

Fiscal Year 2013/14	BCP No. 2	Org. Code 1730	Department Franchise Tax Board	Priority No.
Program Tax Programs			Element N/A	Component N/A

Proposal Title
Central Processing Unit Capacity Increase

Proposal Summary

The Franchise Tax Board (FTB) is requesting a one-time funding of \$3.6 million and an ongoing funding of \$700,000 beginning in FY 2013/14 to increase processing capability, memory storage and software upgrades on FTB's mainframe computing system to meet workload growth projections through FY 2014/15. Without these upgrades, FTB's ability to efficiently and effectively collect revenue for the General Fund and respond to taxpayers will be negatively impacted as mentioned in the justification.

This request is supported by a Feasibility Study Report (DOF FSR 1730-194) as approved by the State and Consumer Services Agency on June 29, 2010, and the California Technology Agency on January 10, 2011.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
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
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. <input checked="" type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. DOF 1730-194 Date: 1/10/11		

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 a one-time funding of \$3.6 million and an ongoing funding of \$700,000 beginning in FY 2013/14 to increase processing capability, memory storage and software upgrades on FTB's mainframe computing system to meet workload growth projections through FY 2014/15. Without these upgrades, FTB's ability to efficiently and effectively collect revenue for the General Fund and respond to taxpayers will be negatively impacted.

This request is supported by a Feasibility Study Report (DOF FSR 1730-194) as approved by the State and Consumer Services Agency on June 29, 2010, and the California Technology Agency on May 11, 2012.

B. Background/History

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.

FTB collects over 65 percent of the state's General Fund revenue and manages several non-tax debt programs. FTB relies on the use of a full service data center to provide 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 20 million online transactions and 242,000 batch jobs per month in FY 2011/2012. During April (FTB's individual tax filing deadline), FTB processes approximately 26.2 million online transactions and roughly 288,000 batch jobs. The data center also generates 2.9 million print pages per month of in-house documents, external notices, bills, and letters during peak filing season (January through June). In FY 2011/12, FTB printed a total of 35 million pages from the mainframe.

FTB programs rely heavily on the completion of the nightly batch processing window in order to provide updates to the legacy systems (e.g., Taxpayer Information, Business Entities, and Non-Tax Debt). 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 2012 tax season, the department's capacity planning metric used 83 percent (1,367 MIPS) of capacity. Based on the projected workload indicators, FTB expects 12 percent workload growth annually; therefore, the current system expects to be operating at 93 percent (1,531 MIPS) in FY 2012/13 and 104 percent (1,715) in FY 2013/14.

Workload growth projections indicate that the current mainframe environment cannot support the business areas without major process and performance degradation issues such as:

- Insufficient processing (CPU) capacity – Capacity issues result in increased return processing time causing extensive backlogs and delayed revenue impacts. When the mainframe takes longer to process a (system) task, this increases the time it takes to complete user requests.
- Increased response times – Longer response times lead to customer dissatisfaction and reduction in use of FTB's online services. Online services use information via the mainframe to process customer requests without the need for expensive manual intervention by an FTB

Analysis of Problem

representative. This has helped FTB to provide fast, efficient customer service while controlling costs to the State. In addition, it allows taxpayers to quickly and efficiently resolve inquiries, thereby promoting greater taxpayer self compliance.

Resource History (Dollars in thousands)

Program Budget	2008-09	2009-10	2010-11	2011-12 ^{1/2}	2012-13
Authorized Expenditures ^{1/}	\$4,986	\$6,387	\$6,242	\$7,079	\$7,079
Actual Expenditures	\$4,887	\$6,838	\$6,539	\$10,924	\$7,079 (est.)

^{1/} Authorized expenditures are estimates. Actual expenditures were higher than authorized in FYs 09-10 and 10-11.

^{2/} Beginning in FY 11-12, the Mainframe Replacement BCP provided funding of \$1.661 million for financing over three years. However, FTB paid for the mainframe replacement in full from one-time baseline savings that occurred in FY 11-12.

