

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 07/23)

Fiscal Year 2025-26	Business Unit Number 7730	Department Franchise Tax Board
Hyperion Budget Request Name 7730-005-BCP-2025-GB		Relevant Program or Subprogram 6280/6290/6295/6305

Budget Request Title

Mainframe Storage Hardware/Software Refresh

Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of \$2,973,000; \$2,879,000 General Fund and \$94,000 Special Funds in Fiscal Year (FY) 2025-26; \$2,973,000; \$2,879,000 General Fund and \$94,000 Special Funds in FY 2026-27; and \$75,000; \$73,000 General Fund and \$2,000 Special Funds in FYs 2027-28 and 2028-29, to refresh FTB's mainframe storage hardware and software components approaching End-of-Life (EOL). These components provide the infrastructure needed to store and backup mission-critical information for current business processing as well as recovery in the event of a disaster or ransomware attack.

Requires Legislation (submit required legislation with the BCP) <input type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language <input checked="" type="checkbox"/> N/A	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.

Project No. _____ **Project Approval Document:** _____
Approval Date: _____ **Total Project Cost:** _____

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	Date	Reviewed By	Date
Department Director	Date	Agency Secretary	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

Principal Program Budget Analyst	Date submitted to the Legislature
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A. Problem Statement

The Franchise Tax Board (FTB)'s mainframe storage hardware and software components are approaching End-of-Life (EOL) and must be refreshed. When a component reaches EOL, significant risks present as there is no guarantee that components or parts can be repaired or replaced. Technical support is limited or not available at all, and security patches and software/firmware upgrades are no longer available.

The Mainframe Enterprise Tape Library (MF ETL) and Direct Access Storage Device (DASD) provide the storage infrastructure that is essential to FTB's multiple mission-critical tax and non-tax applications that support its filing, collections, audit, and non-filer processes as well as web self-services. These applications have a substantial dependency on the data that resides within the MF ETL and DASD and, therefore, rely on the storage environment having sufficient capacity to support the efficient, effective, and secure operations.

This environment also allows FTB to adhere to IRS Publication 1075, Tax Information Security Guidelines for Federal, State and Local Agencies, that ensures continuous safeguards and protection of confidential Federal Tax Information (FTI) are in place.

If the MF ETL and DASD are not refreshed before they reach EOL, FTB may not be able to timely process tax returns, payments, and issue tax refunds, may experience failures in systems that house vital and confidential information, may not be able to recover data after a disaster or ransomware attack, and may not be able to provide long-term data retention. These risks may lead to the loss of revenue and critical information, inhibit recovery from an unplanned disruption, and prevent taxpayers from filing their taxes in a timely and accurate manner. Additionally, FTB could be at risk of a security breach or data loss when the system is no longer supported by the manufacturer and software security updates are no longer available.

To mitigate risks, FTB requests an augmentation of \$2,973,000; \$2,879,000 General Fund and \$94,000 Special Funds in Fiscal Year (FY) 2025-26; \$2,973,000; \$2,879,000 General Fund and \$94,000 Special Funds in FY 2026-27; and \$75,000; \$73,000 General Fund and \$2,000 Special Funds in FYs 2027-28 and 2028-29 to refresh critical components of both our local systems and our back up recovery systems.

In FY 2019-20, FTB received a one-time augmentation of \$7,194,000 to refresh the MF ETL and DASD for the FTB's primary site and off-site disaster recovery location.

