

**Franchise Tax Board
FY 2004/05 Budget Development
Summary of Budget Change Proposals**

BCP #	BCP ISSUE	2004/05 COST ESTIMATE (in thousands)	PYs	SUMMARY
1	Phase III Building - Move In/ Occupancy Costs	\$12,561	0.0	This proposal is for an expenditure to install modular furniture to enable the department to continue relocation of staff to the new Phase III office complex. The proposal will continue the service contracts to clean, disassemble and reassemble, and move the existing modular furniture to the new facilities. It will also provide for the purchases of equipment for the warehouse and funding for the increase in OE&E costs to support and maintain the new Phase III facilities. The FY 2003/04 Budget includes \$813,000 base support funding for Phase III. The FY 2004/05 request will augment the base to cover additional relocation costs expected in that fiscal year that cannot be funded using one-time bid savings.
2	California Child Support Automation System (CCSAS) (General Fund: \$12.752 million)	\$34,589	8.7	The project will have an increased need for positions and funding for development of the statewide automation system. The additional funding is primarily for C&P dollars needed to pay the Business Partner as deliverables are met.
3	CPU Augmentation	\$1,008	0.0	This proposal will provide the necessary funding needed to increase the mission critical processing capacity of the department's Central Processing Unit (CPU). This augmentation will allow FTB to meet projected capacity requirements and maintain acceptable system performance levels for FY 2004/05 through FY 2006/07.
4	Integrated Audit System (IAS)	\$732	2.9	This BCP corresponds to a multi year IT project that proposes developing and implementing an integrated audit system. The project would enable the FTB to improve modeling and case selection, identify new audit models, streamline audit process and relieve growing concerns regarding the increasing maintenance required for Audit's aging technology that no longer meets business needs. The IAS project will provide \$7.1 million in increased revenue for FY 2004/05 and \$46.2 million in annual revenue beginning in FY 2009/10.
5	PIT Nonfiler Program	\$1,844	28.1	This BCP proposes to add an additional 28.1 PYs to perform quality review, correspondence and answer calls on nonfiler accounts to identify an estimated 134,000 PIT nonfilers. Each year, thousands of cases are placed in review status. Manual intervention is required to resolve these cases that fallout of the automated process. This process is a new feature of the INC system that intercepts certain notices from being sent to taxpayers when there is information indicating that an individual may not have a filing requirement. This feature reduces erroneous notices being sent to taxpayers by requiring manual review prior to contacting a taxpayer regarding a filing requirement. This proposal is estimated to generate an additional \$63 million in annual revenue.

**STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL - COVER SHEET
 FOR FISCAL YEAR 2004/05
 DF-46 (REV 03/03)**

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

BCP # 1	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Phase III Building - Move In-Occupancy Costs

SUMMARY OF PROPOSED CHANGE:

Provide \$12.56 million to facilitate the relocation of staff and operations to the new State office buildings and to fund additional maintenance and operating costs

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 checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input checked="" type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE	
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PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM MANAGER:	DATE	AGENCY SECRETARY:	DATE
DEPARTMENT DIRECTOR:	DATE		DATE

Pending Board Approval

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? yes

YES NO

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

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR OR SPR

**DOF ANALYST USE
 (ADDITIONAL REVIEW)**

CAPITAL OUTLAY TIRU FSCU OSAE CALSTARS

BCP # 1	DATE 8/26/2003	Title of Proposed Change:	
PROGRAM	ELEMENT	Phase III Building - Move In-Occupancy Costs	
Tax Programs	Personal Income Tax	COMPONENT	

	<u>Personnel Years</u>		<u>Current Year</u>	<u>Budget Year</u>
	<u>CY</u>	<u>BY</u>		
Total Salaries & Wages a/	.0	.0	\$ 0	\$ 0
Salary Savings	.0	.0	\$ 0	\$ 0
Net Total Salaries and Wages	.0	.0	\$ 0	\$ 0
Staff Benefits b/			\$ 0	\$ 0
Total Personal Services			\$ 0	\$ 0

Operating Expenses and Equipment			
General Expenses /1		\$ 0	\$ 6,140,000
Printing		0	0
Communications		0	0
Postage		0	0
Travel-In-State		0	0
Travel Out-of-State		0	0
Training		0	0
Facilities Operations /2		0	-69,000
Utilities /3		0	1,150,000
Cons & Prof Svs - Interdept'l /4		0	5,240,000
Cons & Prof Svs - External		0	0
Consolidated Data Center		0	0
California Health and Human Services Agency Data Center		()	()
Stephen P. Teale Data Center		()	()
Data Processing		0	0
Equipment /5		0	45,000
Other Items of Exp /6		0	55,000
Total Operating Expense & Equipment		\$ 0	\$ 12,561,000

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

b/ Detail provided on following pages.

- /1 Costs for disassembling, cleaning, reassembling and for new Haworth component parts to complete workstations.
- /2 Reduction of \$975,000 in rents. Also includes increased costs for supplies, maintenance commodities and service contracts.
- /3 Increased utilities costs to service the new building and for diesel fuel for three new on-site generators.
- /4 Reimburse DGS for the new State Office Buildings maintenance and operations costs which include
- /5 Audiovisual equipment.
- /6 Bicycle lockers to accommodate 100 bicycles.

			<u>Current Year</u>	<u>Budget Year</u>	
TOTAL OPERATING EXPENSES AND EQUIPMENT			<u>\$ 0</u>	<u>\$ 12,561,000</u>	
SPECIAL ITEMS OF EXPENSE d/			<u>\$ 0</u>	<u>\$ 0</u>	
PROGRAM ADMINISTRATION			\$ 0	\$ 0	
Distributed Admin			\$ 0	\$ 0	
TOTAL STATE OPERATIONS EXPENDITURES			<u>\$ 0</u>	<u>\$ 12,561,000</u>	
<u>Source of Funds</u>	<u>Appropriation No.</u>				
	Org	-	Ref	-	Fund
General Fund	<u>1730</u>		<u>001</u>		<u>0001</u>
	_____		_____		_____
	_____		_____		_____
	_____		_____		_____
	_____		_____		_____
	_____		_____		_____
	_____		_____		_____
Reimbursements	<u>1730</u>		<u>501</u>		<u>0995</u>
Totals					
			<u>\$ 0</u>	<u>\$ 12,561,000</u>	
LOCAL ASSISTANCE			\$(0)	\$(0)	
<u>Source of Funds</u>	<u>Appropriation No.</u>				
	Org	-	Ref	-	Fund
General Fund	<u>1730</u>		<u>001</u>		<u>0001</u>
	_____		_____		_____
	_____		_____		_____
	_____		_____		_____
	_____		_____		_____
Reimbursements	_____		_____		_____
Totals					
			<u>\$ 0</u>	<u>\$ 0</u>	

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.

**FRANCHISE TAX BOARD
Fiscal Year 2004/05**

Budget Change Proposal

BCP No. 1

Phase III - Occupancy Costs

Date: August 26, 2003

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of \$12.56 million to facilitate the relocation of staff and operations to the new State Office Project (also known as Phase III). The following FY 2004/05 expenditures and projected savings are associated with the move and occupancy of the Phase III project based on the current construction schedule:

- \$7,296,000 - Maintenance and Operating Costs.
- \$6,140,000 - Modular Systems Furniture Disassembly/Reassembly/Cleaning Contract.
- \$ 100,000 - Facilities Related Equipment.
- -\$ 975,000 - Savings resulting from cancellation of 136,437 square feet of leased office space.

The FTB will be the major tenant of the new State Office and Warehouse Facilities at Butterfield Way. This relocation has department-wide implications in that all segments of the FTB organization will be affected by the multi-phased occupancy of the State Office Project. Following construction of the State Office Project, FTB will relocate staff and operations from approximately 463,000 square feet of leased facilities currently located within the Sacramento Highway 50 corridor to the new Phase III office buildings. The consolidation of the FTB organization at the expanded Butterfield campus will streamline FTB's local operations. In addition to projected savings of \$975,000 in FY 2004/05 associated with the cancellation of 136,437 square feet of leased space, \$5.7 million savings will be realized in FY 2005/06 with the cancellation of 294,176 square feet of leased space.

B. Background/History

The Phase III project is based on Senate Bill 1589 (Chapter 328/1998) authorizing the Department of General Services to use lease revenue funds for the acquisition of land, design, and construction of the State Office Project. The consolidation strategies expressed in FTB's 1995 Master Plan Report and confirmed in the subsequent 1998 Update supported the authorizing legislation. The consolidation of FTB staff currently housed in leased space at the expanded Butterfield campus is consistent with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements, and will result in FTB operating efficiencies.

The State Office Project includes construction of a central plant, warehouse, Town Center and office buildings. The maintenance and operation of those facilities will be the responsibility of the Department of General Services, Building and Property Management Branch (BPMB). Expenditures for the essential building operating costs, such as BPMB salaries, increased utilities, expendable supplies, and preventative maintenance programs, will be paid by FTB. Services and equipment required for FTB's occupancy that will impact FTB's baseline support budget are not funded by the State Office Project, and are the subject of this funding request:

1. Maintenance and Operating Costs - \$7.29 Million

The current 851,000 gross square foot Butterfield office and warehouse facility will expand to approximately 1,851,000 gross square feet upon completion of the State Office Project. FTB received funding in FY 2003/04 for increased maintenance and operating costs related to the completion of the new central plant and landscaping/irrigation systems for the newly constructed parking lots. As building systems continue to be commissioned and facilities are occupied, additional staffing will be required to provide the support and maintenance appropriate for the expanded campus.

In this regard, DGS has prepared for FTB a phased hiring plan for FY 2004/05 based on Department of Finance (DOF) recognized staffing standards for BPMB provided property management, buildings and grounds maintenance, and associated trades. The estimated salaries are based on the DGS Price Book for FY 2003/04 with a 5% adjustment for an inflationary salary increase. The request is consistent with the state policy on staffing new state office buildings and is critical to the hiring and training of staff in order to maintain service levels.

In summary, FTB requests an augmentation in FY 2004/05 of \$5.17 million to fund the additional BPMB staff; \$906,000 for the expenses relative to increased supplies, essential building maintenance commodities, and increased service contracts; \$70,000 for estimated BPMB staff overtime; and \$1.15 million for increased utility costs to service the new buildings and procure diesel fuel for the three on-site generators. These total \$7.29 million for maintenance and operating costs in FY 2004/05.

2. Modular System Furniture - \$6.14 Million; Multi-Year Contract for Modular System Furniture Disassembly/Reassembly/Cleaning Contract.

Consolidation of FTB operations at the expanded Butterfield campus by relocation of staff occupying approximately 463,000 square feet of leased space will be accomplished in multiple stages pursuant to the State Office Project construction schedule. Consistent with the Department of Finance recommendations and sustainable building practices, FTB is planning to re-use its existing modular system furniture (modular). The re-use of modular compared to the purchase of new Haworth modular represents a savings of \$1.65 million.

Integral to the re-use is the procurement of a multi-year contract for the professional services of a vendor to disassemble, reassemble and clean the modular in a timely manner. FTB does not have staff that is trained or authorized to accomplish these tasks. Because the components vacated may not meet the requirements for the immediate subsequent occupancy stage, the purchase of new modular components

to augment inventory is necessary to complete the modular installations. The total cost of disassembling, reassembling, cleaning and new components is estimated to be \$6.14 million in FY 2004/05.

Denial of this proposal will prohibit re-use of FTB's existing modular inventory, require purchase of new modular and conflict with sustainable building design practices. Delays in modular installation may obligate FTB to incur double rental costs for State Office Project space that is available for occupancy at an estimated annual cost of \$975,000 in FY 2004/05 and potentially \$5.7 million in FY 2005/06 for the rental of leased space.

