

**State of California
Franchise Tax Board**

Enterprise Data to Revenue Phase 2

**Special Project Report 3
(Maintenance and Operations Plan)**

7730-209

August 2025

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1.0 Executive Project Approval Transmittal

See attached file.

2.0 Information Technology: Project Summary Package

See attached file.

3.0 Proposed Project Change

3.1 Project Background/Summary

FTB's workloads consist of seven key Business Systems of Work (BSOWs): Return Filing, Return Validation, Filing Enforcement (FE), Audit/Legal, Underpayment, Payment, and Overpayment (Refunds). In 2007, FTB's Tax Systems Modernization (TSM) Bureau undertook an extensive effort to perform a Business Problem Analysis (BPA). The BPA consisted of enterprise strategic planning for the FTB Tax Systems IT Strategic Plan (ITSP). The BPA targeted FTB's BSOWs, specifically analyzing Return Filing, Return Validation, FE, Audit, and Underpayment with an overall objective to align FTB's goals and strategies with initiatives designed to deliver breakthrough improvements at both the enterprise and BSOW levels. The BPA clarified, defined, and detailed FTB's Strategic Goals and defined the Enterprise Vision reconciled against the vision plans of the Filing, Audit, and Underpayment business areas. In addition, the BPA defined the Strategic Business Problems (SBPs) faced by the business areas that are obstacles to achieving the Enterprise Vision and identified opportunities for solving the problems.

The Strategic Business Plan, business goals, and visions developed by the business areas were used to identify the SBPs. The BPA not only defined and highlighted business problems but illuminated strategies and opportunities to enable the business areas to achieve their visions and goals more efficiently and effectively. With validation from both the business and technology stakeholders, the SBPs produced a business focus intent on establishing a clear and comprehensive business vision to increase revenue through managing the tax gap (the difference between the amount of tax owed and the amount of tax paid), by improving and streamlining processes, reducing waste, minimizing redundancy, and reducing technology maintenance and operations costs. The BPA facilitated the formulation of a strategic IT portfolio that included a three-phased TSM effort to modernize FTB's systems environment and reach its strategic target architecture.

In 2017, a second Business Process Analysis (BPA2) was conducted to:

- Validate and refresh the previously identified business opportunities in the first BPA, with emphasis on those opportunities not implemented with Phase 1 of the TSM effort: Audit, FE, & Underpayment.
- Identify new business opportunities with emphasis on technology advancements since the first BPA in 2007.

- Gauge overall progress towards the technology target architecture.
- Facilitate a process to help FTB understand the benefits, outcomes, and impacts of the business opportunities identified for Phase 2 of the TSM effort.

Phase 1 of the TSM effort consisted of the Enterprise Data to Revenue (EDR) Project and addressed the problems identified in the original BPA for the Return Filing and Return Validation BSOWs (specifically in the application of modeling and case management) and built the foundation for the next two phases of the TSM effort. EDR included Imaging, Data Capture, Case Management, Return Processing, Modeling, Taxpayer Folder, and MyFTB. EDR resulted in an enterprise data, modeling, and case management platform and infrastructure with common services that can be expanded to other enterprise workloads. With the successful completion of EDR in 2016, Phase 1 of the TSM effort was complete.

The Enterprise Data to Revenue Phase 2 (EDR2) project constitutes the second phase of the TSM effort. This project as proposed builds on the enterprise data, modeling, and case management platform and infrastructure provided by EDR by expanding enterprise case management and modeling to Audit and Legal, Filing Enforcement, and Underpayment BSOWs. EDR2 expands the functionality for Taxpayer Folder and MyFTB and will allow FTB to decommission multiple legacy systems.

3.2 Project Status

As of the May 2025 reporting period, EDR2 overall project health is Green, and the overall project completion is 89%. As of this reporting period, \$488,009,126 (62.2%) of the total project cost (\$784,478,283) has been spent.

