legislators, and other elected officials that have not been resolved through normal channels. As a result of EDR, FTB's billing and collections notices will continue to grow and additional resources are needed to maintain higher rates of level of access.
- **Filing** - The six redirected positions will be allocated to the Early Initiative for Business Entity Modeling for Filing Enforcement (FE) and will focus on data analysis of resulting cases held in under-review status. This will provide an improved capability to analyze existing review cases and identify cases with the highest expected yield to pursue and result in the identification of approximately 50,000 additional non-filer cases per year.
- **Legal** - The three redirected positions will be allocated to support the additional appeals and other issues resulting from the increase in collection activities, notices, and federal and state collection litigation case. The workload includes reviewing the files, briefing, attending hearings at the State Board of Equalization (BOE) and providing technical advice to the program areas which handle these cases and issues.
- **Business Entities Validation** - The remaining seven positions will be reclassified as permanent, yet still reside within the Business Entities Section to continue with the cleanup of return processing and the additional validation resulting from the expanded data capture as a result of EDR solution.

Business Intelligence Data Services Positions

Five permanent positions for Business Intelligence and Data Services of the Technology Services Division are required to support FTB's new enterprise data infrastructure, including the new data warehouse and operational databases being implemented in FY 13/14. These positions will support the modeling, reporting,

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data management and stewardship, as well as provide oversight and enforcement of FTB's new data policies, guidelines and regulations. These positions are critical in supporting the EDR Project's requirements for ensuring the availability and accuracy of centralized enterprise data via the new taxpayer folder as well as our new enterprise services supporting FTB's key legacy collections, filing, audit, and legal systems. Failure to secure these positions would require decreases in the project revenue estimates for FY 13/14 and beyond as well as the long-term on-going \$1 billion revenue estimate.

b. Extension of Project Management Support Consultant Contract in FY 2013/2014

The Project Management Consultant services obtained in FY 2011/12 have been extremely valuable to the project in the development and implementation of the EDR Project schedule. The original term of the contract was for three consultants for 30 months. Due to the legislated 5% reduction in employee hours as well as departmental vacancy sweeps, FTB is now unable to make planned redirection of FTB staff to be trained into these critical on-going roles and is requesting an extension to the existing contract for two consultants for an additional 12 months, with anticipated payment to the contractor of \$450,000 in 2013/14. With FY 2013/14 as one of the most critical timeframes of the EDR Project, it will be vital that the State have the consultant's expert services available to adequately plan and schedule all Legacy System integration activities as well as the business release management activities to contribute to a successful transition to production. The consultants have combined 35+ years experience running large, complex, highly integrated project schedules as described below. Failure to extend the contract will likely result in FTB being unable to adequately manage the EDR Project schedule comprised of over 850,000 man hours of work, resulting in delayed or missed implementation and lack of proper oversight to the SP's schedule and task plan ultimately jeopardizing revenue. Specifically, the project management consultant will:

- a. Continue to support the maintenance of the EDR integrated master project schedule that includes twelve comprehensive, detailed sub-schedules comprised of more than 22,000 tasks.
- b. Develop and maintain additional required components of the master project schedule with milestones and dependencies and resources including contractor and State tasks.
- c. Perform cost and schedule variance analysis for both State and contractor tasks.
- d. Recommend schedule changes.
- e. Perform "what-if" analysis of project schedule change requests.
- f. Support executive level analysis of EDR Project status.

c. Hardware and Software to Support FTB Infrastructure

Now that the project has implemented 14 early initiatives and worked through the detailed design for two of the three major stages of the project, there are workload growth impacts to the existing FTB provided services for which the EDR solution is required to leverage per the existing contract. The workload growth is due to increased: internal and external users requiring access authentication; system file transfers; storage; security logging, as well as increased licensing and server capacity. The request of \$652,000 for additional hardware and software growth is for various Departmental systems, including External Authentication for Secure e-Services, Active Directory, Intrusion Detection Service, Secure Web Internet File Transfer, Security Audit Logging and Security Analysis Audit Log Tool. Failure to secure the hardware and software may cause failures to key user components of the EDR solution such as the Taxpayer Folder, mandated security logging by the IRS, electronic cashing of checks, and unauthorized access by unknown parties.

d. Modification of Contract Services to Support Genesys/Windows Server 2008 Upgrade