3. Facilities Related Equipment - \$100,000

a. Bicycle Locker Purchase - \$55,000

The FTB 1995 and 1998 Master Plan Update Reports recognized that the expansion of the Butterfield facility provided an opportunity to promote the use of alternate modes of transportation. These reports also acknowledged that every effort must be made to achieve a 33% - 40% alternate mode use in order to reduce the land required for parking. The transportation mode split goals in these reports were the basis for determining the number of parking spaces needed at the State Office Project, and the requirements for the on-site and off-site transportation infrastructure. Those goals reflected an increase in the walk/bicycle mode from 1.5% to 3%.

The State Office Project is in direct proximity to the RT Butterfield Light Rail Station, with a new bicycle path to that station and designated areas on site for bicycle lockers. There are shower and locker rooms in the Town Center and on the first floors of the office buildings. These attributes enhance FTB's efforts to increase the use of bicycles for transportation. Accessibility to bicycle lockers near entrances to the site will further promote bicycling as an alternative to driving alone. Since the State Office Project did not include funding the purchase of bicycle lockers, FTB is requesting \$55,000 in FY 2004/05 for the purchase of 100 lockers.

If the alternative transportation goals are not reached, there will be an increase in traffic congestion and air pollution, a greater demand on the roadway infrastructure, and a likelihood that FTB staff will park in adjacent residential and commercial areas due to the insufficient on-site parking. This will be detrimental to community relations, and may affect the ability of the State of California to locate other projects within Sacramento County.

b. Audiovisual Equipment - \$45,000

FTB will be the primary occupant of the office buildings constructed by the State Office Project. Four (4) PC training rooms and three (3) conference rooms scheduled for completion in FY 2004/05 are strategically located at the connectors between the new office buildings to address the training needs of FTB's collection, audit and filing services programs. The State Office Project construction includes the infrastructure for the projectors in these rooms, but acquisition and installation of the projectors is not provided.

The training of new staff as well as updating staff on new systems and

procedures in a lecture or PC environment is critical to administering the tax laws of the State of California. FTB is responsible for 61% of the state revenue and delivery of efficient business results and implementation of electronic government services is dependent on a skilled workforce. Failure to provide the training equipment may affect the ability of FTB staff to optimally perform their jobs. The cost to purchase and install projectors in buildings to be occupied during FY 2004/05 is estimated at \$45,000.

C. State Level Consideration:

In accordance with Executive Order D-16-00 the goal of the State Office Project is to construct, renovate, operate and maintain facilities that are models of energy, water and materials efficiency while providing a healthy, productive indoor and outdoor environment for staff. This Project will be a long-term benefit to the State of California. FTB will be the primary occupant, and is responsible for 61% of the state revenues.

This is a request to adequately maintain and efficiently utilize the programmed facilities. This investment will garner the long-term benefits of energy cost savings, delivery of efficient state services, protection of investment of state funds, and reduction of rental and operating costs. To continue leasing space to meet FTB program requirements conflicts with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements

D. Facility/Capital Outlay Considerations:

Failure to appropriately staff the operating and maintenance functions at the expanded campus will result in possible voided warranties, premature equipment failure and inability for FTB to achieve energy efficiency goals, all of which deteriorates the infrastructure established by the State Office Project investment.

E. Justification:

The consolidation of FTB staff with the State Office Project supports FTB's 1995 and 1998 Master Plan Update, and will allow for improved communications and efficiencies for FTB pursuant to FTB Strategic Goal #3 to build a strong organization. Strategic Goal #4 to deliver efficient business results is dependent on suitable facilities for staff. This funding request further supports this same goal as FTB resources are allocated based on the overall long-term benefits to our customers, our organization, and California as a whole.

Appropriately operating and maintaining the facility will reduce long-term costs associated with deferred maintenance and insure the energy efficiencies inherent in the State Office Project design.

F. Analysis of All Feasible Alternatives

Alternative #1 – Approve \$12.56 million for modular re-use costs; increases in operating and maintenance costs; and the purchase of new facilities related transportation and audio-visual equipment.

This alternative recommends the requisite funding for re-use of existing modular and appropriate operation and maintenance of the facilities at the expanded Butterfield site. This will allow the department to cover the one-time equipment costs and increased operating and maintenance costs associated with its occupancy of the State Office Project, and provide the current level of service.

Alternative #2 – Do not approve funding request.

If this funding request is not approved, the FTB will be unable to consolidate to the Butterfield site in a timely manner. Delays in occupying the facilities may adversely affect FTB's operations and level of service; may obligate FTB to incur double rental costs estimated to be \$975,000 in FY 2004/05 and potentially \$5.7 million in FY 2005/06. Energy efficiencies and the resultant savings will not be realized if the new facility is not adequately maintained.

G. Timetable

Increase support funding effective July 1, 2004.

H. Recommendation

Alternative #1 is recommended. This enables the department to relocate in a timely manner and operate efficiently without impacting its ability to provide the current level of service.

BCP # 2 DATE 26-Aug-03 Title of Proposed Change:
 PROGRAM ELEMENT Child Support Automation System (CCSAS)
 CCSAS CCSAS COMPONENT

	Personnel Years		Current Year	Budget Year
	CY	BY		
Total Salaries & Wages a/	.0	9.0	\$ 0	\$ 587,000
Salary Savings	.0	-3	\$ 0	-\$ 20,000
Net Total Salaries and Wages	.0	8.7	\$ 0	\$ 567,000
Staff Benefits b/			\$ 0	\$ 133,000
Total Personal Services			\$ 0	\$ 700,000

Operating Expenses and Equipment

General Expenses /1	\$	0	\$	43,000
Printing /2		0		1,000
Communications /3		0		9,000
Postage		0		0
Travel-In-State /4		0		-33,000
Travel Out-of-State		0		0
Training /4		0		-160,000
Facilities Operations /5		0		-30,000
Utilities		0		0
Cons & Prof Svs - Interdept'l /6		0		6,000
Cons & Prof Svs - External /7		0		35,131,000
Consolidated Data Center		0		0
California Health and Human Services Agency Data Center	()	()
Stephen P. Teale Data Center	()	()
Data Processing /8		0		-1,063,000
Equipment /8		0		-15,000
Other Items of Exp (Specify Below)		0		0
Total Operating Expense & Equipment	\$	0	\$	33,889,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
 b/ Detail provided on following pages.
 /1 Project funding need in excess of existing budget for FY 2003/04, primarily for the refresh of PCs.
 /2 Additional printing need.
 /3 Departmental \$992 per position for nine new positions.
 /4 Reduction in total need for training and related travel.
 /5 Reduction for prior year one-time Facilities costs.
 /6 Contract with HHSDC for data center services.
 /7 FY 2004/05 includes increase of \$35.2 for BP Contract and removal of \$.05 for Performance Bond. This need will be reduced once the carryover amount from FY 2003/04 to FY 2004/05 can be estimated.
 /8 Net reduction for removal of one-times from FY 2003/04.

		<u>Current Year</u>	<u>Budget Year</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT		\$ 0	\$ 33,889,000
SPECIAL ITEMS OF EXPENSE d/		\$ 0	\$ 0
PROGRAM ADMINISTRATION		\$ 0	\$ 0
Distributed Admin		\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES		\$ 0	\$ 34,589,000
<u>Source of Funds</u>	<u>Appropriation No.</u>		
	Org - Ref - Fund		
General Fund	1730 001 0001	\$ 0	\$ 12,752,000
		0	0
		0	0
		0	0
		0	0
		0	0
Reimbursements (DCSS - 100%)	1730 506 0995	0	21,000
Reimbursements (DCSS - 66%)	1730 506 0995	0	21,816,000
Totals		<u>\$ 0</u>	<u>\$ 34,589,000</u>
LOCAL ASSISTANCE		\$(0)	\$(0)
<u>Source of Funds</u>	<u>Appropriation No.</u>		
	Org - Ref - Fund		
General Fund	1730 001 0001	\$ 0	\$ 0
		0	0
		0	0
		0	0
		0	0
		0	0
Reimbursements (DCSS - 66%)		0	0
Totals		<u>\$ 0</u>	<u>\$ 0</u>

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>CY</u>	<u>BY</u>		<u>CY</u>	<u>BY</u>
Child Support Automation		2003/04	2004/05			
Sr Info Systems Analyst Spec	PERM	0.0	0.0	\$ 4,958 \$ 6,026	\$ 0	\$ 0
Staff Prog Analyst Spec	PERM	0.0	2.0	\$ 4,507 \$ 5,480	\$ 0	\$ 132,000
Staff Info Sys Analyst Spec	PERM	0.0	4.0	\$ 4,507 \$ 5,480	\$ 0	\$ 263,000
Sys Software Spec I Tech	PERM	0.0	1.0	\$ 4,506 \$ 5,479	\$ 0	\$ 66,000
Assoc Info Systems Analyst	PERM	0.0	1.0	\$ 4,110 \$ 4,997	\$ 0	\$ 60,000
Total Child Support Automation		<u>.0</u>	<u>8.0</u>		<u>\$ 0</u>	<u>\$ 521,000</u>
Adjust for Part Year Positions		<u>.0</u>	<u>.0</u>			
Net Positions/ PYs before salary savings		<u>.0</u>	<u>8.0</u>			
 Operations Branch & Enterprise Technology						
Sys Software Spec I Tech	PERM	<u>0.0</u>	<u>1.0</u>	\$ 4,506 \$ 5,479	\$ 0	\$ 66,000
Total Operations Branch & Enterprise Technology		<u>.0</u>	<u>1.0</u>		<u>\$ 0</u>	<u>\$ 66,000</u>
Adjust for Part Year Positions		<u>.0</u>	<u>.0</u>			
Net Positions/ PYs before salary savings		<u>.0</u>	<u>1.0</u>			
 Total Salaries and Wages						
	Positions	<u>.0</u>	<u>9.0</u>		<u>\$ 0</u>	<u>\$ 587,000</u>
	Part Yr Adj	<u>.0</u>	<u>.0</u>			
	P.Y.s	<u>.0</u>	<u>9.0</u>			

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2004/05**

Staff Benefits	<u>2003/04</u>	<u>2004/05</u>
OASDI /1	\$ 0	\$ 35,000
Dental /2	0	4,000
Health /3	0	38,000
Retirement /4	0	42,000
Vision /5	0	1,000
Medicare /6	0	8,000
Worker's Comp /7	0	5,000
Industrial Disability /8	0	0
Non Industrial Disability /9	0	0
Unemployment Insurance /10	0	0
Total Staff Benefits	<u>\$ 0</u>	<u>\$ 133,000</u>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$478 per net personnel year.
- 3/ For permanent, \$4,348 per net personnel year.
- 4/ For permanent, 7.413% of net salary.
- 5/ For permanent, \$100 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.95% of net salary for permanent.
- 8/ 0.075% of net salary for permanent.
- 9/ 0.09% of net salary for permanent.
- 10/ 7.262% of net salary for temporary help.

