Fiscal Year 2021-22	Business Unit 7730	Department Franchise Tax Board	Priority No. 1

Budget Request Name 7730-024-BCP-2021-A1	Program 6280	Subprogram 6280010/6280019

Budget Request Description
Enterprise Data to Revenue Project, Phase 2 (EDR2)

Budget Request Summary
The Franchise Tax Board (FTB) requests an augmentation of $32.8 million General Fund and 1.0 permanent position to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal are in addition to those requested in the 2021-22 fiscal year EDR2 BCP #1 and will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Requires Legislation ☐ Yes ☒ No	Code Section(s) to be Added/Amended/Repealed Click or tap here to enter text.	
Does this BCP contain information technology (IT) components? ☐ Yes ☒ No *If yes, departmental Chief Information Officer must sign.*	**Department CIO** Click or tap here to enter text.	**Date** Click or tap to enter a date.

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

Project No. 7730-209 **Project Approval Document:** S3SD

Approval Date: 8/15/2019

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Click or tap here to enter text.	Date Click or tap to enter a date.	Reviewed By Click or tap here to enter text.	Date Click or tap to enter a date.
Department Director Click or tap here to enter text.	Date Click or tap to enter a date.	Agency Secretary Click or tap here to enter text.	Date Click or tap to enter a date.

Pending Board Approval

A. **Budget Request Summary**

The Franchise Tax Board (FTB) requests an augmentation of $32.8 million General Fund and 1 permanent position in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal are in addition to those requested in the 2021-22 fiscal year EDR2 BCP #1 and will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

B. **Background/History** (*Provide relevant background/history and provide program resource history. Provide workload metrics, if applicable.*)

FTB's primary function is to administer the California Revenue and Taxation Code (R&TC), which includes collecting the proper amount of taxes by assisting taxpayers in filing returns timely and accurately in the most cost effective manner while operating other entrusted government programs. FTB strives to serve the public by continually improving the quality of products and services and performing in a manner warranting the highest degree of public confidence with integrity, efficiency, and fairness.

Annually, FTB processes more than 17.8 million Personal Income Tax (PIT) returns and 1.2 million Business Entity (BE) returns, responds to more than three million telephone calls, handles over eight million internet contacts and collects about $ 92.3 billion in revenue annually, representing approximately 74 percent of the State's general fund revenue[1].

Phase 1 of FTB's tax system modernization (TSM) effort, the Enterprise Data to Revenue (EDR) project, was completed in 2016. The EDR project was successful and began to address business problems for FTB's Return Filing and Return Validation programs (specifically in the application of modeling and case management (CM)) and built the foundation for the next two phases of the TSM effort. This phase included Imaging, Data Capture, CM, Return Processing, Modeling, Taxpayer Folder, and MyFTB. The EDR project resulted in an enterprise data, modeling, CM platform and infrastructure with common services that can be expanded across the enterprise.

Phase 2 of the TSM effort is the EDR2 project. This project as proposed builds on the enterprise data, modeling, CM platform and infrastructure provided by EDR by expanding the enterprise CM and modeling to the Audit, Legal, FE, and Underpayment BSOWs. Phase 2 also expands the functionality for the Taxpayer Folder and MyFTB and decommissions multiple legacy systems.

As this SFL supplements the 2021-22 EDR2 BCP #1, please refer to that proposal for additional details on the previous EDR project, planning efforts for EDR2, and proposed operational changes that will be implemented in EDR2.

See Attachment I for the Resource History and Attachment II for the Workload History and Projections.

C. **State Level Consideration**

The EDR2 project represents phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The EDR2 project will continue to

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[1] Revenue figures based on the 2019-20 Cash Report reported in the Department of Finance's July 2020 Finance Bulletin. Due to the filing extension of April 15, 2020 to July 2020, the total revenue collected was lower than previous years.

significantly improve the department's ability to address the state's annual $10 billion tax gap through strategically planned TSM efforts consistent with FTB's strategic plan.

Holistically the EDR project is vital to FTB's operations; it will improve efficiency and provide a better taxpayer experience while increasing revenue. Additionally, the technology currently supporting two of FTB's major systems (ARCS and PASS), which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Implementing EDR2 at this time is critical. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures.

The EDR2 project supports FTB's mission to fairly and effectively administer the state's tax system and the Strategic Plan Goals of Exceptional Service, Effective Compliance, Strong Organization, and Operational Excellence.

D. Justification

As this proposal supplements the 2021-22 EDR2 BCP #1, only new or modified requests are incorporated herein. For a full understanding of resources requested, both documents must be referred to.

The EDR2 project follows the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. The most recent document approved for the EDR2 project was the Stage 3 Solution Development (S3SD). The S3SD was approved August 15, 2019 and included the department's final Compensation Model and Detailed Solution Requirements. The final document is the Stage 4 Project Readiness and Approval (S4PRA). This document is scheduled to be completed during March 2021 and will include the EDR2 vendor selection and project approval.