The contract for the EDR Solution called for the ongoing utilization of the Microsoft Server 2003 platform and the Genesys call center platform currently in use by the Department. However, post acceptance of the EDR Solution, both Genesys and Microsoft announced end-of-life of their Genesys call center platform (August 2013) and Microsoft Server 2003 (August 2015) software. Both of these software products must now be upgraded during the project's contract term (January 2017). Although the software and hardware cost are covered within FTB's existing license contract with these companies, the EDR SP will be required to perform additional work to incorporate the upgrades into the solution. FTB is unable to complete this work independent of the EDR Project due to overlapping timeframes with a single development and test environment needed for both the EDR changes as well the environment upgrades. If appropriation is approved, a contract amendment will be pursued to have the SP perform the following tasks with anticipated costs of \$1.4 million:

- a. Upgrade the Genesys applications to version 8.1 on the new Windows Server 2008 servers in Development and Production environments.

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- b. Migrate Genesys 8.1 applications already in production onto new Windows Server 2008 servers for Development and Production.
- c. Develop and execute Integration & Acceptance Test plans for both Development and Production.
- d. Integrate knowledge management opportunities into the upgrade so that FTB can complete the upgrade of the Disaster Recovery environment.
- e. Provide maintenance and operations support for three months after go-live.

e. Compensation Payments to the Solution Provider in FY 2013/14 and FY 2014/15

The EDR Project is using a benefits based compensation model. This means that payments to the SP are based on the benefits (revenue) generated from the EDR solution that the State receives. The vendor payment is capped at the total contract price of \$399 million. If the State does not receive increased revenue, then the contractor does not receive payment. This approach shifts much of the financial risk to the contractor. Payments are computed and made quarterly based on designated revenue streams and can move between quarters. Quarterly payments can be delayed if certain project management and performance objectives are not met by the SP. The estimated SP quarterly payments for FY 2013/14 total \$133.5 million and FY 2014/15 total \$68.5 million.

In order to incorporate the risk mitigation strategies which are part of the EDR Contract into FTB's budget planning process, FTB would like to request carryover expenditure appropriation authority from FY 2013/14 to FY 2014/15 be made part of the provisional language of the budget bill. To the extent that quarterly EDR revenue timing should deviate from the projected revenue stream, this carryover expenditure appropriation authority will allow us to make contractor payments in the fiscal year that revenue is subsequently generated. This does not increase the total quarterly payments to the contractor for 2013/14 and 2014/15, does not accelerate contractor payments into 2013/14 from 2014/15, and will not increase the overall cost of the EDR Project to the State.

E. Outcomes and Accountability

An FTB Special Project Report (SPR) #1730-191 that updates the Feasibility Study Report (FSR) 08-05 (Project number 1730-191), supports this request, and provides the detail about the project scope, requirements and solution. A cross-section of State staff participated in the FSR and SPR analysis and requirements, including the EDR Project Director, Business Project Director, and dedicated Project Management staff, working with the Department's Project Oversight Guidance (POG) Section, as well as representatives from DGS who continue to oversee project activities, including all procurement activities, to ensure all applicable policies, rules, guidelines and procedures are followed. In addition, a Project Management Support Consultant has been engaged to ensure that project management activities, including schedule management, earned value analysis, and risk management are executed consistent with industry best practices and standards. The EDR Project Manager will work with POG to monitor project progress and perform communication management, including status reporting consistent with stakeholder and overseer needs. The SPR is the responsibility of the department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both the State Technology Agency and the Chief Financial Officer (CFO).

As shown in the table below, revenue generated from this proposal is anticipated to be \$280.1 million in FY 2013/14 and \$716.1 million in FY 2014/15.

Projected Outcomes
(Dollars in thousands)

Workload Measure – Revenue	2013/14	2014/15
Processing Backlog Revenue	1,331	0
EDR Project Revenue	278,812	716,148
Total	280,143	716,148

F. Analysis of All Feasible Alternatives

Alternative 1 – Approve \$152.1 million and 184 permanent positions in FY 2013/14 (\$133.5 million is the anticipated SP payment) and placeholder funding request of \$87.6 million in FY 2014/15 (\$68.5 million

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is the anticipated SP payment) to achieve revenue target of \$280.1 million in 2013/14 and \$716.1 million in 2014/15. Approve carryover expenditure appropriation authority between 2013/14 and 2014/15 to address any revenue shift between the two years that could impact vendor payments.