California Child Support Automation System (CCSAS) Resource Request Letter Summary Schedule
 FTB Budget Need for the statewide CCSAS Child Support Enforcement System (CCSAS CSE System)
 FY 2004/05 (incremental need net of FY 2003/04 CY request) /3

EXPENDITURES	CCSAS Program 45 existing PY & funding		Less State Disbursement Unit (SDU) need		CCSAS PY & funding available for CSE		Total CCSAS Project PY & funding need FY 2004/05		CCSAS Project (CSE) PY & funding need		DCSS Reimbursement /1	BCP # 2 FY 2004/05	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	Amount	PY's	Amount
Personal Services	121.6	\$10,763,500	8.7	\$821,500	112.9	\$9,942,000	121.6	\$10,642,000	8.7	\$700,000	\$0	8.7	\$700,000
Operating Expenses and Equipment													
Business Partner Contract		81,866,000				81,866,000		115,462,000		33,596,000			33,596,000
Other OEE		11,935,500		167,500		11,768,000		12,040,000		272,000	21,000		293,000
Total OEE		93,801,500		167,500		93,634,000		127,502,000		33,868,000	21,000		33,889,000
Total Expenditures	121.6	\$104,565,000	8.7	\$989,000	112.9	\$103,576,000	121.6	\$138,144,000	8.7	\$34,568,000	\$21,000	8.7	\$34,589,000
Federal Reimb - Prgm 45		\$68,530,000		\$653,000		\$67,877,000		\$89,693,000		\$21,816,000	\$0		\$21,816,000
DCSS Reimb (100%) - Prgm 45 /1						0		0		0	21,000		21,000
Total Federal Reimb - Prgm 45		68,530,000		653,000		67,877,000		89,693,000		21,816,000	21,000		21,837,000
General Fund - Prgm 45		35,303,000		336,000		34,967,000		46,205,000		11,238,000	0		11,238,000
General Fund (100%) - Prgm 45 /2		732,000		0		732,000		2,246,000		1,514,000	0		1,514,000
Total General Fund - Prgm 45		36,035,000		336,000		35,699,000		48,451,000		12,752,000	0		12,752,000
Total Funding		\$104,565,000		\$989,000		\$103,576,000		\$138,144,000		\$34,568,000	\$21,000		\$34,589,000

/1 This is the increase in the 100% Reimbursements contract for the DCSS costs built into the PMO and QA contracts.

/2 Business Partner payment includes conversion activities that the Feds will not reimburse.

/3 This schedule does not include the POG IV&V position or funding. It will need to be added after the augmentation has been made. The assumption is that the position and funding that DOF is augmenting is a perm adjustment so there will be no additional need to be added to this request.

**FISCAL YEAR 2004/05
 SUPPLEMENTAL INFORMATION
 (\$ in Thousands)**

Identify all proposed items which fit into the categories listed below.

	Current Year	Budget Year
<u>Proposed Equipment</u>		
Total	\$ 0	\$ 0
	\$ 0	\$ 0
<u>Proposed Contracts</u>		
C&P Internal - HHSDC data center services	\$ 0	\$ 6,000
C&P External - Business Partner		35,160,000
C&P External - Performance Bond		(50,000)
C&P External - DCSS PMO and QA (100% Reimbursements)		21,000
Total	\$ 0	\$ 35,137,000
<u>One-Time Costs</u>		
Total	\$ 0	See Footnote *1
	\$ 0	\$ 0
<u>Future Savings</u>		
Total	\$ 0	\$ 0
	\$ 0	\$ 0
<u>Full-Year Cost Adjustments</u>		
Total	\$ 0	\$ 0
	\$ 0	\$ 0
<u>Facilities/Capital Costs</u>		
Reduction in base for one-time Facilities costs.	\$ 0	-\$ 30,000
Total	\$ 0	-\$ 30,000

*1 This is a multi-year project. As FTB is doing in this BCP and prior multi-year project BCPs, the one-times for FY 2004/05 will be netted out against the FY 2005/06 BCP request.

FRANCHISE TAX BOARD
Fiscal Year 2004/2005

Budget Change Proposal

BCP No.: 2

California Child Support Automation System

Date: August 26, 2003

A. Nature of Request

In July 2003, with both federal and State approvals in place, the California Child Support Automation System (CCSAS) project moved forward into the implementation phase for development of the single statewide system to automate Child Support Enforcement (CSE). The recommended and approved solution, referred to as the California Child Support Automation System Child Support Enforcement Project (CCSAS CSE System), is the result of a proposal submitted by IBM and its business partners in response to a performance-based procurement. The contract was signed by the Franchise Tax Board on July 14, 2003.

The purpose of this Budget Change Proposal (BCP) is to request the additional resources needed to implement year two activities and tasks necessary for continued development of the CCSAS CSE System. This BCP requests an additional 9 positions (8.7 PY's) and a budget augmentation of \$34.6 million. The positions are necessary to provide development services needed by the CCSAS Project in year two. The budget augmentation is primarily for payments to IBM, the State's business partner (BP). For detail of the funding source requested, please refer to the Fiscal Detail and supplemental schedules. Support for this augmentation request can be found in the federal Feasibility Study (FS) and the Economic Analysis Worksheets (EAW's), approved by the Department of Finance on June 12, 2003.

Failure to implement a child support automation system that meets federal certification requirements will result in significant impacts for California including continued federal penalties.

In addition to meeting the federal mandates, the successful implementation of child support automation is a vital element of California's Child Support Program (CSP) mission to improve the well-being of the children and families of California.

B. Background/History

AB 150 (Chapter 479, Statutes of 1999) directed the FTB to serve as an agent of the Department of Child Support Services (DCSS) to be responsible for procuring, developing, implementing, and maintaining the operation of the CCSAS statewide. As a result of this legislation, the CCSAS project was initiated. Two provisions of *Welfare and Institutions Code section 10083*, enacted by AB 150, stand out as the key drivers of the CCSAS procurement strategy. These provisions require that the FTB:

“...shall develop a procurement plan that employs, where appropriate, techniques proven to be successful in the Franchise Tax Board's previous technology efforts and incorporates where possible best practices from other government jurisdictions.”

“...consider the events and circumstances that contributed to the failure of the SACSS system ...”

In fiscal year (FY) 2003/2004, the project began the first year of system development after receiving both federal and State approvals in June 2003.

C. State Level Considerations

Both Governor Gray Davis and the Legislature of California have demonstrated a commitment to building a single statewide child support system that meets federal certification requirements, which provides a high customer service level and that will adapt to the many changes the child support program experiences.

The consequences of not meeting this commitment would have significant negative impact to the General Fund on a statewide basis:

- Federal penalties for non-compliance would continue. The penalty is currently being offset by State General Fund money that reduces the availability of funds for other General Fund programs and services.
- Failure to demonstrate progress in meeting federal requirements to develop a statewide child support system could result in denial of all federal Temporary Assistance for Needy Families (TANF) grant money that would greatly impact the Department of Social Services and California's TANF recipients

In addition to these impacts, the local governments could be affected if California decides to change the existing policy of back-filling the federal penalties with State General Fund money. This change would pass a portion of the penalties on to local governments, reducing the overall effectiveness of the CSP in California.

These consequences are magnified during a period of economic downturn, budget deficits, and severe fiscal constraints such as California is now experiencing.

D. Facility/Capital Outlay Considerations

This BCP reflects a reduction in need for Facilities of <\$30,000> one-time costs for FY 2002/2003.

E. Justification

This BCP is requesting \$34.6 million to continue implementation of the CCSAS CSE System. The majority of the additional funding is to pay the BP during the second year of development. (The total 2004/2005 BP payment is \$117.7million.) The need for additional funding is discussed in detail in the FS and the EAW's. Please refer to Section 9 for the narrative description in the FS and to Appendix C of the EAW's for the FY 2004/2005 cost detail.

This BCP also requests nine positions as identified in the approved FSR and EAW's. These are critical positions and will need to be filled so the project is adequately staffed at levels to work with the BP as we continue second year implementation activities. Support to be provided by these nine positions will include the following tasks:

CSE Development & Operations Section: 6 Positions

Functions	04/05	Tasks
<p>System Design, Development, and Testing:</p> <p>Staff PA</p>	2	<ul style="list-style-type: none"> • Identify business process re-engineering opportunities • Review deliverables • Identify issues • Identify risks • Participate in developing and documenting software design • Participate in developing and documenting database and database design • Participate in developing software code • Develop user interface designs • Fix problems (bugs) encountered • Regression test fixes • Update documentation • Provide input into the Master Test Plan • Provide input into the Software Test Plan • Maintain detailed design of the application (development standards, requirements specifications, user interface designs) • Work with other developers to validate that capability release components are interacting to meet performance goals • Build and test the capability release focusing on a specific organizational need • Participate in unit testing software code • Participate in code reviews • Participate in Knowledge Management activities • Participate in low fidelity testing • Maintain Version 1 application components • Coordinate LCSA Program Expert participation in project activities and deliverable reviews
<p>System Design, Development, and Testing:</p> <p>SISA</p>	4	<ul style="list-style-type: none"> • Identify business process re-engineering opportunities • Review deliverables • Identify issues • Identify risks • Participate in design sessions • Understand requirements with testing perspective • Participate in low fidelity testing • Participate in validating the functional and physical configuration of each development workstation • Provide input into the Master Test Plan • Provide input into the Software Test Plan • Participate in developing and maintaining testing schedule • Participate in coordinating test activities with external entities • Provide input into the Software Qualification Test Description • Provide input into the Software Qualification Test Report • Provide input into the System Integration Test Description • Document test cases • Identify and select test data • Develop Software Qualification Test Description • Develop and maintain interagency data exchange agreements • Obtain external entities interface scenarios • Execute test scripts • Validate test scripts • Support Certification testing • Participate in Knowledge Management activities

Systems Management & Planning Section: 2 Positions

Organization	04/05	Functions
System Design, Development, and Testing: Assoc SSS	1	<ul style="list-style-type: none"> • Identify business process re-engineering opportunities • Review deliverables • Identify issues • Identify risks • Participate in developing and documenting database and database design • Participate in the development of Database Administration Plan • Participate in data modeling activities • Participate in Knowledge Management activities • Participate in data modeling activities • Validate that test and pilot results meet application performance goals • Verify support procedures • Install CCSAS application • Participate in configuration management activities • Assist in administration of configuration management tools • Participate in analysis of source system data relative to target system data
System Design, Development, and Testing: SSS I	1	<ul style="list-style-type: none"> • Identify business process re-engineering opportunities • Review deliverables • Identify issues • Identify risks • Provide input into the Master Test Plan • Provide input into the Software Test Plan • Set up of test environment, including configured software, test tools and test data • Set application build schedules • Coordinate release of new software / database version • Distribute new software / database version(s) • Participate in Knowledge Management activities • Support Certification testing • Participate in Knowledge Management activities • Train staff on project tools and desktop applications as required. • Provide help desk services. • Manage the network resources, • Resolve system problems, • Manage IT assets

Department Network: 1 Position

Internetworking Engineer to Support the Child Support network: SSS I	1	<ul style="list-style-type: none"> • Modification and maintenance of ruleset for Cisco PIX and Nokia Checkpoint firewalls • Monitor and update Intrusion Detection System (IDS) sensors in the DMZ • Maintain network and network security devices (routers, switches, firewalls, IDS sensors, etc.) • Perform day to day maintenance, troubleshooting, and ad-hoc analysis.
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F. Analysis of All Feasible Alternatives

Alternative #1 - Approve request for increased resources.

As recommended in the FSR, the CCSAS CSE System was identified as the best option for the State to pursue in order to meet federal mandates, avoid additional federal penalties, and achieve the goals and objectives of California's CSP. The Department of Finance concurred and approved this recommendation on June 12, 2003. Based on this approval, the CCSAS project began implementation in the 2003/2004 fiscal year and is requesting the additional resources to continue year two of the project. Approval of the additional resources as requested is critical for this development effort to continue on track with the current schedule.

Alternative #2 - Maintain existing baseline – no increase in resources.

Approval of this alternative will have the following impacts to the State:

- Lack of approval of the additional dollars needed to pay the BP may result in a breach of contract with the business partner and stop the project.
- Without approval of the nine positions the project will be unable to meet key dates set in the project schedule due to lack of appropriate staffing level.