Notification of Award to the contractor is scheduled to be made during June 2021. The EDR2 project has an estimated start date of July 1, 2021.

This proposal includes requests for resources to support the EDR2 project. In order to complete contractor staff onboarding, meet control agency requirements and ensure a successful first year the department request the below resources and funding in addition to those requested in the 2021-22 EDR2 BCP #1:

Security Operations Section (SOS)

IT Specialist I – One permanent and one seven-year limited-term position (life of the project)

2021-22 EDR2 BCP #1 requested 1 Limited-Term position. This is updated to reflect the need for 2 resources, 1 permanent and 1 remaining as a Limited-Term.

The IT Specialist I staff will be responsible for defining audit logging requirements and ensuring the requirements are met throughout the project. Applications and services designed and implemented by the EDR2 solution are required to have secure audit logging with their solution. Security Audit Loggings (SALs) record user activities within FTB's applications and services enabling the department to identify misuse and fraud. The specific requirements of the logging are highly dependent on application and service design and the work starts during the initial design and development of products. As such, both positions are needed throughout the duration of the EDR2 project to support the SAL requirements during the development, testing, and validation processes.

The high level of development workloads and enhancements the vendor will produce will result in a significant SAL workload increase. Post project, the permanent staff member will be necessary to review questionable accesses or conduct investigations of such. Because of the volume and complexities of the vendor's solutions, the current Secure Audit Logging team cannot absorb these increases related to development of additional logging applications or ongoing increased workloads.

Operating Expenses and Equipment

Compensation Payments to the Contractor

Cost – $73.4 million

This funding is necessary to ensure FTB can pay the contractor for services performed. The EDR2 Contract is a fixed price contract and the contractor compensation is a hybrid fixed/benefits based model. Compensation is determined at a 70 percent fixed payment and 30 percent benefits-based payment and compensation payable cannot exceed costs incurred and is subject to various caps under the terms of the contract. The amount payable is calculated using the total cost of the State-accepted and successfully deployed Compensation Deliverables. For the first year, the maximum potential payment for the 2021-22 contractor compensation is estimated at $73.4 million which has been reduced by the statutory holdback amount deployed across the entire project.

Total Compensation paid must not exceed the Total Contract Amount (TCA) in any quarter or year. The cumulative amount of compensation paid out over the term of the EDR² Contract must not exceed the percentages of the TCA, listed below, which is inclusive of the required withhold rule:

   a. 5 percent of the TCA at the end of quarter one (1) through quarter two (2) of the EDR² Contract;

   b. 15 percent of the TCA at the end of quarter three (3) through quarter four (4) of the EDR² Contract;

   c. 34 percent of the TCA at the end of quarter five (5) through quarter six (6) of the EDR² Contract;

   d. 44 percent of the TCA at the end of quarter seven (7) through quarter eight (8) of the EDR² Contract;

   e. 55 percent of the TCA at the end of quarter nine (9) through quarter ten (10) of the EDR² Contract;

   f. 65 percent of the TCA at the end of quarter eleven (11) through quarter twelve (12) of the EDR² Contract;

   g. 75 percent of the TCA at the end of quarter thirteen (13) and fourteen (14) of the EDR² Contract;

   h. 84 percent of the TCA at the end of quarter fifteen (15) through quarter sixteen (16) of the EDR² Contract;

   i. 92 percent of the TCA at the end of quarter seventeen (17) through quarter eighteen (18) of the EDR² Contract;

j. One 100 percent of the TCA at the end of quarter nineteen (19) through the end of quarter twenty-two (22).

Under the terms of the contract, FTB will seek an appropriation equivalent to the maximum potential payment for any year. This is a requirement even in years where the projected revenue for the year is not estimated to be sufficient to cover the maximum payment and therefore will bar payment of the maximum amount. Full and robust information is not known to accurately determine the revenue on which payment is based and in the event projections are lower than actuals and the vendor is entitled to a higher payment, this strategy will allow FTB and the State to accurately compensate the vendor for reimbursable amounts.

As the maximum payment may not be due and payable in any one year, FTB is requesting the following annual provisional language to allow for any funding not used to carry over to the next fiscal year.

Of the funds appropriated in this item, any unused amount is allowed as one-time carryover funds to the subsequent fiscal year to support the vendor payment due to the solution provider for services performed and subject to Payment.

In 2021-22, contractor tasks include EDR2 project startup activities, including the setup of the contractor PMO, as well as the procurement and installation of hardware and software for the EDR2 solution; EDR2 project deliverables, such as the Management Requirement Deliverables (MRDs); implementation of scheduled business functionality; and operational support for implemented business functionality.

E. **Outcomes and Accountability** (*Provide summary of expected outcomes associated with Budget Request and provide the projected workload metrics that reflect how this proposal improves the metrics outlines in the Background/History Section.*)

The CDT's approved S1BA, S2AA and S2SD supports this BCP request and provides the details about the project scope, solution requirements, procurement and staffing strategy, solution development, evaluation methodology, and cost/payment model.