This multi-year project addresses fundamental problems involved with processing PIT and BE tax returns and the underutilization of data with an emphasis on cost savings and generating revenues. The funding and positions requested are required to support the vendor activities associated with the EDR Project and address new, revenue generating workloads generated by the project, including a new Return Processing System, new Data Warehouse, creation of a taxpayer folder, new interfaces between EDR and existing legacy systems, and continuation of the EDR Early Initiative Implementation.

Alternative 2 – Approve funding of \$150 million and 184 permanent positions in FY 2013/14 (\$133.5 million is anticipated SP Payment) and placeholder funding of \$87.6 million for FY 2014/15 and do not approve (1) the Contract Services to Support Genesys/Windows Server 2008 Upgrade, (2) the Extension of Project Management Support Consultant Contract, or (3) the Hardware and Software to Support FTB Infrastructure.

Lack of the Genesys/Windows Server Upgrade would result in significant risks to the EDR project scope, schedule and production of anticipated revenues in the budget year and in the future. In addition, FTB would have a call center platform that is out of support and FTB would be unable to restore the system if a critical failure were to occur. Revenue generating calls would be at risk of going unanswered, and the FTB would need to reduce, if not suspend, its enforcement and collection efforts to deal with system limitations. These risks would increase over time as the platform remains out of support for an extended period.

Failure to extend the Project Management Support Consultant contract could result in FTB being unable to adequately manage the EDR Project schedule comprised of over 850,000 man hours of work. This could result in delayed or missed implementation dates for the EDR Project and proper oversight of the SP's schedule and task plan ultimately jeopardizing revenue. In addition, this would result in FTB being unable to meet its contractual obligations to the EDR SP to properly support the project.

Failure to acquire the additional hardware and software identified as needed to support the FTB's enhanced infrastructure could result in possible failures to key user components such as the Taxpayer Folder, mandated security logging by the IRS, electronic cashiering of checks, or unauthorized access by unknown parties.

Alternative 3 – Approve funding of \$135.2 million (\$133.5 million is the anticipated SP payment) in FY 2013/14 and placeholder funding of \$70.4 million (\$68.5 million is the anticipated SP payment) for 2014/2015, and do not approve (1) the additional position authority and funding; (2) the Genesys/Windows Server 2008 Upgrade; (3) the extension of the Project Management Support Consultant Contract and (4) the Additional Hardware and Software to Support FTB infrastructure improvements.

While this alternative may provide the appropriation to make the required SP payments, without the new positions to work the additional revenue generating workloads generated by EDR, it is highly unlikely that sufficient additional revenue would be realized by the State to make the contract payments in either 2013/14 and 2014/15. FTB has worked diligently with the California Technology Agency and the vendor to conservatively identify resource needs to ensure this project is a success and revenue streams are increased. Positions identified here are critical to project success and exclude positions that FTB is able to redirect from existing workloads. Additional redirections are not possible, since this would negatively impact baseline operations, including baseline revenue, and therefore impact FTB's ability to meet the EDR contract obligations. Any modification to the resources requested herein would need to be reevaluated by FTB to determine the impacts to scope, schedule, and/or revenue of the EDR Project.

Alternative 4 – Do not approve the request.

Without appropriation funding and position authority in place by FY 2013/14, FTB will not be able to meet contractual obligations associated with the EDR Project. Any modification to the resources requested herein would need to be reevaluated by FTB and the SP to determine the impacts to project scope, schedule, and

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revenue of the EDR Project. Failure to secure requested funding and positions would result in a decrease in the project revenue estimates for FY 2013/14 and beyond as well as the long-term on-going \$1 billion revenue estimate.

G. Implementation Plan

- Ongoing SP payments will occur quarterly beginning October 2013.
- June 2013 – all documentation to establish 158 permanent and reestablish 26 limited term positions and reclassify to permanent are prepared and approved by the FTB Budget Officer and forwarded to the Department of Finance.
- June 2013- Department of Finance notifies FTB of position approval.
- July 1, 2013- Positions are established and FTB begins hiring.

H. Supplemental Information (Check box(es) below and provide additional descriptions.)

None Facility/Capital Costs Equipment Contracts Other

Facility/Capital Costs:

Due to the number of compliance positions coming in FY 2013/14, there will be substantial movement of staff that will require reconfiguration of workstations. In order to accommodate these requests, modular parts will need to be purchased. \$25,000 has been allocated for these modifications.