B. Justification

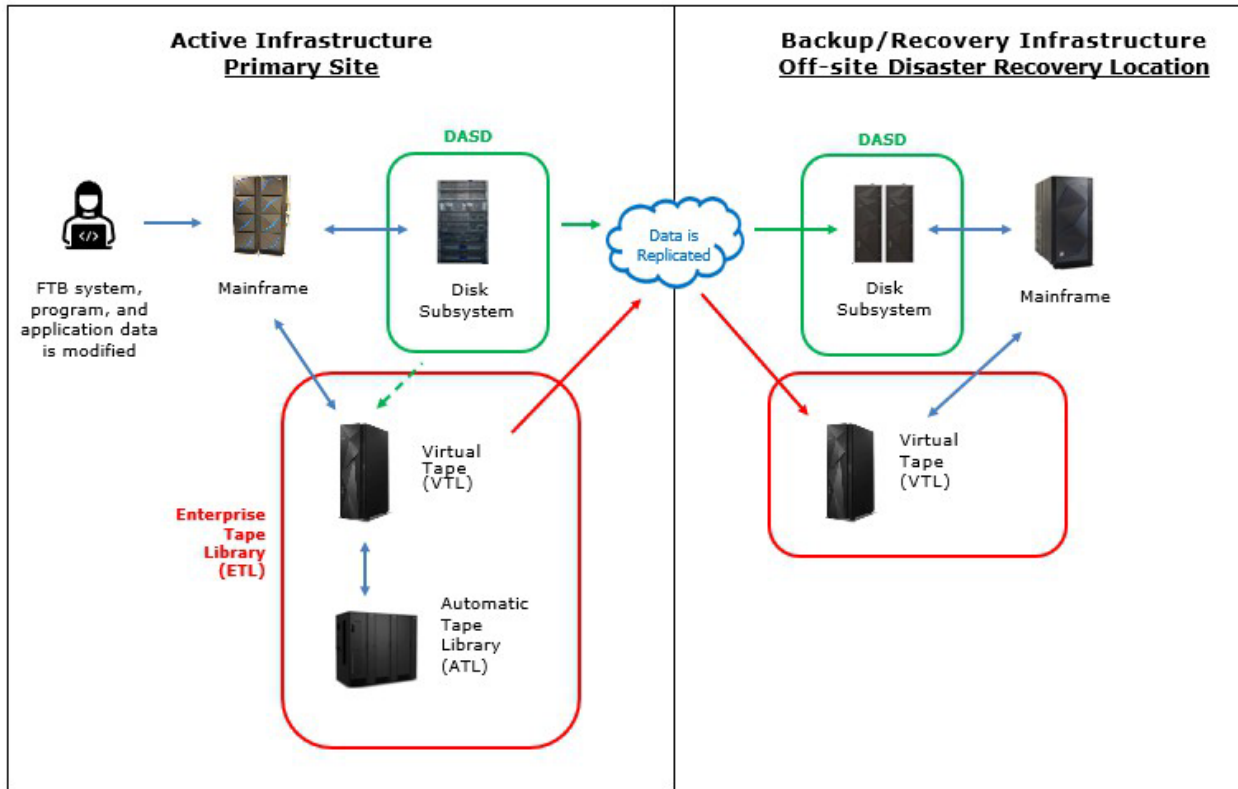
FTB strives to serve the public by continually improving the quality of products and services and performing in a manner warranting the highest degree of public confidence with integrity, efficiency, and fairness.

FTB is responsible for administering the income and franchise tax laws for the State of California. Staff process tax returns and payments, issue refunds to Californian's, conduct audits and filing enforcement actions, collect debts owed the state and support numerous service functions allowing for each of these compliance activities to occur. As a result of FTB's efforts, in FY 2023-24, FTB received more than 23.8 million tax returns and processed more than 9.3 million payments, responded to more than 2.7 million telephone calls, serviced over 55 million internet contacts, and collected about \$162 billion in revenue, representing approximately 78 percent of California's General Fund revenue¹. The General Fund provides funds to maintain and improve necessary services for all Californians across the state, including, but not limited to education, safety and welfare programs, and law enforcement.

¹ Revenue figures are based on the 2023-24 Cash Report reported in the [Department of Finance's July 2024 Finance Bulletin](#).

Figure 1 shows the MF ETL, DASD (referred to as a Disk Subsystem) and other key components that make up FTB's Active and Backup/Recovery Infrastructure. This infrastructure provides the storage, backup, and recovery needed to support FTB's business processes.

Figure 1. FTB Mainframe Storage Hardware



Active Infrastructure (Primary Site)

When information is modified on FTB systems, programs, or applications, the data is updated/processed on the mainframe and then stored on either the DASD, Virtual Tape Library, or both. The DASD allows for quick retrieval of data needed to support and maintain FTB's normal business processing. Nightly, all system and application data residing on the DASD is backed up to the Virtual Tape Library (VTL). The virtual tape volumes are then copied to the Automatic Tape Library (ATL), which provides FTB with long-term protection against ransomware attacks.