G. Timetable

The following data reflects the timetable for completion of the CCSAS CSE System.

Major Milestones/Key Deliverables	Est. Complete Date
CSE Requirements Analysis	
System/Subsystem Requirements Review – V1	02/13/04
System/Subsystem Requirements Review – V2	03/12/04
CSE Analysis & Design	
System/Subsystem Design Review – V1	03/31/04
Software Requirements Review – V1	04/30/04
System/Subsystem Design Review – V2	08/13/04
Software Requirements Review – V2	10/29/04
Software Design and Code	
Software Design Review – V1	07/14/04
Software Design Review – V2	03/31/05
CSE Testing	
System Verification Test Readiness Review – V1	06/21/05
System Verification Test Readiness Review – V2	06/26/06
PRISM Maintenance & Operations	
BEST and CHASER Conversion to CASES Complete	08/12/05
PRISM Retirement Complete	07/21/08
SDU Procurement & Implementation	
SDU Service Contract Award	11/27/04
SDU Readiness Review	10/31/05

Major Milestones/Key Deliverables	Est. Complete Date
CSE Version 1 Implementation	
KIDS/STARKIDS Conversion to CASES Complete	08/12/05
Operational Readiness Assessment and Review – V1	10/14/05
CCSAS Version 1 In Production Use	02/14/06
CSE Version 2 Implementation	
Operational Readiness Assessment and Review – V2 Pilot	8/16/06
Operational Readiness Assessment and Review – V2 Rollout	01/12/07
Statewide CCSAS In Production	09/12/08
Completion of Post Implementation Evaluation Report	08/13/10

H. Recommendation

Alternative 1 is recommended. This alternative provides the additional staffing and funding augmentations needed to continue year two of development of the CCSAS CSE System. The benefits this alternative will provide to the State of California are:

- Compliance with Federal mandate and avoidance of penalties
- A system responsive to child support program changes
- Greater net benefits than other alternatives considered

The CCSAS CSE System is a vital element supporting California’s Child Support Program mission to be responsive to the needs of customers, and to contribute to the well-being of the children and families of California. Without the additional staffing and funding the State will be unable to meet its obligations to participate in the continued development of the statewide CCSAS CSE System.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2004/05
DF-46 (REV 03/03)**

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

BCP # 3	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Various	ELEMENT Various	COMPONENT	

TITLE OF PROPOSED CHANGE:

Central Processing Unit (CPU) Augmentation

SUMMARY OF PROPOSED CHANGE:

Provide \$1.0 million of funding to augment FTB's CPU to ensure sufficient processing capacity to meet projected workloads for FY 2004/05.

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 checked="" type="checkbox"/> ONE-TIME COST <input 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
Pending Board Approval			
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:		AGENCY SIGNATURE:	DATE

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.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR FTB FSR 03-03 OR SPR

**DOF ANALYST USE
(ADDITIONAL REVIEW)**

CAPITAL OUTLAY TIRU FSCU OSAE CALSTARS

			<u>Current Year</u>	<u>Budget Year</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT			\$ 0	\$ 1,008,000
SPECIAL ITEMS OF EXPENSE d/			\$ 0	\$ 0
PROGRAM ADMINISTRATION			\$ 0	\$ 0
Distributed Admin			\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES			\$ 0	\$ 1,008,000
<u>Source of Funds</u>	<u>Appropriation No.</u>			
	Org -	Ref -	Fund	
General Fund - TAX	1730	001	0001	\$ 0
General Fund - HRA	1730	001	0001	\$ 917,000
				91,000
				0
				0
				0
				0
				0
Reimbursements	1730	501	0995	0
Totals				\$ 0
				\$ 1,008,000
LOCAL ASSISTANCE			\$(0)	\$(0)
<u>Source of Funds</u>	<u>Appropriation No.</u>			
	Org -	Ref -	Fund	
General Fund - TAX	1730	001	0001	\$ 0
General Fund - HRA				0
				0
				0
				0
				0
Reimbursements				0
Totals				\$ 0
				\$ 0

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.

**FRANCHISE TAX BOARD
Fiscal Year 2004/05**

**Budget Change Proposal
CPU Augmentation 2004/05**

**BCP No. 3
Date: August 26, 2003**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests an augmentation of \$1,008,000 to increase the mission critical processing capacity of the Central Processing Unit (CPU) by 18 percent and to increase memory capacity by 28 percent to meet projected capacity requirements and maintain acceptable system performance levels for FY 2004/05 through FY 2006/07. By adding a third processor and 4 Gigabytes (GB) of memory, the CPU will have the resources necessary to effectively handle growth in existing workloads through FY 2006/07. There is no PY impact.

B. BACKGROUND/HISTORY

The FTB collects tax revenues and operates other non-tax programs entrusted to it at the least cost; serves the public by continually improving the quality of its products and services, and performs in a manner warranting the highest degree of public confidence in its integrity, efficiency and fairness. The department administers the Personal Income Tax (PIT) Law, the Bank and Corporation Tax (B&C) Law, and the Homeowner's and Renter's Assistance (HRA) Program. In addition, it is responsible for audits pursuant to the Political Reform Act, collection of delinquent child support payments, vehicle registration fees, other debts as authorized or required by the Legislature, and settlements of civil tax matter disputes which are the subject of protest, appeals, or refund claims.

The programs administered by the FTB contribute over 61% of the General Fund Revenue. The FTB's business processes are supported by a full service data center. The data center processes approximately 49 million online transactions and over 120,000 batch processes per month during peak season. The data center also generates over 3 million print pages per month for notices, bills and letters during peak.

Data center customers and users include all of FTB's program areas, including PIT, B&C, HRA, and various non-tax debt collections programs. FTB's data center also provides data storage and processing service to a number of external customers such as Board of Equalization, Employment Development Department, Department of Food and Agriculture, etc.

In November 2001, FTB purchased and installed an IBM e-Server z900 Series Central Processing Unit (CPU)¹ with two processors and 14 GB of memory to support these services (Data Center Infrastructure Improvement FTB FSR 99-36). The IBM e-Server replaced a Hitachi Data Systems (HDS) Skyline 413 Central Processing Unit (CPU). The acquisition allowed the creation of an infrastructure with flexibility and speed to deploy e-business² solutions utilizing addressable memory through 64-bit addressing and high speed interconnects for TCP/IP communication (known as HiperSockets).

During the 2003 peak season, the department's capacity planning metric³ reached 98 to 99 percent of total CPU capacity (currently, maximum capacity on the CPU is 476 MIPS). Industry guidelines recommend maintaining normal operating capacity at less than 90 percent of available CPU capacity or 428 MIPS (90% of 476). Based on projected workload growth for FY2003/04, we will be at 101% of maximum capacity or 482 MIPS, requiring re-prioritization of workloads. Based on projected workload growth of 22 MIPS (from 471 to 493 MIPS total, refer to Table 1 below) for FY2004/05, the CPU will lack the required capacity to provide efficient and effective administration of our business processing workloads (refer to Section E for consequences of not increasing the CPU capacity in FY 2004/05). In addition, a 10 percent buffer of CPU capacity makes the total MIPS requirement equal to 542 MIPS for FY 2004/05.

Attachment A displays MIPS usage in programmatic detail for FY 2002/03 (baseline), as well as the projected MIPS for FY 2003/04 through FY 2006/07. In general the MIPS projections reflect increases for PIT, B&C and HRA workloads.

The following fiscal year display is the summary of the department's MIPS usage shown on Attachment A. Attachment B is a chart showing the MIPS historical growth and the projected MIPS with a 10 percent buffer. Table 1 below summarizes data on Attachments A & B.

Table 1

	FY 2002/03 Baseline	FY 2003/04 Projected	FY 2004/05 Projected	FY 2005/06 Projected	FY 2006/07 Projected
MIPS Usage	471	482 ⁴	493	506	518
MIPS Usage plus 10% buffer	518 ⁴	530 ⁴	542	557	570

¹ IBM z900 e-Server/2064-1C2 (mainframe with two processors) running under a z/OS operating system.

² e-Business including web-based, interactive (browser based), and program-to-program interoperation.

³ A capacity planning metric reflects actual historical capacity usage during hourly intervals with the highest monthly value averaged over a year to project future capacity usage.

⁴ Current machine capacity is only 476 MIPS; therefore the value shown is the computed requirement.

B. STATE LEVEL CONSIDERATIONS

The FTB is legislatively mandated to administer California's state tax law. The additional CPU capacity and memory will result in a positive impact to other data centers utilizing the FTB data center, as well as to California taxpayers, as the capacity and memory will ensure that FTB operates without interruptions to service through FY 2006/07.

C. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

There is no impact to facilities or any capital outlay considerations as a result of the upgrade.

E. JUSTIFICATION

This proposal is consistent with Goal #4 "Deliver Efficient and High-Quality Business Results" of the department's strategic plan by providing the necessary e-Server/Mainframe and Open Systems support functions, consistent with the increasing demand for those functions. This proposal also contributes to the following department's strategic plan goals: Goal #1 "Become Customer Centered," Goal #2 "Promote Fair and Effective Tax Administration," and Goal #5 "Protect Taxpayer Privacy and Ensure Security of Taxpayer Information."

Based on projected workloads in FY 2004/05, the department will experience serious performance degradation of an estimated 5 percent due to a combination of CPU and memory limitations. With the current system, insufficient capacity will be available to meet mission critical workload growth. This will result in severe economic impacts including: 1) increase in workload bottlenecks resulting in delays in processing and increased costs to perform processing manually during peak tax processing season, 2) the risk of increased interest costs on refund returns, 3) delayed receipt of cash payments, and 4) reduced efficiencies in the Audit and Collections programs equating to delays in revenue generation.

To meet FTB's e-Government vision of delivering services to our customers and their agents online, it is necessary to transition the communication between the CPU and other application servers, as well as FTB's customers and their modes of data access. This will result in improved efficiencies to the department, thus the state, by using a common data access infrastructure, as well as enable the realization of efficient and high quality results to California taxpayers.

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

ALTERNATIVE #1 – Augment FTB’s budget by \$1,008,000 to upgrade our current IBM zSeries Server by adding a third processor and additional 4 GB of memory.

This solution will provide the capacity to efficiently and effectively support workload growth of programs and applications. Adding processor capacity will prevent performance degradation that would impact revenue production. A 10% capacity buffer is necessary to allow for unforeseen workload peaks and to prevent response degradation that occurs when systems approach full utilization. Adding 4 GB of memory is required for effectively handling growth of our existing mission critical applications workloads, as well as, the increased concurrent workloads enabled by the addition of a third processor.

With the third processor and additional memory, the department will have a processing speed of 687⁵ MIPS and 18 GB of memory available to support workload growth, new programs, and new technologies.

ALTERNATIVE #2– Augment FTB’s budget by \$ 972,000 to upgrade our current IBM zSeries Server by adding a third processor and only 2 GB of additional memory.

This alternative will add resources to support projected growth in existing workloads, while costing less than our proposed solution. However, without the second 2 GB of memory, there will be limited ability to support workload growth and new programs. Without the 4 GB of memory the department will not be able to effectively manage mission critical applications and workload growth.

ALTERNATIVE #3 – Augment FTB’s budget by \$933,000 to add a third processor without additional memory.

This alternative will add resources to support projected growth in existing workloads, while costing less than our proposed solution. However, with this alternative sufficient memory will not be available to manage workload growth of existing applications. Without adding adequate memory to support the increased processor capacity, full benefits of the larger processor cannot be reached to support the infrastructure. This would result in processing delays creating severe economic impacts to revenue production.

⁵ CPU MIPS are purchased in increments. The next available increment for the IBM e-Server is an additional 211 MIPS for a total of 687.