3.3 Reason for Proposed Change

As of May 31, 2025, EDR2 is 89% complete and is finishing the last year of implementation. The project is approaching the warranty period, making a critical transition from active development to maturing the implemented functionality and handing off the operational support to FTB staff. This phase requires targeted updates to staffing, infrastructure, and support contracts to ensure a successful transition into Maintenance and Operations (M&O) and to ensure the resources are in place to provide the needed M&O support. As the project nears completion, an assessment of the on-going needs to perform M&O for EDR2 from FY 26/27 through FY 30/31 has been completed. The proposed changes are necessary for the project to sustain its on-going revenue projections once the state assumes full control of the EDR2 solution.

Key drivers for these proposed changes include:

Technology Services Division

IT Learning & Development Program

- **Chief Technologist Office (PUC 210)**
 - ***Information Technology Manager II – One Permanent Position***

The EDR2 project has increased FTB's Enterprise Tax System (ETS) complexity by transitioning tax compliance functionality to ETS from siloed systems. In addition, ETS is hosted on a large number of key software and hardware components produced and supported by different manufacturers. The manufacturers of these key components frequently introduce new features and capabilities in their products, increasing the need for staff to continually acquire new knowledge and skills to leverage these new features and capabilities. Thus, an approach that considers both the complexity of ETS and the rate at which new software and hardware features are released, is needed to effectively upskill staff to support the ETS.

The Chief Technologist Office is requesting an Information Technology Manager II (ITM II) to develop a holistic approach and program to upskill staff and leadership to ensure knowledge and skills are acquired to meet the continual needs of the ETS.

The ITM II will operate as director of FTB's IT Learning & Development (ITL&D) Program—FTB's solution to strengthen and upskill technical staff and leadership. As ITL&D Director, the ITM II will formulate, design, and execute TSD's long-range IT professional development program. In addition, the ITL&D Director will oversee all aspects of IT employee learning and development to ensure the program aligns with enterprise and IT business and strategic goals, supports IT leadership and staff development, and creates a culture of continuous learning to support the evolving technologies on which the ETS is built. The ITL&D Director's span of control extends across 1100+ technology staff and leadership.

Failure to establish this position could lead to a lack of ETS system quality, availability, and/or stability, impede growth of IT staff and leadership required to align with IT strategy, and potentially impact IT staff's ability to meet IT security standards required for external data sharing and data security.

Enterprise Architecture

- **Chief Technology Office: Enterprise Architecture Office (PUC 213)**
 - ***Information Technology Specialist II to Information Technology Specialist III – One Permanent Upgrade***

Enterprise Architecture (EA) provides strategic plans, frameworks, models, standards, and roadmaps to guide FTB's staff and vendors toward FTB's best and most fiscally prudent business and technological future in support of FTB's mission. EA also provides an essential oversight role to ensure proposed IT solutions leverage existing technology

investments and do not introduce unnecessary technical complexity that negatively impacts long-term maintenance costs and resource needs, system uptime, and availability.

The Enterprise Architecture Office requests funding to support an upgrade of an Information Technology Specialist II to an Information Technology Specialist III due to increase in complexity of FTB's existing and future state architecture to migrate to Cloud technology.

Failure to establish this upgraded position could lead to a fragmented, inconsistent, and ultimately ineffective migration of a key component of the ETS to the cloud. It may also jeopardize the EAO's ability to provide expert and strategic guidance to the enterprise on how to undertake a deliberate, informed migration of a mission-critical tax system to a new computing paradigm.

Enterprise Tax System Support

- **Development Bureau**
 - ***Integration Tax System Services Section (PUC 232):***
 - ***Information Technology Specialist I to Information Technology Specialist II – One Permanent Upgrade***

The Integrated System Services Section is requesting funding to support an upgrade of an Information Technology Specialist I to an Information Technology Specialist II. The Information Technology Specialist II will be the subject matter expert on the interdependencies and integration of ETS with legacy systems and technical services required to support audit, collections, and filing enforcement workflow processing. This upgraded position will be instrumental in driving performance improvements and automation to ensure ETS is robust, stable, and able to meet or exceed peak performance demands. The Information Technology Specialist II will be responsible for proactively monitoring ETS performance, performing root cause analysis when system issues arise, and coordinating with other IT subject matter experts to resolve system issues and maintain optimal stability and availability of audit, collections, and filing enforcement workflows in ETS.