Workload History Million Instructions Per Second (MIPS)

Workload Measure	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Projected
Personal Income & Corporation Tax Programs					
Taxpayer Assistance	75	89	90	96	105
Tax Forms	64	74	75	85	93
Analysis & Recommendations	98	115	116	127	139
Tax Returns	166	195	197	213	233
Payments	140	164	166	180	197
Tax Auditing	49	58	59	67	73
Tax Collection	207	244	247	245	268
Filing Enforcement	10	12	12	16	18
Investigations	122	144	145	159	174
Withholding Services	57	66	67	74	81
Subtotal	988	1,160	1,173	1,261	1,381
Homeowner & Renter's Assistance					
Subtotal	28	32	0	0	0
Non-Tax Debt					
DMV Collection	22	27	27	30	32
Court Ordered Debt	23	47	58	64	70
Contracted Services	9	11	11	12	13
Subtotal	54	84	96	106	116
New Project Workload					
Previous Years New Project Workload	0	0	0	0	0
New Project Workload	0	0	0	0	34
Subtotal	0	0	0	0	34
Total Capacity MIPS Used/ Projected	1,070	1,277	1,269	1,367	1,531
Total MIPS Available	1,114	1,324	1,324	1,640	1,640

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C. State Level Considerations

FTB collects 65 percent of the state's General Fund revenue. Upgrading FTB's equipment to effectively and efficiently handle the growth of current application workloads projected beyond FY 2012/13 reduces the risk that these items fail and impact FTB's revenue-generating capabilities.

In addition, 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. Justification

Industry standards recommend operating at less than 90 percent of available general CPU capacity. We anticipate reaching this threshold during 2012. At 100 percent CPU utilization, the data center will start experiencing negative impacts. User processes will take longer, and may result in backlog. Slow online processes will frustrate users, and may reduce workers' productivities. Insufficient memory increases CPU utilization by creating additional system workload, and will significantly delay online processing. Without the upgrade, the system will lack the required capacity to provide efficient and effective administration of our business processing workloads.

Increasing the mainframe capacity will reduce the risk that the mainframe will fail and impact FTB's revenue generating systems such as our Personal Income, Corporation Tax, Non-Tax Debt, Withhold at Source systems and other FTB stakeholders using data storage and mainframe processing resources. Increasing the processing capability, memory storage and software upgrades on FTB's mainframe computing system meets all of the business objectives and functional requirements necessary to maintain the existing systems without risking major equipment or software failure.

E. Outcomes and Accountability

Projected Outcomes
Million Instructions Per Second (MIPS)

Workload Measure	2013-14 Projected	2014-15 Projected
Personal Income & Corporation Tax Programs		
Taxpayer Assistance	115	126
Tax Forms	102	112
Analysis & Recommendations	152	167
Tax Returns	255	280
Payments	216	236
Tax Auditing	80	88
Tax Collection	294	322
Filing Enforcement	19	21
Investigations	191	209
Withholding Services	88	97
Subtotal	1,513	1,656
Homeowner & Renter's Assistance		
Subtotal	0	0
Non-Tax Debt		
DMV Collection	36	39
Court Ordered Debt	77	84
Contracted Services	14	16
Subtotal	127	139

Analysis of Problem

Workload Measure	2013-14 Projected	2014-15 Projected
New Workload		
Previous Years New Workload	37	42
New Workload	39	42
Subtotal	76	126
Total Capacity MIPS Projected	1,715	1,921
Total MIPS Required	1,837	2,113
Total MIPS Available	1,640	1,640

F. Analysis of All Feasible Alternatives

Alternative #1: One-time funding request of \$3.6 million and ongoing funding of \$700,000 in FY 2013/14.

Provide one-time funding of \$3.6 million and an ongoing funding of \$700,000 in FY 2013/14. This augmentation will provide the funds needed to increase processing capability, memory storage and software upgrades on FTB's mainframe computing system.

Alternative #2: Finance the request over two years. Funding request of \$1.85 million in FY 2013/14 and \$1.85 million in FY 2014/15, for a total one-time funding of \$3.7 million, and ongoing funding of \$700,000 in FY 2013/14.

Provide a total of \$3.7 million over two years in 2013/14 and 2014/15 and ongoing funding of \$700,000 for maintenance beginning in FY 2013/14 to increase processing capability, memory storage and software upgrades on FTB's mainframe computing system. This alternative includes a finance charge of \$138,000.