The EDR2 Project Managers work with the project oversight unit to monitor project progress and perform communication management, including status reporting consistent with stakeholder and overseer needs. The fiscal oversight of the project is the responsibility of both the Chief Information Officer (CIO) and the Chief Financial Officer (CFO).

F. **Analysis of All Feasible Alternatives**

Alternative 1 – Approve augmentation of $32.8 million General Fund and 1.0 permanent position ongoing beginning in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan.

This alternative includes additional resources needed in addition to those requested in the 2021-22 EDR BCP #1 and together represents a fully-loaded request for resources needed to successfully begin the first year of the EDR2 project, which is a multi-year project of phase 2 of FTB's TSM plan. The EDR2 project supports replacement of two legacy systems that are near end-of-life (ARCS and PASS) effectively manage the tax gap. This will be accomplished by transitioning the Audit, Legal, Filing Enforcement

and Underpayment SOWs to FTB's enterprise platform and implementing new Audit, Filing Enforcement, and Underpayment strategies that will identify new revenue streams.

Alternative #2 – Do not approve request.

If these additional resources (and those requested in the 2021-22 EDR2 BCP #1) are not approved, delays are likely in the implementation of the EDR2 project and risks the availability and opportunity of FTB to adequately complete the tasks and address legacy systems that are using outdated technology. Increased and unnecessary risks to the vendor could also occur resulting in the cessation of project activities or increased litigation risks to the State for failure to timely pay for services performed. Failure to ensure this project moves forward timely will eliminate our ability to replace aging systems before end-of-life which could jeopardize the generation of annual revenue approaching $4 billion. FTB will not be able to meet contractual obligations associated with the EDR2 project. Any modification to the resources requested herein would need to be reevaluated by FTB and the contractor to determine the impacts to project scope, schedule and revenue of the EDR2 project.

G. Implementation Plan

- June 2021 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.

- July 2021 – Department of Finance notifies FTB of position approvals.

- July 2021 – Permanent and limited-term positions are established and FTB begins hiring.

H. Supplemental Information (*Describe special resources and provide details to support costs including appropriate back up.*)

None.

I. Recommendation

Alternative #1: Approve.
This alternative provides the most efficient and effective solution to meet the project and contractual needs when the EDR2 project starts July 1, 2021. This alternative is the most desirable alternative to minimize costs and risks and maximize the benefits of the EDR2 project.

BCP Fiscal Detail Sheet

BCP Title:

BR Name:

Budget Request Summary

Personal Services

Position Workload Metrics
SFL: Enterprise Data Revenue Project - Phase II (EDR2)

Division	Classification	Resource Type (Perm, TH, OT)	Tasks (workloads)	2021-22 Volume	Subtotal Hours	Total Hours	New Positions Requested	Risk Impact if Position(s) Not Approved
Administrative Services Division								
Privacy, Security & Disclosure Bureau	IT Specialist I	Perm	**Security Operations** Incumbent will be responsible for Security Audit Loggings (SALs). This workload ensures electronic applications are logging sufficient information for auditing and investigative purposes. The incumbent will ensure FTB is able to detect, prevent, and identify misuse and fraud. **SAL Requirements:** Incumbent will review application designs and all input and response fields to determine which fields and responses must be logged in order to allow. They will ensure the successful recreation of a transaction for auditing and investigative purposes, and then documenting these requirements.	140	650	1,850	1	Without the additional resources, solutions produced by EDR2 will not have proper SALs. This will leave FTB open to the following risks: * Inability to identify and prevent misuse and fraud, resulting in loss of revenue, loss of public trust and increased costs associated with security incident responses. * Inability to properly identify misuse or fraud resulting in inability to serve personnel actions and/or pursue prosecution and restitution.
			SAL Testing: Incumbent will test each input and response field to determine if the expected logging results are being received.	120	560			
			SAL Validation: Incumbent will validate SALs and ensure all documented SAL requirements are being met so the application and transactions can be recreated.	35	640			
Total PSDB Hours/Positions					*1,850*	*1,850*	*1*	
Total Hours/Positions					**1,850**	**1,850**	**1**	

*Perm or LT Position - Divide total hours by 1,850
*PI or Temp Help - Divide total hours by 1,500

Rounded Total   1.00

2021-22 BCP Workload Measures Template

Enterprise Data Revenue Project - Phase 2 (EDR2) BCP

Workload Measures	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Security Operations Section Volumes											
Security Audit Logging - Requirements (Volumes)	200	200	200	200	200	200	500	500	500	500	500
Security Audit Logging - Testing (Volumes)	200	200	200	200	200	200	400	400	400	400	400
Security Audit Logging - Validation (Volumes)	200	200	200	200	200	200	250	250	250	250	250