ALTERNATIVE #4 – Maintain the current system.

This alternative will not require additional funding. To maintain the current system will severely impact the support functions provided by the department's Computing Resources Bureau, resulting in the inability to process workloads during identified critical processing timeframes of FY2004/05's peak season. While workloads can be prioritized in FY 2003/04 to manage workload growth and its impact on capacity, the growth expected in FY 2004/05 is greater than our ability to manage with the current CPU. As a result, there will be a cumulative backlog of returns, audits, collection accounts and correspondence. Economic impacts will include increased interest costs on refund returns and delayed receipt of cash payments of additional assessments from return processing.

Reduced efficiencies in the Audit and Collection Programs resulting in the inability to process audits and collection cases will equate to revenue delays. In addition, this drastically reduces our ability to take on new workloads without degradation to our current mission critical processes.

OTHER OPTIONS CONSIDERED

One option considered was the possibility of introducing a new hardware vendor but retaining the same mainframe operating system. With this approach, all peripheral devices currently in place could be utilized and modifications to business applications or to third party vendor software would not be required. However, neither of IBM's competitors currently produces mainframe hardware. Nearly two years ago, both Amdahl Corporation and Hitachi Data Systems announced their phased departure from the System/390 marketplace.

A second option considered bidding and potentially migrating to another operating system and platform. This approach would require the replacement of our current mainframe hardware and all supporting system software. A switch to another operating system would necessitate the purchase of all new peripheral devices (e.g., Direct Access Storage Devices, tape library cartridges, tape drives and large enterprise printers) and would require reprogramming of over 6,000 application programs. The cost of replacing the mainframe hardware and operating system would gravely exceed that of the proposed solution and would take five years to complete. After review, neither approach was considered feasible, therefore not pursued.

G. TIMETABLE

Task	Start	Finish	Deliverable	Milestone
Obtain Internal FSR approval	5/15/03	5/29/03	FSR	FSR approved internally
Obtain External FSR approval	1/5/04	1/5/04	FSR	FSR approved externally
Start Project	7/1/04	7/1/04		Project started
Procurement	7/2/04	7/30/04	Purchase order sign-off document	Procurement completed
Install and test CPU & Memory	11/27/04	11/28/04	Installation sign-off document	Installation completed
Implementation	12/1/04	12/1/04	Implementation sign-off document	Implementation completed
Prepare Post Implementation Evaluation Report (PIER)	10/1/05	10/30/05	PIER	PIER completed

H. RECOMMENDATION

The FTB recommends approval of Alternative #1. This alternative best meets the objectives and functional requirements detailed in the Feasibility Study Report previously submitted. This alternative will provide the capacity to efficiently and effectively support workload growth of programs and applications. Additionally, the increased capacity and memory will prevent performance degradation that would impact revenue production, positioning the FTB to effectively handle growth of our existing mission critical applications workloads, as well as, the increased concurrent workloads enabled by the addition of a third processor.

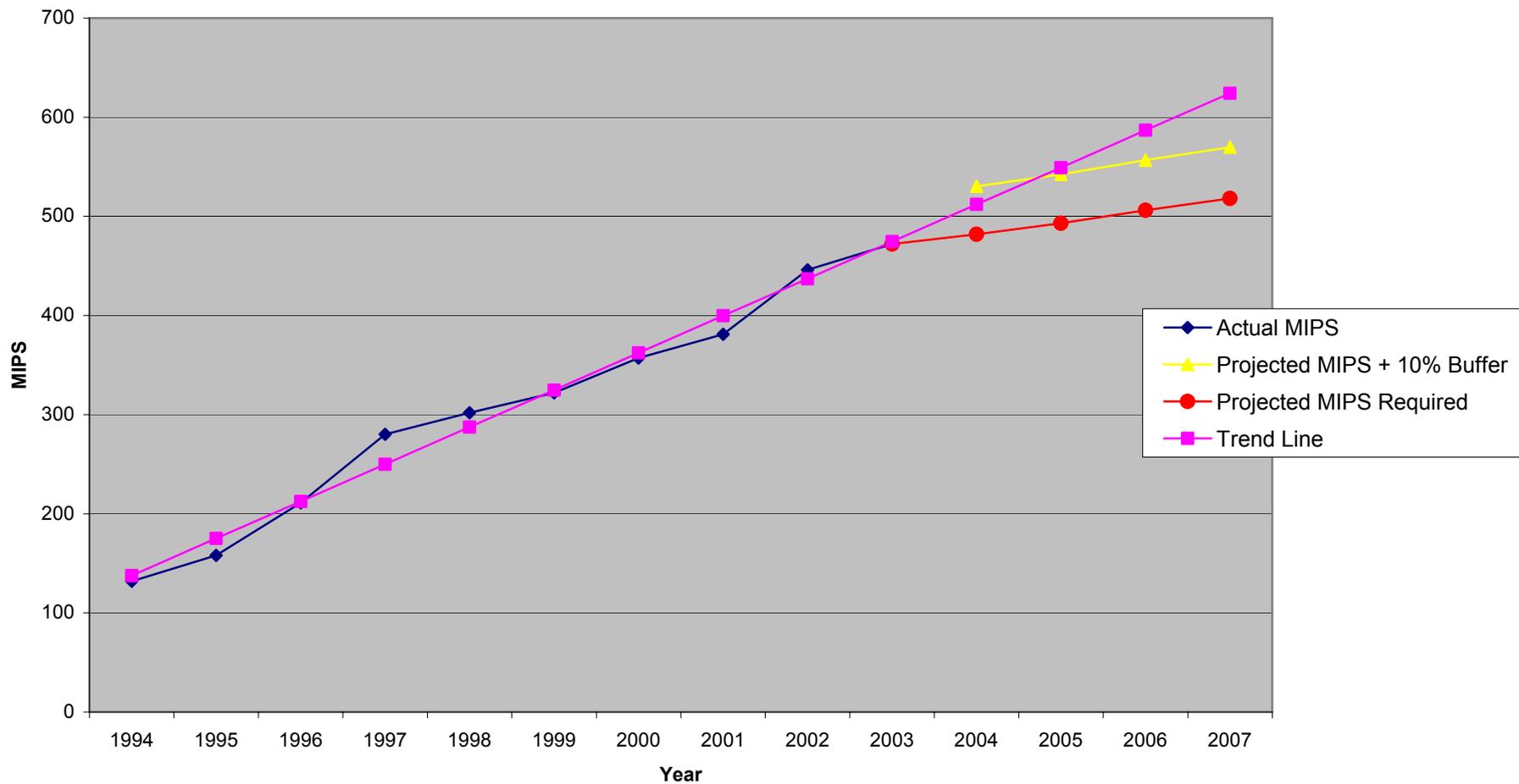
Attachment A CPU MIPS Usage by Program Area

FY 2002/03 Baseline with CPU MIPS Changes thru FY 2006/07					
	FY 02/03	FY 03/04	FY 04/05	FY 05/06	FY 06/07
Workloads	Actual MIPS	Projected MIPS	Projected MIPS	Projected MIPS	Projected MIPS
PRODUCTION:					
Personal Income Tax					
Return/Estimate Processing	166	170	173	177	181
Taxpayer Assistance					
General Info. Calls/Revenue Calls	62	64	65	66	68
Correspondence	4	4	4	4	4
Audit	16	17	19	20	21
Collections	82	84	85	87	89
Filing Enforcement	5	5	5	5	5
Corporations					
Return/Estimate Processing	83	85	88	90	92
Taxpayer Assistance					
General Info. Calls/Revenue Calls	6	6	6	7	7
Public Service	3	3	3	4	4
Audit	8	8	8	8	8
Collections	23	24	24	25	26
Filing Enforcement	1	1	1	1	1
Homeowners & Renters Asst.	2	2	3	3	3
DMV Collections	2	2	2	2	2
Child Support Collections	7	6	6	6	6
Court Ordered Debt	1	1	1	1	1
TOTAL	471	482⁶	493	506	518
10 % Capacity Buffer	5 ⁷	48 ⁶	49	51	52
TOTAL REQUIRED CAPACITY	476	530⁶	542	557	570

⁶ Represents projected demand only, as the zSeries system will still have only 476 MIPS total capacity.

⁷ Maximum additional MIPS available based on capacity of the zSeries system as configured with 2 processors.

Attachment B CPU MIPS Usage – Historical and Projected



**STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL - COVER SHEET
 FOR FISCAL YEAR 2004/05
 DF-46 (REV 03/03)**

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

BCP # 4	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Integrated Audit System (IAS)

SUMMARY OF PROPOSED CHANGE:

This proposal requests funding and positions to develop and implement an integrated audit system that will replace 31 aging systems, identify the most productive audits, reduce taxpayer intrusion, provide electronic service channels that will streamline audit processes and enhance customer service. IAS will generate \$7.1 million in increased assessed revenue for FY 2004/05 and \$46.2 million in annual assessed revenue beginning in FY 2009/10.

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 checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input checked="" type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVED BY:	DATE	AGENCY SECRETARY:	DATE
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

Pending Board Approval

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.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE. PENDING

DATE PROJECT # 1730-165 FSR OR SPR

**DOF ANALYST USE
 (ADDITIONAL REVIEW)**

CAPITAL OUTLAY TIRU FSCU OSAE CALSTARS

BCP # 4 DATE 8/26/2003 Title of Proposed Change:
 Integrated Audit System (IAS)
 PROGRAM ELEMENT COMPONENT
 Tax Programs Personal Income Tax

	Personnel Years		Current Year	Budget Year
	CY	BY		
Total Positions / Salaries & Wages	.0	10.0	\$ 0	\$ 576,000
Part-year adjustment	<u>0.0</u>	<u>-7.0</u>	<u>\$ 0</u>	<u>-\$ 414,000</u>
Total Salaries & Wages a/	.0	3.0		162,000
Salary Savings	<u>0.0</u>	<u>-0.2</u>	<u>\$ 0</u>	<u>-\$ 8,000</u>
Net Total Salaries and Wages	<u>.0</u>	<u>2.9</u>	\$ 0	\$ 154,000
Staff Benefits b/			\$ 0	\$ 43,000
Total Personal Services			\$ 0	\$ 197,000

Operating Expenses and Equipment

General Expenses /1		\$ 0	\$ 35,000
Printing		0	0
Communications /2		0	3,000
Postage		0	0
Travel-In-State		0	0
Travel Out-of-State		0	0
Training /3		0	11,000
Facilities Operations /4		0	36,000
Utilities		0	0
Cons & Prof Svs - Interdept'l /5		0	60,000
Cons & Prof Svs - External /6		0	383,000
Consolidated Data Center		0	0
California Health and Human Services Agency Data Center		()	()
Stephen P. Teale Data Center		()	()
Data Processing /7		0	7,000
Equipment		0	0
Other Items of Exp (Specify Below)		0	0
Total Operating Expense & Equipment		\$ 0	\$ 535,000

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

b/ Detail provided on following pages.

- /1 General Expense for Branch @ \$437, and for Depart'l \$442 per position. Plus minor equipment, chairs, etc. @ \$1510 per position. PCs @\$1600 per position.
- /2 Departmental \$954 per PY.
- /3 Training costs for IT positions at \$1,500 per position.
- /4 Departmental \$332 per PY. Includes \$35,000 facilities to accommodate vendors.
- /5 Reimbursement to DGS for staff costs relating to vendor contracts.
- /6 Includes \$238,000 for IV&V contract and \$145,000 for vendor purchased hardware and software.
- /7 Software for PCs@\$700 per PC.

