

Senate Budget and Fiscal Review—John Laird, Chair

SUBCOMMITTEE NO. 4

Agenda

Senator Melissa Hurtado, Chair
Senator Roger W. Niello, Vice-Chair
Senator Christopher L. Cabaldon
Senator Lola Smallwood-Cuevas



Thursday, March 19, 2026
9:30 a.m. or Upon Adjournment of Session
State Capitol, Room 113

Consultants: Elisa Wynne and Timothy Griffiths

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Public Comment

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ITEMS FOR DISCUSSION

0680 GOVERNOR'S OFFICE OF SERVICE & COMMUNITY ENGAGEMENT (GO-SERVE)

Item 1: Program Updates and Oversight

Issue. The Governor's Office of Service and Community Engagement (GO-Serve) consists of:

- The Office of Community Partnerships and Strategic Communications (OCPSC);
- The Youth Empowerment Commission (YEC); and
- California Volunteers.

GO-Serve itself and each of these programs within it are relatively recent additions to state government operations. Several began as pilot projects with one-time or short-term appropriations and have since been converted into ongoing programs. The Governor's January 2026 Budget does not propose any reductions or other changes to the existing appropriations for these programs. The purpose of this agenda item is to hear program updates and conduct oversight.

Background.

Office of Community Partnerships and Strategic Communications (OCPSC)

Established in the early 2020s, OCPSC "manages the State's highest priority community engagement and public awareness efforts." More specifically, OCPSC conducts public messaging campaigns related to COVID-19 vaccination, participation in the Census, accessing earned income tax credits, water conservation, and protection against the dangers of extreme heat. OCPSC's messaging campaigns are designed to operate through partnerships with trusted, culturally and linguistically competent community-based organizations. Originally, OCPSC's funding consisted of a \$65 million annual General Fund appropriation through 2025-26. Of that total, \$15 million went to administration and statewide programming, while OCPSC distributed the remaining \$50 million as grants to the community-based organizations with which it partnered. However, the 2024 Budget Act significantly scaled back the grant program to help address the state deficit. Nevertheless, OCPSC reports that between May of 2023 and late 2025, its public messages reached nearly 40 million people in 53 languages while investing \$66 million in 164 different community-based organizations. Separately, the 2025 Budget Act included a \$5 million one-time General Fund appropriation to GO-Serve to operate a new "Belonging Campaign" to "identify pathways to social connectedness and engagement."

Key Questions Regarding OCPSC: As it conducts oversight over OCPSC, the Subcommittee may wish to consider some of the following lines of inquiry:

- Given that the next census takes place in 2030, drought conditions have eased, and the COVID pandemic has subsided, do OCPSC's messaging campaigns still have the same relevancy and urgency that they had when OCPSC was established?

- What is the status of trusted messenger network grants? Are any grant activities still underway? When will those be finalized? How is OCPSC measuring results in these programs? What results has OCPSC achieved in these programs?
- How has the \$5 million appropriation for the “Belonging Campaign” been spent? What concrete results have been achieved? How are these outcomes measured? What mechanisms are in place to ensure that these state funds are being used as expected?

California Service Corps (CalVolunteers)

CalVolunteers consists of four programs – College Corps, Youth Service Corps, Climate Action Corps, and Americorps California. The first three programs are now entirely state-funded and are detailed below.

College Corps

College Corps provides a cohort of about 4000 students at roughly 50 California colleges and universities with \$10,000 per year in combined scholarships and living allowances. In exchange, the students carry out 450 hours of service at organizations in their communities. Additional College Corps elements include cohort gatherings, mentoring, professional development, access to an alumni network, and, in some cases, academic credit. To be eligible for College Corps, students must attend a participating school, which includes a mixture of UC campuses, CSUs, community colleges, and a handful of private institutions. Successful applicants must also demonstrate some financial need, as shown by (1) qualifying for a Pell Grant, Cal Grant, or Middle Class Scholarship; (2) having to work part time to pay for college; or (3) having to take out student loans. College Corps began as a pilot program pursuant to the 2021 Budget Act. It operated with limited term state General Fund appropriations until this year, and is slated to become permanent beginning in 2026-27 through an ongoing General Fund appropriation of \$84 million annually.

Legislative Analyst’s Commentary: While expanding College Corps and making it an ongoing program were under consideration in 2025, the LAO questioned the wisdom of the investment, citing high administrative costs and the existence of equivalent programs operating at lower costs.

Key Questions Regarding College Corps: As it conducts oversight into College Corps, the Subcommittee may wish to consider some of the following lines of inquiry:

- What size is the current cohort and how many campuses are now participating? Last year’s budget augmentation was intended to add 10 new campuses and 500 students to the program. Has that been achieved?
- How is the program tracking outcomes? What outcome data has the program obtained so far? How do these outcomes compare with outcomes from the California Dream Act Service Incentive Grant?

- Last year, the program received some criticism from the LAO for its administrative costs, estimated to be about \$45 million out of the \$84 million annual appropriation, though it appears the LAO's calculation included some arguably programmatic expenses like student convening costs. Has the program made any responsive budget adjustments? If so, please describe those changes.