Consultant Professional Services (External Contracts):

- Solution Provider payment is \$133.5 million in FY 2013/14 and \$68.5 million in FY 2014/15 for the existing EDR Contract
- Solution Provider payment is \$1.4 million in FY 2013/14 for the Genesys/Windows Server 2008 upgrade contract services
- Project Management Support Consultant payment is \$450,000 in FY 2013/14

I. Recommendation

Alternative 1 is recommended. This alternative provides the most efficient and effective solution to meet the requirements and planning for the return processing reengineering effort. The alternative is the most desirable alternative to minimize costs and risks and maximize revenue and benefits of the EDR Project. Failure to have the funding and key positions in place and the flexibility to base vendor payment on the revenue timing will result in the department not meeting their contractual obligations associated with the EDR Project and risk \$280.1 million in FY 2013/14 revenue and hundreds of millions of dollars in revenue anticipated in subsequent fiscal years associated with the EDR initiatives.

Fiscal Summary

(Dollars in thousands)

BCP No 1	DATE 8/20/2012	Proposal Title: Enterprise Data to Revenue Project	PROGRAM Tax Programs
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	Positions			FY 2012/13	FY 2013/14	FY 2014/15
	CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries & Wages /1	.0	184.0	220.0	\$ 0	\$ 9,787,000	\$ 11,676,000
Salary Savings	.0	.0	.0	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages	.0	184.0	220.0	\$ 0	\$ 9,787,000	\$ 11,676,000
Total Staff Benefits /2				\$ 0	\$ 4,315,000	\$ 5,174,000
Salary Savings				\$ 0	\$ 0	\$ 0
Net Total Staff Benefits				\$ 0	\$ 4,315,000	\$ 5,174,000
Total Personal Services				\$ 0	\$ 14,102,000	\$ 16,850,000

Operating Expenses and Equipment

General Expense /3	\$ 0	\$ 468,000	\$ 216,000
Printing /4	0	46,000	71,000
Communications /5	0	169,000	191,000
Postage /6	0	292,000	460,000
Travel-In-State /7	0	24,000	48,000
Travel Out-of-State	0	0	0
Training /8	0	80,000	160,000
Facilities Operations /9	0	25,000	275,000
Utilities	0	0	0
Cons & Prof Svs - Interdept'l	0	0	0
Cons & Prof Svs - External /10	0	135,365,000	68,497,000
Data Center Services	0	0	0
Information Technology /11	0	1,544,000	857,000
Equipment /12	0	37,000	0
Other/Special Items of Expense	0	0	0
Total Operating Expense & Equipment	\$ 0	\$ 138,050,000	\$ 70,775,000

TOTAL STATE OPERATIONS EXPENDITURES

<u>Fund Source</u>	Org	Ref	Fund			
General Fund	1730	001	0001	\$ 0	\$ 152,152,000	\$ 87,625,000
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Totals				\$ 0	\$ 152,152,000	\$ 87,625,000

Total Local Assistance Expenditures

<u>Fund Source</u>	Org	Ref	Fund			
General Fund	1730	001	0001	\$ 0	\$ 0	\$ 0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Totals				\$ 0	\$ 0	\$ 0

Grand Total, State Operations and Local Assistance

\$ 0	\$ 152,152,000	\$ 87,625,000
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- /1 Itemized positions by classification on the Personal Services Detail worksheet.
- /2 Benefit detail on the Personal Services Detail worksheet.
- /3 General Expense @ \$774 per position. Plus additional minor equipment @ \$1199 per new position and misc minor equipment.
- /4 Printing Costs @ \$29 per position plus additional printing costs.
- /5 Communication costs @ \$594 per position plus \$60,000 for Outbound Calling.
- /6 Postage Costs for additional mailings.
- /7 Travel In-State - to training events.
- /8 Training
- /9 Facilities - modular parts and reconfiguration costs.
- /10 Consult & Prof Svcs - for Solution Provider; Genesys/Windows Server 2008 Upgrade; Project Mgmt Support
- /11 Information Technology - Notebooks; Desktops; Printers; various infrastructure software/hardware; dual monitors.
- /12 Equipment - 2 MFC Copiers

PERSONAL SERVICES DETAIL
(Whole Dollars)

BCP No 1	DATE	Proposal Title:	PROGRAM
	8/20/2012	Enterprise Data to Revenue Project	Tax Programs