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions		Salary Range	Amount	
		CY	BY		CY	BY
Compliance - Audit						
* Sr Programmer Analyst Spec	PERM	0.0	3.0	\$ 4,958	\$ 6,026	\$ 0 \$ 50,000
* Sys Software Spec II Tech	PERM	0.0	1.0	\$ 4,949	\$ 6,015	\$ 0 \$ 16,000
* Sr Operations Specialist/Ftb	PERM	0.0	1.0	\$ 4,724	\$ 5,741	\$ 0 \$ 16,000
* Staff Prog Analyst Spec	PERM	0.0	2.0	\$ 4,507	\$ 5,480	\$ 0 \$ 30,000
* Sys Software Spec I Tech	PERM	0.0	1.0	\$ 4,506	\$ 5,479	\$ 0 \$ 15,000
Total Compliance - Audit		<u>.0</u>	<u>8.0</u>			\$ 0 \$ 127,000
Adjust for Part Year Positions		<u>.0</u>	<u>6.0</u>			
Net Positions/ PYs before salary savings		<u>.0</u>	<u>2.0</u>			

Part Year Positions

* Sr Programmer Analyst Spec	4/1/2005 Budget yr start date for 0.75 P.Y.s.
* Sys Software Spec II Tech	4/1/2005 Budget yr start date for 0.25 P.Y.s.
* Sr Operations Specialist/Ftb	4/1/2005 Budget yr start date for 0.25 P.Y.s.
* Staff Prog Analyst Spec	4/1/2005 Budget yr start date for 0.5 P.Y.s.
* Sys Software Spec I Tech	4/1/2005 Budget yr start date for 0.25 P.Y.s.

Compliance - ARM & ASD

* Compliance Rep, Ftb - Rg B	PERM	0.0	1.0	\$ 2,851	\$ 3,300	\$ 0 \$ 18,000
* Tax Technician, Ftb - Rg B	PERM	0.0	1.0	\$ 2,507	\$ 3,049	\$ 0 \$ 17,000
Total Compliance - ARM & ASD		<u>.0</u>	<u>2.0</u>			\$ 0 \$ 35,000
Adjust for Part Year Positions		<u>.0</u>	<u>1.0</u>			
Net Positions/ PYs before salary savings		<u>.0</u>	<u>1.0</u>			

Part Year Positions

* Compliance Rep, Ftb - Rg B	1/1/2005 Budget yr start date for 0.5 P.Y.s.
* Tax Technician, Ftb - Rg B	1/1/2005 Budget yr start date for 0.5 P.Y.s.

Total Salaries and Wages	Positions	<u>.0</u>	<u>10.0</u>			<u>\$ 0</u>	<u>\$ 162,000</u>
	Part Yr Adj	<u>.0</u>	<u>7.0</u>				
	P.Y.s	<u>.0</u>	<u>3.0</u>				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2004/05**

Staff Benefits	2003/04	2004/05
OASDI /1	\$ 0	\$ 10,000
Dental /2	0	1,000
Health /3	0	17,000
Retirement /4	0	11,000
Vision /5	0	0
Medicare /6	0	2,000
Worker's Comp /7	0	2,000
Industrial Disability /8	0	0
Non Industrial Disability /9	0	0
Unemployment Insurance /10	0	0
Total Staff Benefits	\$ 0	\$ 43,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$500 per net personnel year.
- 3/ For permanent, \$5,800 per net personnel year.
- 4/ For permanent, 7.413% of net salary.
- 5/ For permanent, \$100 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 1.12% of net salary for permanent.
- 8/ 0.1% of net salary for permanent.
- 9/ 0.11% of net salary for permanent.
- 10/ 12.89% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2004/2005

Budget Change Proposal
Integrated Audit System (IAS)

BCP No. 4
Date: August 26, 2003

A. Nature of Request

Franchise Tax Board (FTB) is requesting \$732,000 for FY 2004/05 relating to the proposed Integrated Audit System project. This request is consistent with the FSR submitted to the Department of Finance on July 14, 2003. This cost will cover increases in FTB project and program staff (2.9 PYs), independent vendor oversight contract payments, and hardware/software. The IAS project will provide \$7.1 million in increased assessed revenue for FY 2004/05 and \$46.2 million in annual assessed revenue beginning in FY 2009/10. Additional budget actions for the IAS project will be requested in ensuing fiscal years.

B. Background/History

Currently, the audit process relies upon numerous aging stovepipe systems that are becoming difficult to support and enhance to address emerging issues. In a study of Audit's technology and business environment, the Gartner Group recommended FTB replace Audit's out-of-date applications with an integrated audit system to improve efficiency and effectiveness of FTB's Audit Program.

The Franchise Tax Board has submitted a request for approval to utilize internal resources to complete a Request for Proposal to identify a business partner to develop and implement an integrated audit system solution. It is anticipated the IAS project will generate substantial benefits in the form of increased revenue to the General Fund and taxpayer satisfaction with the Audit Program. Initial revenues will begin accruing late in 2003/04. Upon project completion an estimated additional \$46.2 million in ongoing annual state tax revenue will be generated as a result of this project. Although actual project costs are contingent on the selected vendor solution, it is estimated that the development costs and first year of full implementation costs would be \$106 million in total (tax revenue during this same period is estimated to be \$183 million). FTB plans to develop the IAS project in five phases. In-house development of Phase I will begin in January of 2004. The business partner will be on board for Phase II through Phase V, which begins in April of 2005. The project will be fully implemented in January 2009.

An integrated audit system will address the following current business problems.

- Because our data is stored in separate systems which cannot share data, and these systems do not provide data cleansing and matching functions to "clean up" the data, we are unable to make the best use of available taxpayer information to identify and select the most productive audits. Acquiring data for Audit's applications cannot be coordinated across the Audit Program. Existing applications contain limited amounts of data that is not shared between applications. As a result, Audit uses a multitude of isolated data

repositories that contain application specific data. None of the existing applications have the capability to cleanse, store and model data from a comprehensive data source. Business opportunities to improve modeling and coordination of case selection cannot be realized with Audit's current non-integrated technology environment.

- Existing modeling technology lacks the sophistication required to identify the most productive audits. Without a sophisticated modeling routine, noncompliant taxpayers are not easily identified and compliant taxpayers may be mistakenly identified as potential audit candidates. Many high audit yield tax returns are passed over by our primary PIT modeling system, Automated Selection of Tax Returns for Audit (ASTRA), because they do not conform to the data criteria the system can handle. In addition, many of the tax returns selected do not turn out to be productive audit cases. Over 81 percent of the tax returns selected through ASTRA for professional personal income tax audits are rejected after preliminary review. Of those chosen for audit there is a 41 percent no change rate. No change audits are an inefficient use of audit resources and unnecessarily intrude into taxpayer's lives.
- Because our systems are old, inflexible and cannot communicate between systems, we are unable to timely adapt them to changing trends in evasive tax strategies to identify, prioritize and select the most productive audits. The Audit Program is currently supported by approximately 31 separate applications. These applications are constrained in part by typical legacy system limitations. For example, the ASTRA system noted above is over 25 years old. This system plays a fundamental role in the selection of audits, yet it fails to meet current technology needs because it cannot utilize all available data, coordinate audit modeling, or incorporate current sophisticated modeling technology.
- Additional sources of data available to the FTB need to be accessed to further supplement Filing Enforcement and Audit activities. The ability to utilize additional electronic data, such as EDGAR (electronic data gathering analysis and retrieval system), EDD wage information, and Data Quick would assist in identifying new audit models and improve the yield of existing models. Information available from the Bureau of Automotive Repair and Alcoholic Beverage Control will enhance the audit program, and provide the basis to identify additional non-filers.
- Customers expect the ability to communicate electronically. Providing electronic service channels will enhance customer service and streamline audit processes. The communication process between auditor and customer could be streamlined by providing electronic service channels for auditors and customers. Current legacy system limitations and the non-integrated nature of Audit's information technology environment does not provide the ability to meet customer expectations, streamline processes, or align Audit's business practices with the e-government goals of the department and the State.

C. State Level Consideration

This proposal is consistent with statewide efforts to use information technology to make more efficient and effective use of budgeted resources. It will assist in maintaining the state's revenue base, encourage compliance with the tax laws, and reduce unnecessary intrusive

audits by focusing resources on the most audit worthy returns. In addition it will meet taxpayer needs by providing electronic service channels to do business with the state. Taxpayer information is currently received from other state agencies as well as the federal government. There will be no impact on those departments as a result of this proposal.

D. Justification

Consistent with FTB's broad objectives, the department has established the Integrated Audit System project to allow FTB to further reach its strategic objectives to increase efficiency within the Audit Program, reduce unnecessary taxpayer intrusion, and enhance customer service through electronic service channels. The IAS project will provide the Audit Branch with the tools necessary to improve its business environment and support the approved departmental mission, goals, and objectives. The project is fully consistent with the stated objectives in FTB's Strategic Plan. Those objectives are to become customer centered, promote fair and effective tax administration, build a strong organization, deliver efficient business results, protect taxpayer privacy, secure taxpayer information, and deliver e-government services. In addition, the IAS project links directly to FTB's Information Management Strategy Plan by:

- Addressing the need to automate to maintain pace with changing business needs;
- Providing an effective and stable business infrastructure to allow us to effectively handle change;
- Providing FTB employees with common and integrated automated tools for accomplishing their work, and
- Protecting the privacy of individual information entrusted to us.

The following business objectives will be achieved through the IAS project.

- 1. Secure an estimated additional \$46.2 million in annual assessed revenue upon project completion in fiscal year 2009/10. Benefits will be offset by \$4.6 million in annual ongoing costs for a net revenue benefit of \$41.6 million. Benefits will start to accumulate in FY 2003/04.**

Access to a comprehensive source of data will allow more efficient utilization of information in the audit selection process and will provide additional data to the Filing Enforcement (FE) Program. Enhancing the data warehouse by adding new filing enforcement data will enable FTB to identify additional non-filers. And updated technology, which will improve modeling, will allow the Audit program to identify the highest yield audit models.

- 2. Reduce the Professional PIT Audit volume of no change cases by 10 percent to improve audit efficiency and decrease unnecessary taxpayer intrusion.**

The primary Professional PIT Audit modeling application, ASTRA, is composed of old technology that lacks the ability to isolate higher yield cases due to lack of sophisticated modeling tools and limited data. The current no change rate for audits selected utilizing ASTRA is 41 percent. Providing technology that will cleanse, store and access data, and provide more sophisticated tools to model and select audits will reduce the no change rate resulting in a higher rate of audit adjustments, and fewer unneeded taxpayer contacts.

3. Provide electronic service channels to meet customer needs.

Taxpayers expect secure electronic options for interacting with FTB. Providing such service channels will increase customer satisfaction and speed up written communication between the auditor and the taxpayer. In addition, it will provide the opportunity to streamline audit processes by capturing data from taxpayer response forms and by eliminating costly data keying.

E. Analysis Of All Feasible Alternatives

Alternative #1 – Augment FTB’s budget by \$732,000 to allow FTB to complete the second year of the IAS project.

This alternative will allow the department to pursue an integrated audit system to effectively identify and select returns for audit with the most significant non-compliance issues. In addition, an integrated audit system will provide auditors the tools to efficiently audit those returns providing a high cost/ benefit ratio. Completion of the IAS project will secure an estimated additional annual \$46.2 million in ongoing state tax revenue, reduce the professional Personal Income Tax audit volume of no change cases by 10 percent, and provide taxpayers with the electronic service channels they expect from state government.

Alternative #2 – Do not augment FTB’s budget by \$732,000.

This alternative will result in a lost opportunity to develop an integrated audit system that makes maximum use of audit’s existing resources to effectively and efficiently select and examine the most audit worthy tax returns. This in turn will provide additional annual audit benefits totaling an estimated ongoing amount of \$46.2 million.