New Self-Services

- **Development Bureau**
 - ***Web & CCP Applications Development Section (PUC 250):***
 - ***Information Technology Specialist I to Information Technology Specialist II – One Permanent Upgrade***

The EDR2 project will introduce new self-service capabilities to taxpayers. The Web & CCP Applications sections will be responsible for maintaining, supporting, and managing the following four new self-service applications; 1) Business Entity Exempt

Organization, 2) Personal Income Tax Offer in Compromise, 3) Business Entity Offer in Compromise, and 4) PIT Innocent Joint Filer.

The Web & CCP Applications Development section is requesting one Information Technology Specialist I position and funding to support an upgrade of an existing Information Technology Specialist I to an Information Technology Specialist II to maintain and support the new self-service capabilities.

These staff will ensure the four new self-services are aligned with business requirements and objectives and are compliant with federal and state tax law and mandates, so taxpayers can leverage FTB's services easily with confidence in the services' reliability and accuracy.

The IT Specialist I will perform a variety of technical tasks including high and low-level solution design, coding, unit testing, configuration management, performing technical software upgrades, developing solutions, documenting technical specifications, documenting unit test cases and results to comply with IRS and state policies, resolving self-service production issues, and deploying changes to FTB's website in a seamless and safe manner.

An Information Technology Specialist II is needed to support the ongoing software architecture design, coding, and integration of the new compliance self-service capabilities. This position serves as an advanced level programming resource to ensure these complex services are reliable, perform highly, and are highly available, and ensure that deliverables adhere to departmental guidelines, including architecture, security, accessibility, and usability, and will be responsible for architecting design changes to the MyFTB Application, its dependent web services, and supporting services that launch other applications.

If these requests are not approved, vendor services would be required to support the new self-services beyond project implementation at a higher annual cost of \$320,000 to the state. Otherwise, FTB would have to delay tax-year related changes, legislative changes, optimization, and other maintenance which will impact taxpayer satisfaction with FTB's self-services which will negatively impact FTB's ability to provide self-services to assist taxpayers in meeting their tax obligations and increase taxpayer frustration and complaints. This would also result in more contacts via contact center platforms and/or correspondence, which will require more costly manual support from program staff, that could otherwise be processed through automated self-services.

Filing Division

- **Filing Compliance Bureau**
 - ***Filing Enforcement Section: (PUC 765)***
 - ***Compliance Representative - One Permanent Position in FY 2026-27***

The Filing Enforcement Section within the Filing Division is responsible for the processes that gather income and business activity information, identify and contact potential non-filers, and issue appropriate assessments to individuals and business entities that fail to comply.

EDR2 will improve data matching, through automated business rules, to allow for the correct data to be used when determining an individual's filing requirement. EDR2 will also yield new data sources from third parties and additional data captured from returns. The new data sources and improvements in matching the data to the correct account will increase the number of non-filer cases.

The position will perform three workloads related to the increase in business entity non-filer cases. The first workload entails processing and responding to correspondence resulting from a request or demand notice issued to taxpayers. Second, staff will conduct quality assurance tasks, which include reviewing cases to determine if a non-filer notice should be mailed. This workload ensures we are not contacting customers erroneously. When a taxpayer receives an erroneous notification, it increases contacts that would otherwise be avoidable and creates frustration for the taxpayer.

In addition, some of the new data (i.e., income records) provided by the EDR2 solution will not be automatically associated with a taxpayer. Therefore, staff will review the unassociated income records and perform a manual web search to associate the income records to the correct taxpayer and determine if a filing requirement exists.