Positions		Positions			Salary Range	CY	Dollars	
		CY 2012/13	BY 2013/14	BY + 1 2014/15			BY	BY + 1
Administrative Services Division								
Bus Services Officer I Spec	PERM	0.0	1.0	1.0	\$ 3,658 \$ 4,446	\$ 0	\$ 49,000	\$ 49,000
Mailing Machines Operator I - Rg B	PERM	0.0	2.0	4.0	\$ 2,468 \$ 2,998	\$ 0	\$ 66,000	\$ 131,000
Personnel Specialist - Rg C	PERM	0.0	1.0	1.0	\$ 3,098 \$ 3,766	\$ 0	\$ 41,000	\$ 41,000
Materials & Stores Spec	PERM	0.0	2.0	2.0	\$ 2,877 \$ 3,420	\$ 0	\$ 76,000	\$ 76,000
Labor Relations Specialist	PERM	0.0	1.0	1.0	\$ 5,079 \$ 6,127	\$ 0	\$ 67,000	\$ 67,000
Assoc Personnel Analyst	PERM	0.0	1.0	1.0	\$ 4,400 \$ 5,348	\$ 0	\$ 58,000	\$ 58,000
Assoc Sys Sftwre Spec Tech	PERM	0.0	1.0	1.0	\$ 4,611 \$ 5,882	\$ 0	\$ 63,000	\$ 63,000
Sr Compliance Rep.,Ftb	PERM	0.0	1.0	1.0	\$ 4,619 \$ 5,616	\$ 0	\$ 61,000	\$ 61,000
Compliance Rep, Ftb - Rg C	PERM	0.0	1.0	1.0	\$ 3,841 \$ 4,670	\$ 0	\$ 51,000	\$ 51,000
Total Administrative Services Division		.0	11.0	13.0		\$ 0	\$ 532,000	\$ 597,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	11.0	13.0				
Audit Division								
Assoc Tax Auditor	PERM	0.0	5.0	5.0	\$ 4,619 \$ 5,897	\$ 0	\$ 315,000	\$ 315,000
Total Audit Division		.0	5.0	5.0		\$ 0	\$ 315,000	\$ 315,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	5.0	5.0				
Legal Division								
Tax Counsel III Spec	PERM	0.0	3.0	3.0	\$ 7,682 \$ 9,478	\$ 0	\$ 309,000	\$ 309,000
Total Legal Division		.0	3.0	3.0		\$ 0	\$ 309,000	\$ 309,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	3.0	3.0				
Finance & Executive Services Division								
Acctg Officer Spec	PERM	0.0	1.0	1.0	\$ 3,841 \$ 4,670	\$ 0	\$ 51,000	\$ 51,000
Research Analyst II Gen	PERM	0.0	1.0	1.0	\$ 4,619 \$ 5,616	\$ 0	\$ 61,000	\$ 61,000
Total Finance & Executive Services Division		.0	2.0	2.0		\$ 0	\$ 112,000	\$ 112,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	2.0	2.0				
Accounts Receivable Management Division								
Administrator I	PERM	0.0	7.0	7.0	\$ 5,076 \$ 6,476	\$ 0	\$ 485,000	\$ 485,000
Compliance Rep, Ftb - Rg C	PERM	0.0	45.0	55.0	\$ 3,841 \$ 4,670	\$ 0	\$ 2,298,000	\$ 2,809,000
Sr Compliance Rep.,Ftb	PERM	0.0	24.0	27.0	\$ 4,619 \$ 5,616	\$ 0	\$ 1,474,000	\$ 1,658,000
Customer Service Specialist - Rg B	PERM	0.0	4.0	4.0	\$ 3,050 \$ 3,708	\$ 0	\$ 162,000	\$ 162,000
Tax Technician, Ftb - Rg B	PERM	0.0	49.0	49.0	\$ 2,817 \$ 3,426	\$ 0	\$ 1,835,000	\$ 1,835,000
Tax Program Tech I, Ftb	PERM	0.0	7.0	9.0	\$ 2,638 \$ 3,209	\$ 0	\$ 246,000	\$ 316,000
Tax Program Tech II,Ftb	PERM	0.0	2.0	2.0	\$ 2,951 \$ 3,588	\$ 0	\$ 78,000	\$ 78,000
Total Accounts Receivable Management Division		.0	138.0	153.0		\$ 0	\$ 6,578,000	\$ 7,343,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	138.0	153.0				
Filing Division								
Compliance Rep, Ftb - Rg C	PERM	0.0	0.0	12.0	\$ 3,841 \$ 4,670	\$ 0	\$ 0	\$ 613,000
Compliance Rep, Ftb - Rg C	PERM	0.0	6.0	6.0	\$ 3,841 \$ 4,670	\$ 0	\$ 306,000	\$ 306,000
Tax Program Tech I, Ftb	PERM	0.0	7.0	7.0	\$ 2,638 \$ 3,209	\$ 0	\$ 246,000	\$ 246,000
Customer Service Specialist - Rg C	PERM	0.0	3.0	3.0	\$ 3,658 \$ 4,446	\$ 0	\$ 146,000	\$ 146,000
Total Filing Division		.0	16.0	28.0		\$ 0	\$ 698,000	\$ 1,311,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	16.0	28.0				
Technology Services Division								
Staff Info Sys Analyst Spec	PERM	0.0	2.0	2.0	\$ 5,065 \$ 6,466	\$ 0	\$ 138,000	\$ 138,000
Staff Prog Analyst Spec	PERM	0.0	2.0	2.0	\$ 5,065 \$ 6,466	\$ 0	\$ 138,000	\$ 138,000
Sys Software Spec II Tech	PERM	0.0	1.0	1.0	\$ 5,561 \$ 7,097	\$ 0	\$ 76,000	\$ 76,000
Staff Info Sys Analyst Spec	PERM	0.0	4.0	4.0	\$ 5,065 \$ 6,466	\$ 0	\$ 277,000	\$ 277,000
Sys Software Spec I Tech	OT				\$ 5,064 \$ 6,465	\$ 0	\$ 614,000	\$ 614,000
Sr Info Systems Analyst Spec	LT EXP 06/30/2015	0.0	0.0	1.0	\$ 5,571 \$ 7,109	\$ 0	\$ 0	\$ 76,000
Staff Operations Specialist/Ftb	LT EXP 06/30/2015	0.0	0.0	5.0	\$ 4,833 \$ 5,874	\$ 0	\$ 0	\$ 321,000
Staff Serv Analyst Gen - Rg C	LT EXP 06/30/2015	0.0	0.0	1.0	\$ 3,658 \$ 4,446	\$ 0	\$ 0	\$ 49,000
Total Technology Services Division		.0	9.0	16.0		\$ 0	\$ 1,243,000	\$ 1,689,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	9.0	16.0				
Total Salaries and Wages								
Positions		.0	184.0	220.0		\$ 0	\$ 9,787,000	\$ 11,676,000
Part Yr Adj		.0	.0	.0				
P.Y.s		.0	184.0	220.0				