F. Timetable

Augment FTB's budget for the IAS project's second year (FY 2004/05) in the amount of \$732,000 by July 1, 2004.

Project Major Milestones

No.	Milestones	Timeframe
1.	Submit FSR to the Department of Finance (DOF)	05/2003
2.	Submit BCP for FY 04/05	09/2003
3.	Receive FSR approval, release Request for Interest	12/2003
4.	Phase I	01/2004-05/2006
5.	Submit RFP to Finance and DGS for approval	02/2004
6.	Release RFP to vendors	04/2004
7.	Receive final vendor proposals	08/2004
8.	Select Business Partner	10/2004
9.	Submit SPR with vendor solution to DOF	12/2004
10.	Submit Section 11 notification to DOF	12/2004
11.	Obtain external SPR approval	02/2005
12.	DOF submits Section 11 notification to the Legislature	02/2005
13.	Obtain contract signatures and vendor starts working	04/2005
14.	Phase II	04/2005-08/2006
15.	Phase III	10/2005-02/2007
16.	Phase IV	07/2006-11/2007
17.	Phase V	04/2007-06/2008
18.	Submit Post Implementation Evaluation Report (PIER)	12/2010

G. Recommendation

Alternative #1 is recommended.

The selection of Alternative #1 will allow the department to proceed with the Integrated Audit System project. The IAS project will deliver updated technology by replacing Audit's many aging business applications. The Integrated Audit System will provide the tools to manage and prioritize case selection, increase yield of cases worked, identify additional non-filers, and reduce taxpayer intrusion. In so doing, the system will provide substantial additional revenue for the State of California and increase taxpayer satisfaction with FTB's programs. Upon completion, the project is expected to generate an additional \$46.2 million in annual assessed revenue.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2004/05
DF-46 (REV 03/03)**

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

BCP # 5	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

PIT Nonfiler Program

SUMMARY OF PROPOSED CHANGE:

This proposal requests \$1.8 million and 28.1 PYs for manual review of approximately 268,000 potential PIT nonfiler accounts to assess the appropriate amount of tax and generate \$63 million annually beginning in FY 07/08.

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 checked="" type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> REVENUE	
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PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVED BY:			
DEPARTMENT DIRECTOR:			DATE

Pending Board Approval

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.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY DOIT _____.

DATE PROJECT # FSR OR SPR

**DOF ANALYST USE
(ADDITIONAL REVIEW)**

CAPITAL OUTLAY TIRU FSCU OSAE CALSTARS

BCP # 5	DATE	08/26/03	Title of Proposed Change: PIT Nonfiler Program			
PROGRAM	ELEMENT	COMPONENT				
Tax Programs	Personal Income Tax					
		<u>Personnel Years</u>		<u>Current Year</u>	<u>Budget Year</u>	
		<u>CY</u>	<u>BY</u>			
Total Salaries & Wages a/		.0	29.5	\$ 0	\$ 1,087,000	
Salary Savings		.0	-1.4	\$ 0	-\$ 49,000	
Net Total Salaries and Wages		.0	28.1	\$ 0	\$ 1,038,000	
Staff Benefits b/				\$ 0	\$ 339,000	
Total Personal Services				\$ 0	\$ 1,377,000	

Operating Expenses and Equipment

General Expenses /1				\$ 0	\$ 111,000
Printing /2				0	191,000
Communications /3				0	26,000
Postage /4				0	60,000
Travel-In-State				0	0
Travel Out-of-State				0	0
Training				0	0
Facilities Operations /5				0	10,000
Utilities				0	0
Cons & Prof Svs - Interdept'l				0	0
Cons & Prof Svs - External /6				0	50,000
Consolidated Data Center				0	0
California Health and Human Services Agency Data Center				()	()
Stephen P. Teale Data Center				()	()
Data Processing /7				0	19,000
Equipment				0	0
Other Items of Exp (Specify Below)				0	0
Total Operating Expense & Equipment				\$ 0	\$ 467,000

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

b/ Detail provided on following pages.

/1 General Expense for Branch @ \$437, and for Depart'l \$442 per position. Plus minor equipment. chairs, telephone & etc. @ \$1510 per position. PCs @\$1600 per position.

/2 Departmental \$102 per position. Included is \$188,333 for printing of INC and NPA notices

/3 Departmental \$954 per perm position.

/4 Departmental \$0 per position. Included is \$59,925 for INC and NPA notice postage

/5 Departmental \$332 per position.

/6 Includes \$50,000 cost of Trace service.

/7 Software for PCs@\$700 per PC.

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>Current Year</u>	<u>Budget Year</u>
\$ 0	\$ 467,000

SPECIAL ITEMS OF EXPENSE d/

\$ 0	\$ 0
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PROGRAM ADMINISTRATION
Distributed Admin

\$ 0	\$ 0
\$ 0	\$ 0

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0	\$ 1,844,000
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Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements	1730		501		0995
Totals					

\$ 0	\$ 1,844,000
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
\$ 0	\$ 1,844,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements					
Totals					

\$(0)	\$(0)
\$ 0	\$ 0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
0	0
\$ 0	\$ 0

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>CY</u>	<u>BY</u>			<u>CY</u>	<u>BY</u>
Compliance - ARM & ASD							
Administrator I	PERM	0.0	1.0	\$ 4,517	\$ 5,489	\$ 0	\$ 60,000
Sr Compliance Rep.,Ftb	PERM	0.0	2.0	\$ 4,110	\$ 4,997	\$ 0	\$ 109,000
Compliance Rep, Ftb - Rg A	PERM	0.0	2.0	\$ 2,764	\$ 3,048	\$ 0	\$ 70,000
Tax Program Tech I, Ftb	PERM	0.0	2.0	\$ 2,348	\$ 2,855	\$ 0	\$ 62,000
Tax Technician, Ftb	PERM	0.0	5.0	\$ 2,220	\$ 2,700	\$ 0	\$ 148,000
Total Compliance - ARM & ASD		<u>.0</u>	<u>12.0</u>			<u>\$ 0</u>	<u>\$ 449,000</u>
Adjust for Part Year Positions		<u>.0</u>	<u>.0</u>				
Net Positions/ PYs before salary savings		<u>.0</u>	<u>12.0</u>				
Operations Branch & Enterprise Technology							
Staff Operations Specialist/Ftb	PERM	0.0	2.0	\$ 4,301	\$ 5,228	\$ 0	\$ 114,000
Customer Service Sup	PERM	0.0	1.0	\$ 4,113	\$ 4,963	\$ 0	\$ 54,000
Tax Program Tech I, Ftb	PERM	0.0	10.0	\$ 2,348	\$ 2,855	\$ 0	\$ 312,000
Tax Technician, Ftb	PERM	0.0	2.0	\$ 2,220	\$ 2,700	\$ 0	\$ 59,000
Tax Technician, Ftb	TEMP	0.0	2.0	\$ 2,220	\$ 2,700	\$ 0	\$ 87,000
Key Data Operator - Rg A	TEMP	0.0	0.5	\$ 1,916	\$ 2,114	\$ 0	\$ 12,000
Total Operations Branch & Enterprise Technology		<u>.0</u>	<u>17.5</u>			<u>\$ 0</u>	<u>\$ 638,000</u>
Adjust for Part Year Positions		<u>.0</u>	<u>.0</u>				
Net Positions/ PYs before salary savings		<u>.0</u>	<u>17.5</u>				
Total Salaries and Wages	Positions	<u>.0</u>	<u>29.5</u>			<u>\$ 0</u>	<u>\$ 1,087,000</u>
	Part Yr Adj	<u>.0</u>	<u>.0</u>				
	P.Y.s	<u>.0</u>	<u>29.5</u>				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2004/05**

Staff Benefits	<u>2003/04</u>	<u>2004/05</u>
OASDI /1	\$ 0	\$ 64,000
Dental /2	0	13,000
Health /3	0	148,000
Retirement /4	0	70,000
Vision /5	0	2,000
Medicare /6	0	15,000
Worker's Comp /7	0	12,000
Industrial Disability /8	0	1,000
Non Industrial Disability /9	0	1,000
Unemployment Insurance /10	0	13,000
Total Staff Benefits	<u>\$ 0</u>	<u>\$ 339,000</u>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$500 per net personnel year.
- 3/ For permanent, \$5,800 per net personnel year.
- 4/ For permanent, 7.413% of net salary.
- 5/ For permanent, \$100 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 1.12% of net salary for permanent.
- 8/ 0.1% of net salary for permanent.
- 9/ 0.11% of net salary for permanent.
- 10/ 12.89% of net salary for temporary help.

**FISCAL YEAR 2004/05
 SUPPLEMENTAL INFORMATION
 (\$ in Thousands)**

Identify all proposed items which fit into the categories listed below.

		<u>Current Year</u>	<u>Budget Year</u>	<u>Budget Year + One</u>
<u>Proposed Equipment</u>		\$ 0	\$ 0	\$ 0
Total		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Proposed Contracts</u> (Both external and interdepartmental)		\$ 0	\$ 0	\$ 0
Total		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>One-Time Costs</u>				
Appropriation No. - Gen Fund	Minor Equipment - Office furniture, etc.	\$ 0	\$ 41	\$ 0
1730 - 001 - 0001	Minor Equipment - PCs	0	43	
Total		<u>\$ 0</u>	<u>\$ 84</u>	<u>\$ 0</u>
<u>Future Savings</u>		\$ 0	\$ 0	\$ 0
Total		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Full-Year Cost Adjustments</u>		\$ 0	\$ 0	\$ 0
Total		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>Facilities/Capital Costs</u> - indicate one-time or ongoing		\$ 0	\$ 0	\$ 0
Total		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

PIT NON-FILER PROGRAM
WORKLOAD INDICATOR SCHEDULE

Program Area	Description of Work	Notes	Volume	Rate per Hour	Hours	Classification	PYs needed
Nonfiler Program	Quality Assurance	1	134,000	38	7,112	TPT I	4.00
	Correspondence	1	134,000	13	10,228	TPT I	5.75
	Program Support			n/a		SOS I	2.00
TSCS - Call Center	TSCS - Answer calls *	2	14,740	4	3,685	Tax Tech	2.07
	Direct Support	3		n/a	626	CSS	0.35
Receiving	Return Processing	4	30,150	43	701	T/H	0.39
	Payment Processing	5	10,000	51	196	T/H	0.11
IVS	Return Processing	6	6,935	14	495	T/H	0.28
	Payment Processing	7	1,500	14	107	T/H	0.06
ICBS	Return Processing - Data Entry	8	30,150	55	548	T/H	0.31
	Payment Processing - Cashiering	8	10,000	276	36	T/H	0.02
	Data Entry - Notices	8	10,000	328	30	T/H	0.02
ISS	File and Maintenance (payments)	9	10,000	45	222	T/H	0.12
	File and Maintenance (returns)	9	30,150	45	670	T/H	0.38
Collection	Reactive Collections Cases		See supporting Schedule			Various	4.30
	Proactive Collection Cases		See supporting Schedule			Various	6.40
Total PY need & Other							26.57

Issue 1: Perfect Nonfiler Accounts in Review - Each year when potential nonfilers are identified, there are over 268,000 accounts placed in review status. Before any assessments can be made, manual review is required to authenticate the nonfiler accounts for accurate tax assessment. For example, when two individuals are using the same SSN, a quality assurance staff person has to review the account to determine whom the reported income belongs to. No action will take place on review cases until a person reviews the account for accuracy and performs a transaction so that a demand letter can be mailed. This is a feature of the new INC System which intercepts certain notices from being sent to taxpayers when there is information indicating that individual may not have a filing requirement. This feature of the INC System reduces the number of erroneous notices sent to taxpayers. Approximately 134,000 accounts, out of the 268,000 accounts in review status, are determined to be viable accounts which can be assessed tax. These accounts have not been pursued in the past due to staffing limitations. Revenue associated with these accounts is \$63 million.