Legal Division

Attorney Supervisor – One permanent position in FY 2027-28

The Legal Division requests an Attorney Supervisor in FY 2027-28 to be added to the Tax Administration & Procedure Unit. Currently, there are three units in this section, each with its own Attorney Supervisor. Due to the additional Attorney III positions that will be added from this proposal, there will be a fourth unit added to this section. The Attorney Supervisor position will oversee this new unit and is needed to prevent a span of control issue due to the additional positions that will be added in this proposal. Authorizing this position ensures the Attorney Supervisor will train and develop staff, as well as assess the effectiveness of employees. The addition of an Attorney Supervisor will allow the supervisors in this unit to effectively lead, coach, and support their staff while maintaining an appropriate supervisor to staff ratio.

IT Asset Transition - \$30,000,000

Per the EDR2 contract, the Solution Partners (SP) hold title to the hardware and software entitlements they have procured. By the end of the EDR2 project, all hardware and software titles held by the SP need to transition to FTB to ensure the stability and availability of the EDR2 solution. Starting in FY25/26, FTB began to transition a portion of the software entitlements from the SP. The remaining hardware titles and software

entitlements will transition in FY26/27 with the completion of the EDR2 project's Warranty Period on 12/31/2026. The IT asset transition requires collaboration with the SP, hardware and software manufacturers, and state approved reseller to ensure the seamless transfer of existing software licenses and entitlements to FTB. The transition process focuses on four key IT asset categories: productivity software solutions, server software solutions, hardware, and cloud connectivity.

Beginning in FY26/27, FTB requests \$30 million per year to fund these critical costs. In addition, FTB seeks approval to submit Planning Estimate Adjustments beginning in FY29/30 to address ongoing refresh cost and price increases. The table below shows the estimated funding need by fiscal years for the EDR2 IT assets, based on current government pricing. The \$30 million annual funding request is the average projected funding need for the fiscal years in the table below. The variation in funding need by fiscal year is due to an assumed 7% inflation rate for software costs and the 5-year hardware refresh cycle.

<i>IT Asset Transition</i>	<i>FY 26/27</i>	<i>FY 27/28</i>	<i>FY 28/29</i>	<i>FY 29/30</i>	<i>FY 30/31</i>
<i>Software Refresh</i>	\$20,358,759	\$21,783,767	\$23,308,526	\$24,940,018	\$26,685,714
<i>Software Maintenance</i>	\$3,649,359	\$4,104,145	\$4,391,436	\$4,698,836	\$5,027,755
<i>Hardware Refresh</i>	\$1,287,348	\$1,754,927	\$-	\$844,700	\$-
<i>Hardware Maintenance</i>	\$876,719	\$907,973	\$861,177	\$1,124,408	\$1,042,024
<i>Cloud Connectivity</i>	\$961,620	\$1,028,933	\$1,100,959	\$1,178,026	\$1,260,488
<i>Total</i>	<i>\$27,133,805</i>	<i>\$29,579,745</i>	<i>\$29,662,098</i>	<i>\$32,785,988</i>	<i>\$34,015,981</i>

Without funding, FTB runs the risk of legal action from software manufacturers if FTB continues to use the EDR2 software without establishing service agreements. In addition, FTB would not be able to safeguard taxpayer information, because FTB would not receive software security patches from software manufacturers, which may lead to a degradation in FTB's security posture, system breach and/or prevent FTB from receiving FTI data. Furthermore, ETS stability and availability may be compromised, because FTB would not be able to leverage the manufacturers' product expertise to resolve outages which may lead to a delay or loss in tax revenue. If FTB is unable to replace the aging ETS hardware, there is a risk that these items may fail as they age and impact FTB's revenue-generating compliance capabilities. By replacing ETS hardware at the appropriate time, FTB will avoid costly hardware failures which could result in staff productivity, revenue, and data loss.

California Department of Technology's (CDT) Gov Cloud Services - \$1,260,000

The EDR2 Project will leverage Microsoft Azure government cloud Infrastructure-as-a-Service (IaaS) to deploy new, key technologies into development and test environments. This measured approach minimizes risk to production workloads while allowing FTB to take advantage of IaaS features.