Staff Benefits Detail

OASDI /13
 Health/Dental/Vision Insurance /14
 Retirement - Miscellaneous /15
 Worker's Compensation /16
 Industrial Disability Leave/17
 Non Industrial Disability Leave /18
 Unemployment Insurance /19
 Medicare /20
Total Staff Benefits

	2012/13	2013/14	2014/15
	\$ 0	\$ 607,000	\$ 724,000
	0	1,844,000	2,204,000
	0	1,667,000	2,010,000
	0	49,000	59,000
	0	3,000	4,000
	0	3,000	4,000
	0	0	0
	0	142,000	169,000
	\$ 0	\$ 4,315,000	\$ 5,174,000

13/ For permanent and overtime, 6.2% of salary.

14/ Health - For Permanent \$9,326 per position; Dental - For permanent \$587 per position;
 Vision - for permanent \$106 per position.

15/ For permanent, 18.175% of salary.

16/ 0.53% of salary for permanent.

17/ 0.04% of salary for permanent.

18/ 0.04% of salary for permanent.

19/ 7.9% of salary for temporary help.

20/ 1.45% of salary for permanent.

Supplemental Information

(Dollars in thousands)

BCP No. 1	Proposal Title
	Enterprise Data to Revenue Project

Equipment	CY	BY	BY +1
Total	\$0	\$0	\$0

Consulting & Professional Services

Solution Provider		133,515	68,497
Genesys /Windows Server 2008 Upgrade		1,400	0
Project Management Consultant		450	0
Total	\$0	\$135,365	\$68,497

Facility/Capital Costs

Reconfiguration of workstations & new modular parts		25	275
Total	\$0	\$25	\$275

One-Time/Limited-Term Costs Yes No

Description	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0	\$0	0.0	\$0	0.0	\$0

Full-Year Cost Adjustment Yes No

Provide the incremental change in dollars and positions by fiscal year.

Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0	\$0	0.0	\$0	0.0	\$0

Future Savings Yes No

Specify fiscal year and estimated savings, including any decrease in positions.

Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0	\$0	0.0	\$0	0.0	\$0