Alternative #3: Use Mainframe Services provided by the Office of Technology Services (OTEC).

To utilize OTEC's Mainframe Services, FTB must convert from the current platform of Top Secret (provided by Computer Associates) to OTEC's Resource Access Control Facility (provided by IBM). This alternative would be subject to the following issues:

- The conversion process would take a minimum of 9 months to complete. This delay will put FTB at risk by not meeting its processing requirements.
- FTB has limited resources to devote to completing the conversion. Therefore, additional costs would be incurred.
- Excessive costs due to platform license purchases, IBM consultant fees, etc.
- FTB has a significant investment in raised floor capacity.

Alternative #4: 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 the solution.

Alternative #5: Do not approve the request.

Without appropriate funding in place by FY 2013/14, FTB will not be able to successfully administer its programs and will place at risk our Taxpayer Information, Business Entities and Non-Tax Debt information systems, and all other FTB stakeholders using data storage and mainframe processing resources.

G. Implementation Plan

- Funding provided on July 1, 2013.
- Award procurement in September 2013.
- Install CPU in October 2013.
- Implement into operation in November 2013.

H. Supplemental Information

None Facility/Capital Costs Equipment Contracts Other Software/Hardware

Special resources include memory of 96 Gb, 500 Gb Direct Access Storage Device (DASD), 603 processor, and software licensing fees.

I. Recommendation

Alternative #1 is recommended. This proposal will provide the appropriate solution to support the department's revenue activities with the least possible financial impact to the state especially in the current fiscal climate.

By funding this alternative, the department will be able to increase processing capability, memory storage and software upgrades to its mainframe computing system.

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.

Fiscal Summary

(Dollars in thousands)

BCP No 2	DATE August 20, 2012	Proposal Title: Central Processing Unit Capacity Increase	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	.0	.0	\$ 0	\$ 0	\$ 0
Salary Savings	.0	.0	.0	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages	.0	.0	.0	\$ 0	\$ 0	\$ 0
Total Staff Benefits /2				\$ 0	\$ 0	\$ 0
Salary Savings				\$ 0	\$ 0	\$ 0
Net Total Staff Benefits				\$ 0	\$ 0	\$ 0
Total Personal Services				\$ 0	\$ 0	\$ 0

Operating Expenses and Equipment

General Expense	\$ 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
Data Center Services	0	0	0
Information Technology /3	0	4,250,000	700,000
Equipment	0	0	0
Other/Special Items of Expense	0	0	0
Total Operating Expense & Equipment	\$ 0	\$ 4,250,000	\$ 700,000

TOTAL STATE OPERATIONS EXPENDITURES

<u>Fund Source</u>	Org	Ref	Fund			
General Fund	1730	001	0001	\$ 0	\$ 3,970,000	\$ 654,000
DMV Motor Vehicle Acct	1730	001	0044	0	31,000	5,000
DMV License Fee Acct	1730	001	0064	0	58,000	10,000
Court Ordered Debt	1730	001	0242	0	191,000	31,000
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Totals				\$ 0	\$ 4,250,000	\$ 700,000

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
Totals				\$ 0	\$ 0	\$ 0

Grand Total, State Operations and Local Assistance

\$ 0	\$ 4,250,000	\$ 700,000
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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 One-time hardware & software cost of \$3.6 million in FY 2013/14 includes processor @ \$900,000, DASD @ \$500,000, memory @ \$150,000, and software licensing fee @ \$2 million. Software maintenance @ \$700,000 in 2013/14 and ongoing.

Supplemental Information

(Dollars in thousands)

BCP No. 2	Proposal Title Central Processing Unit Capacity Increase
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Equipment	CY	BY	BY +1
Standard Complement			
Total	\$0	\$0	\$0

Consulting & Professional Services	CY	BY	BY +1
Total	\$0	\$0	\$0

Facility/Capital Costs	CY	BY	BY +1
Total	\$0	\$0	\$0

One-Time/Limited-Term Costs Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>						
Description	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
HW: Processor		900,000				
HW: DASD		500,000				
HW: Memory		150,000				
SW: Licensing Fee		2,000,000				
SW: Maintenance		700,000		700,000		700,000
	0.0	\$4,250,000	0.0	\$700,000	0.0	\$700,000

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