FTB requests \$1,230,000 in FY26/27 to fund the continued utilization of the interagency agreement with CDT for Microsoft Azure IaaS services. For subsequent fiscal years, FTB requests a 7% increase in funding from the prior fiscal year to accommodate rate increases due to inflation. The funding need by fiscal year is shown in the table below. With the interagency agreement with CDT, FTB can leverage pre-negotiated, lower rates for cloud services and fulfill its contractual obligation to the SP. If this request is not funded, FTB will not be able to meet its contractual obligation, fully capitalize on the “Cloud” ready technology implemented by the EDR2 Project and elevate development and test environment contention during peak phases.

Fiscal Year	FY 26/27	FY 27/28	FY 28/29	FY 29/30	FY 30/31
Cloud Services	\$1,260,000	\$1,349,000	\$1,443,000	\$1,544,000	\$1,652,000

Exercise Contract M&O Option - \$11,157,900

The final EDR2 deliverable is scheduled to be implemented on January 20, 2026, after which the EDR2 Warranty Period begins, concluding on December 31, 2026. By the end of the EDR2 Warranty Period, the SP will fulfill their contractual obligations and can roll off the EDR2 project. The EDR2 contract includes provisions allowing FTB the flexibility to exercise four different M&O options to have the SP provide M&O services for one year beginning on January 1, 2027. FTB can exercise these M&O options annually for up to five years. These are the four different M&O options available:

- A. Maintenance Option – This option provides 65,000 hours of SP capacity to mature and maintain the EDR2 functionality.
- B. Operations Option – This option provides SP services to run, operate, and monitor the EDR2 Solution.
- C. Software License Support Option – This option provides SP services to acquire and manage all required EDR2 software and hardware components.
- D. Total M&O Option – This option includes all the SP services from the above three M&O Options.

FTB requests to exercise the first year of the optional five-year Maintenance Option available in the EDR2 contract. The Maintenance Option will provide FTB with 65,000 hours of SP capacity, which equates to thirty-three full-time equivalents, for one year to support EDR2 functionality. This option will provide the necessary capacity to optimize EDR2 functionality in support of critical FTB tax compliance functions. The costs for the Maintenance Option will span two fiscal years as follows:

FY26/27 (\$5,578,950)

January 1, 2027, to June 30, 2027: $\$11,157,900/2 = \$5,578,950$

FY27/28 (\$5,578,950)

July 1, 2027, to December 31, 2027: $\$11,157,900/2 = \$5,578,950$

Case Management Cloud Migration Professional Services - \$4,000,000

The foundation for FTB's tax modernization effort was built on a Case Management (CM) platform developed by Pega Systems.

In February 2024, Pega Systems released their list of supported infrastructure components for their (then) next major release: Pega Infinity '24. It showed that the application server and database software utilized by FTB's CM implementation will not be supported after September 2027. The list also shows that FTB's current CM deployment model, which relies on deploying CM to a traditional application server, will no longer be supported by September 2028. Pega Systems is standardizing their deployment model on Cloud-friendly application container-based deployments. These changes to supported infrastructure components and the deployment model require FTB to re-design CM's technical architecture to conform with Pega Systems' support model if we are to remain on a supported configuration. Given the scope of these changes, FTB has concluded that the timing is optimal to migrate CM to Pega Systems' cloud offering, Pega Cloud for Government (PCFG).

FTB is requesting one-time funding for Pega Professional Services spanning two fiscal years to assist in making the critical and necessary CM architecture changes and migrating CM to PCFG. Pega Systems is uniquely positioned, as the manufacturer of the technology platform underpinning CM and the operator of PCFG, to assist FTB in transitioning the mission-critical workloads processed through CM. The funding request breakdown by fiscal year is as follows:

- FY26/27 (\$3,000,000)
- FY27/28 (\$1,000,000)

If FTB does not receive this additional funding, the CM infrastructure in FTB CM will not be supported after September 2027, which may jeopardize FTB's mission critical operations and negatively impact FTB's revenue-generating capabilities. In addition, efforts to migrate FTB's CM to PCFG will fall solely on FTB staff with existing workloads, which would extend the migration timeline and increase the risk of disruption to FTB's mission-critical workloads.