*TSCS Call Center is the phone number printed on the notice to the taxpayer. In the initial lifecycle of the debt, taxpayers responding to INC notices will call the INC Call Center.

Assumptions:

Total number of mailings: Filing Enforcement Letter and Notice of Proposed Assessment Letter = 214K
Total number of nonfiler accounts in review resulting from the mailings is 134K = breakdown as follows:
Total number of FE Notices with payment = 10K is based on Nonfiler Program historical information.
Total number of returns = 30K is 22.5% of the 134K accounts worked that will result in a tax return being filed.

Notes:

- 1 Nonfiler Program - review all accounts for accuracy and send letter - 134,000.
- 2 TSCS - Response Rate is based on 11% of the total notices mailed: $134,000 \times 11\% = 14,740$.
- 3 TSCS - Direct Support totals 17% of the total direct hours: $3,685 \times 17\% = 626$.
- 4 Receiving - Return Processing Rate: 43 per hour based on 22.5% of the tax returns filed resulting from the 134K accounts worked.
- 5 Receiving - Payment Processing Rate: 51 per hour based on the Nonfiler Program historical information.
- 6 IVS - Standard Fallout Return Rate: 23% of the 30K tax returns resulting from the 134K accounts worked.
- 7 IVS - Standard Fallout Payment Rate: 15% of the 10K notices based on the Nonfiler Program historical information.
- 8 ICBS - Production Rate based on current production statistics.
- 9 ISS - Production Rate based on current production statistics.

**FRANCHISE TAX BOARD
Fiscal Year 2004/05**

Budget Change Proposal

BCP No. 1

Phase III - Occupancy Costs

Date: August 26, 2003

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of \$12.56 million to facilitate the relocation of staff and operations to the new State Office Project (also known as Phase III). The following FY 2004/05 expenditures and projected savings are associated with the move and occupancy of the Phase III project based on the current construction schedule:

- \$7,296,000 - Maintenance and Operating Costs.
- \$6,140,000 - Modular Systems Furniture Disassembly/Reassembly/Cleaning Contract.
- \$ 100,000 - Facilities Related Equipment.
- -\$ 975,000 - Savings resulting from cancellation of 136,437 square feet of leased office space.

The FTB will be the major tenant of the new State Office and Warehouse Facilities at Butterfield Way. This relocation has department-wide implications in that all segments of the FTB organization will be affected by the multi-phased occupancy of the State Office Project. Following construction of the State Office Project, FTB will relocate staff and operations from approximately 463,000 square feet of leased facilities currently located within the Sacramento Highway 50 corridor to the new Phase III office buildings. The consolidation of the FTB organization at the expanded Butterfield campus will streamline FTB's local operations. In addition to projected savings of \$975,000 in FY 2004/05 associated with the cancellation of 136,437 square feet of leased space, \$5.7 million savings will be realized in FY 2005/06 with the cancellation of 294,176 square feet of leased space.

B. Background/History

The Phase III project is based on Senate Bill 1589 (Chapter 328/1998) authorizing the Department of General Services to use lease revenue funds for the acquisition of land, design, and construction of the State Office Project. The consolidation strategies expressed in FTB's 1995 Master Plan Report and confirmed in the subsequent 1998 Update supported the authorizing legislation. The consolidation of FTB staff currently housed in leased space at the expanded Butterfield campus is consistent with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements, and will result in FTB operating efficiencies.

The State Office Project includes construction of a central plant, warehouse, Town Center and office buildings. The maintenance and operation of those facilities will be the responsibility of the Department of General Services, Building and Property Management Branch (BPMB). Expenditures for the essential building operating costs, such as BPMB salaries, increased utilities, expendable supplies, and preventative maintenance programs, will be paid by FTB. Services and equipment required for FTB's occupancy that will impact FTB's baseline support budget are not funded by the State Office Project, and are the subject of this funding request:

1. Maintenance and Operating Costs - \$7.29 Million

The current 851,000 gross square foot Butterfield office and warehouse facility will expand to approximately 1,851,000 gross square feet upon completion of the State Office Project. FTB received funding in FY 2003/04 for increased maintenance and operating costs related to the completion of the new central plant and landscaping/irrigation systems for the newly constructed parking lots. As building systems continue to be commissioned and facilities are occupied, additional staffing will be required to provide the support and maintenance appropriate for the expanded campus.

In this regard, DGS has prepared for FTB a phased hiring plan for FY 2004/05 based on Department of Finance (DOF) recognized staffing standards for BPMB provided property management, buildings and grounds maintenance, and associated trades. The estimated salaries are based on the DGS Price Book for FY 2003/04 with a 5% adjustment for an inflationary salary increase. The request is consistent with the state policy on staffing new state office buildings and is critical to the hiring and training of staff in order to maintain service levels.

In summary, FTB requests an augmentation in FY 2004/05 of \$5.17 million to fund the additional BPMB staff; \$906,000 for the expenses relative to increased supplies, essential building maintenance commodities, and increased service contracts; \$70,000 for estimated BPMB staff overtime; and \$1.15 million for increased utility costs to service the new buildings and procure diesel fuel for the three on-site generators. These total \$7.29 million for maintenance and operating costs in FY 2004/05.

2. Modular System Furniture - \$6.14 Million; Multi-Year Contract for Modular System Furniture Disassembly/Reassembly/Cleaning Contract.

Consolidation of FTB operations at the expanded Butterfield campus by relocation of staff occupying approximately 463,000 square feet of leased space will be accomplished in multiple stages pursuant to the State Office Project construction schedule. Consistent with the Department of Finance recommendations and sustainable building practices, FTB is planning to re-use its existing modular system furniture (modular). The re-use of modular compared to the purchase of new Haworth modular represents a savings of \$1.65 million.

Integral to the re-use is the procurement of a multi-year contract for the professional services of a vendor to disassemble, reassemble and clean the modular in a timely manner. FTB does not have staff that is trained or authorized to accomplish these tasks. Because the components vacated may not meet the requirements for the immediate subsequent occupancy stage, the purchase of new modular components

to augment inventory is necessary to complete the modular installations. The total cost of disassembling, reassembling, cleaning and new components is estimated to be \$6.14 million in FY 2004/05.

Denial of this proposal will prohibit re-use of FTB's existing modular inventory, require purchase of new modular and conflict with sustainable building design practices. Delays in modular installation may obligate FTB to incur double rental costs for State Office Project space that is available for occupancy at an estimated annual cost of \$975,000 in FY 2004/05 and potentially \$5.7 million in FY 2005/06 for the rental of leased space.

3. Facilities Related Equipment - \$100,000

a. Bicycle Locker Purchase - \$55,000

The FTB 1995 and 1998 Master Plan Update Reports recognized that the expansion of the Butterfield facility provided an opportunity to promote the use of alternate modes of transportation. These reports also acknowledged that every effort must be made to achieve a 33% - 40% alternate mode use in order to reduce the land required for parking. The transportation mode split goals in these reports were the basis for determining the number of parking spaces needed at the State Office Project, and the requirements for the on-site and off-site transportation infrastructure. Those goals reflected an increase in the walk/bicycle mode from 1.5% to 3%.

The State Office Project is in direct proximity to the RT Butterfield Light Rail Station, with a new bicycle path to that station and designated areas on site for bicycle lockers. There are shower and locker rooms in the Town Center and on the first floors of the office buildings. These attributes enhance FTB's efforts to increase the use of bicycles for transportation. Accessibility to bicycle lockers near entrances to the site will further promote bicycling as an alternative to driving alone. Since the State Office Project did not include funding the purchase of bicycle lockers, FTB is requesting \$55,000 in FY 2004/05 for the purchase of 100 lockers.

If the alternative transportation goals are not reached, there will be an increase in traffic congestion and air pollution, a greater demand on the roadway infrastructure, and a likelihood that FTB staff will park in adjacent residential and commercial areas due to the insufficient on-site parking. This will be detrimental to community relations, and may affect the ability of the State of California to locate other projects within Sacramento County.

b. Audiovisual Equipment - \$45,000

FTB will be the primary occupant of the office buildings constructed by the State Office Project. Four (4) PC training rooms and three (3) conference rooms scheduled for completion in FY 2004/05 are strategically located at the connectors between the new office buildings to address the training needs of FTB's collection, audit and filing services programs. The State Office Project construction includes the infrastructure for the projectors in these rooms, but acquisition and installation of the projectors is not provided.

The training of new staff as well as updating staff on new systems and

procedures in a lecture or PC environment is critical to administering the tax laws of the State of California. FTB is responsible for 61% of the state revenue and delivery of efficient business results and implementation of electronic government services is dependent on a skilled workforce. Failure to provide the training equipment may affect the ability of FTB staff to optimally perform their jobs. The cost to purchase and install projectors in buildings to be occupied during FY 2004/05 is estimated at \$45,000.

C. State Level Consideration:

In accordance with Executive Order D-16-00 the goal of the State Office Project is to construct, renovate, operate and maintain facilities that are models of energy, water and materials efficiency while providing a healthy, productive indoor and outdoor environment for staff. This Project will be a long-term benefit to the State of California. FTB will be the primary occupant, and is responsible for 61% of the state revenues.

This is a request to adequately maintain and efficiently utilize the programmed facilities. This investment will garner the long-term benefits of energy cost savings, delivery of efficient state services, protection of investment of state funds, and reduction of rental and operating costs. To continue leasing space to meet FTB program requirements conflicts with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements

D. Facility/Capital Outlay Considerations:

Failure to appropriately staff the operating and maintenance functions at the expanded campus will result in possible voided warranties, premature equipment failure and inability for FTB to achieve energy efficiency goals, all of which deteriorates the infrastructure established by the State Office Project investment.

E. Justification:

The consolidation of FTB staff with the State Office Project supports FTB's 1995 and 1998 Master Plan Update, and will allow for improved communications and efficiencies for FTB pursuant to FTB Strategic Goal #3 to build a strong organization. Strategic Goal #4 to deliver efficient business results is dependent on suitable facilities for staff. This funding request further supports this same goal as FTB resources are allocated based on the overall long-term benefits to our customers, our organization, and California as a whole.

Appropriately operating and maintaining the facility will reduce long-term costs associated with deferred maintenance and insure the energy efficiencies inherent in the State Office Project design.

F. Analysis of All Feasible Alternatives

Alternative #1 – Approve \$12.56 million for modular re-use costs; increases in operating and maintenance costs; and the purchase of new facilities related transportation and audio-visual equipment.

This alternative recommends the requisite funding for re-use of existing modular and appropriate operation and maintenance of the facilities at the expanded Butterfield site. This will allow the department to cover the one-time equipment costs and increased operating and maintenance costs associated with its occupancy of the State Office Project, and provide the current level of service.

Alternative #2 – Do not approve funding request.

If this funding request is not approved, the FTB will be unable to consolidate to the Butterfield site in a timely manner. Delays in occupying the facilities may adversely affect FTB's operations and level of service; may obligate FTB to incur double rental costs estimated to be \$975,000 in FY 2004/05 and potentially \$5.7 million in FY 2005/06. Energy efficiencies and the resultant savings will not be realized if the new facility is not adequately maintained.

G. Timetable

Increase support funding effective July 1, 2004.

H. Recommendation

Alternative #1 is recommended. This enables the department to relocate in a timely manner and operate efficiently without impacting its ability to provide the current level of service.