The VTL, together with the DASD, serve as the primary storage infrastructure for mission-critical data because of their ability to efficiently process data at high-speed and high-volume which is required to support and maintain FTB's normal business operations.

Backup/Recovery Infrastructure (Off-site Disaster Recovery Location)

When information is modified on the primary site's DASD or VTL during FTB's normal business processing, the data is replicated to the corresponding DASD and VTL components located at FTB's off-site disaster recovery location.

In the event of a ransomware attack or disaster, the off-site DASD creates a working copy of the replicated data, and the off-site mainframe resumes normal business processing. This functionality requires a significant amount of storage capacity to house the data necessary to recover all functions and processes for FTB to resume normal business operations.

Table 1 below shows historical and projected storage used by the MF ETL and DASD.

Table 1. ETL and DASD Storage Used

Usage reported in terabytes.

Component	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
MF ETL	982	1,101	1,156	1,213	1,274	1,338	1,405	1,475
DASD	201	303	349	401	461	531	610	702

Both the MF ETL and DASD support the Tier 0 Critical Function described in FTB's Business Continuity Plan. A Tier 0 Critical Function is the first process restored following an emergency allowing FTB to recover operations as quickly as possible. Therefore, it is critical that these components are refreshed before they reach EOL.

During April 2024, FTB's individual tax filing deadline, FTB's Data Center processed over 116 million transactions and over 157,000 batch application processes. It is essential that FTB maintain adequate storage capacity to efficiently process a large number of transactions, which include processing returns, refunds, and payments.

Manufacturers for FTB's current MF ETL and DASD systems have announced an End-of-Market (EOM) status. As a result, one of the components reached end of life in June 2024 and three components will be reaching end of life in May and June of 2025. In the short-term risks have been mitigated with the vendor's agreement to extend support until the new components are implemented.

Component	End-of-Life
DASD (off-site Disaster Recovery Site)	June 2024
DASD (Primary site)	May 2025
VTL (Both Sites)	May 2025
ATL (Primary site)	June 2025

Refreshing the MF ETL and DASD ensures FTB's ability to provide a processing infrastructure with sufficient data storage capacity to support the on-going and peak revenue-generating workloads, provide maximum performance, and provide enhanced security features for taxpayer information and systems. This planned refresh mitigates the EOM, EOL, and capacity and performance limitation risks associated with the existing storage hardware.

Purchasing these critical hardware and software components allow FTB to maintain current and future mainframe storage needs, backup, and recovery of data, and mitigate risks associated with running a system past its EOM and EOL dates.

The mainframe hardware and software costs for the next five years include the following:

Component	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Hardware	\$5,515,000	\$0	\$0	\$0	\$0
Hardware Support	\$2,237,000	\$0	\$0	\$0	\$0
Software	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Professional Services	\$270,000	\$0	\$0	\$0	\$0
Tax	\$427,000	\$0	\$0	\$0	\$0
Total	\$8,524,000	\$75,000	\$75,000	\$75,000	\$75,000

FTB is working with the Department of General Services (DGS) to execute a loan agreement to finance the costs of the hardware and software components over a three-year loan term. Below is a breakdown of the items that can be included in the loan and the estimated loan repayment schedule based on an annual interest rate of 5.250%.

Component	Amount
Hardware	\$5,515,000
Hardware Support	\$2,237,000
Software (1 year Subscription)	\$75,000
Professional Services	\$270,000
Bond Counsel Fee	\$18,000
Total Loan Amount	\$8,115,000

Fiscal Year	Payment	Interest	Principal	Balance
2024-25	\$2,898,000	\$255,000	\$2,643,000	\$5,472,000
2025-26	\$2,898,000	\$173,000	\$2,725,000	\$2,747,000
2026-27	\$2,898,000	\$151,000	\$2,747,000	\$0
Total	\$8,693,000	\$578,000	\$8,115,000	\$0

FTB is committed to self-funding the first loan repayment and sales tax in FY 2024-25 but the ability to self-fund for the outgoing years is not feasible absent modifications to our operations. Therefore, FTB is requesting a budget augmentation to fund the second and third loan repayments plus the annual \$75,000 costs for software. FTB's funding request is summarized in the table below:

Fiscal Year	Loan Repayment	Software	Total Request
2025-26	\$2,898,000	\$75,000	\$2,973,000
2026-27	\$2,898,000	\$75,000	\$2,973,000
2027-28	\$0	\$75,000	\$75,000
2028-29	\$0	\$75,000	\$75,000
Total	\$5,796,000	\$300,000	\$6,096,000

The primary function of the FTB is to administer the Revenue and Taxation Code (R&TC). Tax policy is determined by tax laws enacted by the Legislature, and it is FTB's duty to correctly apply the laws and to perform in a fair and impartial manner. The California Taxpayer's Bill of Rights Act codified many existing FTB procedures, established a Taxpayer's Rights Advocate, and clarified rights for all California taxpayers and FTB's obligations to the taxpayers. The policies and principles guiding FTB ensures the R&TC will be administered with fairness and equity for all California taxpayers. As a result, for this proposal, FTB is not aware of any equity issues this proposal addresses or that this proposal would result in un-equitable impacts.

C. Departmentwide and Statewide Considerations

FTB's administration of California's income tax laws are facilitated by a committed focus to fulfilling FTB's Strategic Plan. Within the Strategic Plan, FTB's Mission is "to help taxpayers file timely and accurate tax returns and pay the correct amount to fund services important to Californians." To accomplish this mission, FTB established four Strategic Goals and Strategies, and has proven successful by considering them while maintaining its Foundational Principles and values. FTB's mainframe infrastructure is essential in supporting many of FTB's transactions and services and this proposal aligns with two of FTB's Strategic Goals.

Goal #1: Exceptional Service states that FTB will “Strive to continuously enhance our customers' experience.” FTB uses state of the art technology to leverage the data that it collects, generates, and stores to administer its tax and collection processes effectively, which results in more efficient operations, better customer service, and higher levels of transparency. The mainframe storage infrastructure is essential to the department's mission-critical applications, including systems that support our filing, collections, audit, non-filer processes, and web self-services.

Goal #4: Operational Excellence states that FTB will “Optimize our processes, products, services, and resources to better serve our internal and external stakeholders.” FTB's systems and applications have a substantial dependency on data that resides within the MF ETL and DASD and rely on the mainframe storage environment having sufficient storage capacity to support the efficient, effective, and secure operation of the systems and applications.

The mainframe storage infrastructure is essential to the department's mission-critical applications, including systems that support our filing, collections, audit, non-filer processes, and web self-services. Additionally, the MF ETL stores data from external sources, such as data from the Department of Motor Vehicles and the Internal Revenue Service, which is used for compliance.

It is vital to support and keep pace with FTB's growing technologies, programs, applications, and information systems. By replacing equipment at the appropriate time, FTB avoids equipment failures and any associated data loss that could burden California with additional outlays and place FTB's mission critical operations at risk. This infrastructure was last refreshed in FY 2019-20. Both technology and business needs have evolved significantly since then. The security and availability of current, state-of-the-art infrastructure ensures that FTB can provide sound, stable, connectivity to mission critical administrative systems. FTB's infrastructure has increased in size and complexity, and it is critical that the storage for the infrastructure meets the growing needs of FTB's operations. FTB's mainframe storage system is pivotal to providing sufficient storage of information entrusted to the agency.

D. Outcomes and Accountability

This proposal will ensure FTB's mainframe storage infrastructure is refreshed to support the efficient, effective, and secure operation of its critical tax and non-tax systems.

The management of resources received from this proposal will be the responsibility of the Chief Information Officer (CIO) or a delegate. The fiscal oversight of the resources is the responsibility of both the CIO and the Chief Financial Officer.

FTB will continue to carry out its mission in a manner that is fair, equitable and consistent with the California Taxpayer's Bill of Rights Act.

E. Implementation Plan

- August 2024 - October 2024: Complete procurement process and award contract.
- October 2024 – April 2025: Procure financing and execute loan agreement.
- November 2024 - February 2025: Install MF ETL, DASD hardware.
- February 2025 - March 2025: Complete implementation and acceptance testing for MF ETL, DASD hardware
- April 2025: Production Implementation
- July 2025: Receive funding for loan repayments.

F. Supplemental Information (If Applicable)

None.

Pending Board Approval