Splunk Cloud Migration Professional Services - \$153,000

As FTB continues to increase its utilization of cloud services with multiple cloud tenants (Microsoft Azure and Amazon Web Services (AWS)), the current on-premises Splunk implementation to capture and ingest network security logs will not be able to meet

FTB's security needs as FTB's infrastructure continues to migrate into the cloud and the volume of network security logs increases. Transitioning the on-premises Splunk implementation to Splunk Cloud is essential for FTB to continue to have a strong security posture to prevent, detect, and respond to cyber threats. Splunk Cloud's inherent scalability and flexibility are critical features that will allow FTB to effectively monitor network activity to and from Azure and AWS. In addition, Splunk Cloud's optimized infrastructure and architecture will deliver faster search performance and reduce latency in detecting cyber threats. FTB will also benefit from being able to immediately access Splunk Cloud's latest features including advanced analytics, machine learning capabilities, and seamless integration with cloud services.

FTB is requesting a one-time funding for Splunk Professional Services in FY26/27 to migrate FTB's on-premises Splunk implementation into Splunk Cloud. Ongoing Cloud Services costs are included in IT Asset Transition Software request.

3.4 Proposed Project Change

The total project cost in this SPR3 is \$839,020,615, up from \$784,478,283 approved in SPR2. The net increase in total project cost is \$54,542,332, as reflected in the revised FAWs attached below.

3.4.1 Accessibility

The development of the applicable information technology (IT) product(s) or service(s) required by FTB will meet Government Code 7405 applying Section 508 of the Rehabilitation Act of 1973 as amended. Section 508 encompasses Web Content Accessibility Guidelines (WCAG) 2.0; however, the EDR2 contract states that the proposed system will meet the latest WCAG guidelines, version 2.1. FTB's Accessibility Policy GPM 7015 should be adhered to as well.

3.4.2 Impact of Proposed Change on the Project

To avoid interruptions to FTB's current business processes, prevent negative impacts to taxpayers, and ensure the continued success of the EDR2 solution as it enters the warranty period, the changes listed above must be implemented proactively. Without them, the project risks jeopardizing the organization's mission-critical tax compliance operations, revenue generating capabilities, compromising the security and privacy of sensitive taxpayer data, degradation of FTB's security posture through unpatched vulnerabilities and potential system breaches, legal action from software manufacturers, costly hardware failures resulting in staff productivity loss and data loss, and ultimately facing severe public criticism, media scrutiny, and loss of public and stakeholder trust due to system instability, unavailability, and failure to meet core business functions.

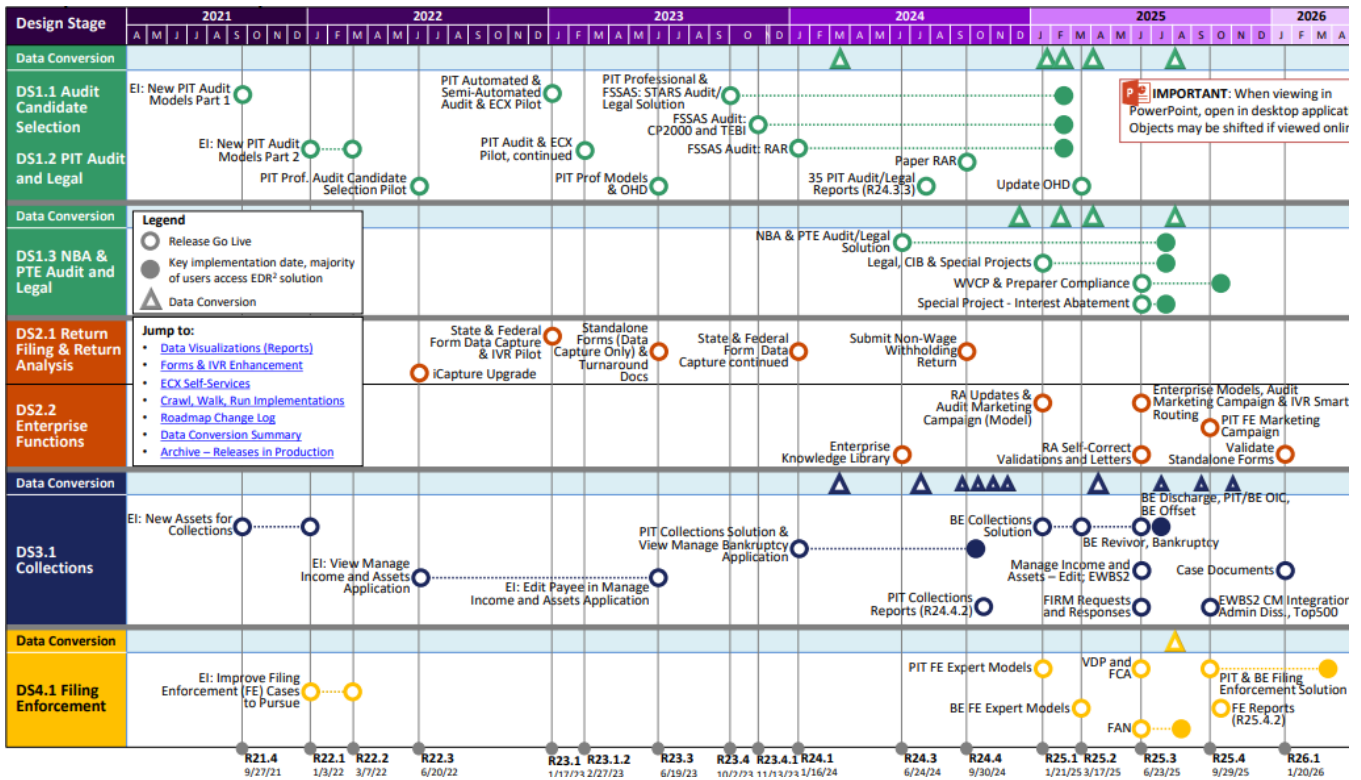
The proposed staffing, infrastructure, and support updates will enhance system reliability during peak tax seasons, optimize taxpayer self-service application performance, ensure seamless Case Management system modernization, strengthen security posture through proactive patch management, enable cloud migration

initiatives, maximize hardware performance and longevity, boost system performance under expanded compliance workloads, advance staff expertise in leveraging evolving technologies, stabilize production performance, and ensure that warranty period operations are equipped to support expanded usage and external integration. These actions will help maintain business continuity and preserve public trust while positioning the system for a future smooth transition into long-term Maintenance and Operation (M&O).

3.4.3 Feasible Alternatives Considered

There are no other feasible alternatives that would allow EDR2 to meet its objectives and requirements. The proposed project change is necessary to achieve successful implementation as planned and maintain and operate the solution in the future.

3.4.4 Implementation Plan



4.0 Updated Project Management Plan

No change to Risk Management Plan

5.0 Updated Risk Management Plan

No change to Risk Management Plan

6.0 Updated Financial Analysis Worksheets (FAWs)

1. FAWs from the original S4PRA



S4PRA EDR2 FAW for
CDT.xlsx

2. FAWs from the most recent SPR (if any)



SPR2 EDR2 FAW for
CDT.xlsx

3. FAWs for the Proposed Change



SPR3 EDR2 FAW for
CDT.xlsx

7.0 Attachments

- Executive Approval Transmittal
- Project Summary Package
- Original FAWs
- SPR2 FAWs
- Proposed SPR3 FAWs

8.0 Appendix 1 – (if any additional information)