Climate Action Corps

Climate Action Corps places an annual cohort of roughly 400 “climate action fellows” with tribal communities, nonprofits, public agencies and educational institutions where they conduct urban greening, organic waste and edible food recovery, and wildfire resiliency projects. The program pays its fellows a \$33,000 living allowance and offers them job training in addition to a \$10,000 scholarship, among other benefits. The program also operates a shorter, summer fellows program and facilitates climate-related voluntarism more generally. Climate Action Corps began as a pilot program in 2021 and has operated under limited term, \$4.7 million annual General Fund appropriations until this year. Through agreements reached in the 2025 budget negotiation, state funding for the program is set to double in 2026-27 and to become ongoing.

Legislative Analyst's Commentary: When expanding the Climate Action Corps and making it an ongoing program were first under consideration in 2023, the LAO recommended rejecting the proposal, noting that a similar program – the Youth Conservation Corps – already existed and concluding that making Climate Action Corps permanent was premature absent evidence of meaningful results in mitigating the causes and impact of climate change.

Key Questions Regarding Climate Action Corps: As it conducts oversight into the Climate Action Corps, the Subcommittee may wish to consider the following lines of inquiry:

- How is the program tracking outcomes? What outcome data has the program obtained so far? How do those outcomes compare to outcomes from the California Conservation Corps?

Youth Service Corps

The Youth Job Corp program provides structured employment and related wraparound services to high-risk youth, through population-based grants to California's largest cities and competitive grants to other local jurisdictions. The program was established in 2021 as a two-and-a-half year pilot using federal funds. In 2023, the state took over funding the program and made it permanent through an ongoing \$78 million General Fund appropriation.

Legislative Analyst's Commentary: When making the Youth Service Corps (a.k.a. Youth Job Corps) an ongoing, state-funded program was under consideration in 2023, the LAO recommended rejecting the proposal, citing the existence of other youth workforce development programs, the lack of data to assess the success of the pilot phase, and the lost opportunity to spend these funds on other commitments.

Key Questions Regarding Climate Action Corps: As it conducts oversight into the Youth Service Corps, the Subcommittee may wish to consider the following lines of inquiry:

- How many youth positions did this program create last year? How many applicants were not accepted?
- How is the program tracking outcomes? What outcome data has the program obtained so far?

Youth Empowerment Commission (YEC)

AB 46 (Luz Rivas, Ch. 660, Stats. 2021) created the YEC. It consists of thirteen voting commissioners between 14 and 25 years of age and meeting specified requirements, with eleven members appointed by the Governor, one at-large member appointed by the Senate Committee on Rules, and one at-large member appointed by the Speaker of the Assembly, along with several ex-officio, nonvoting members from various geographic regions of the state. The YEC is advisory in nature. Its main purpose is providing meaningful opportunities for civic engagement to improve the quality of life for California's disconnected and disadvantaged youth. GO-Serve receives an annual budget allocation of \$1.5 million to staff the YEC.

Staff Comments: Many of GO-Serve's programs only recently converted from limited-term to ongoing appropriations, thus adding to the state's structural deficit. Tackling that structural deficit could include reducing some of these kinds of ongoing discretionary spending commitments. With that in mind, the Subcommittee may wish to revisit the decision to make several of GO-Serve's programs the subject of ongoing appropriations. Reverting the funding for the CalVolunteers programs back to limited-term appropriations, for example, could enable the state to fulfill its commitment to current program fellows while shaving roughly \$171 million from the structural deficit in out years.

Staff Recommendation. Information only.

0860 BOARD OF EQUALIZATION (BOE)

Item 2: Department Overview BOE

The BOE’s duties primarily include assessing and allocating the property values of railroads and specified utilities and businesses; adjudicating property tax appeals of taxable government owned property; overseeing the property tax assessment practices of the 58 county assessors; adopting rules to clarify property tax laws; and administering the alcoholic beverage excise tax and the insurance tax, including appeals. The BOE contracts with the California Department of Tax and Fee Administration (CDTFA) to administer the Alcoholic Beverage Tax Program and the Insurance Tax Program.

3-YEAR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2024-25	2025-26	2026-27	2024-25*	2025-26*	2026-27*
0570025 County Assessment Standards Program	93.0	107.2	107.2	\$16,745	\$19,281	\$19,498
0570050 State-Assessed Property Program	72.7	83.4	83.4	13,399	15,033	18,280
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	165.7	190.6	190.6	\$30,144	\$34,314	\$37,778
FUNDING		2024-25*		2025-26*		2026-27*
0001 General Fund		\$29,815		\$33,857		\$37,321
0995 Reimbursements		329		457		457
TOTALS, EXPENDITURES, ALL FUNDS		\$30,144		\$34,314		\$37,778

Dollars in Thousands
 Source: Department of Finance

Suggested Questions:

- How does the BOE work to support the 58 Counties in accurately assessing property tax?
- What audit activities does the BOE conduct? What is the process for counties to correct or improve any deficiencies?

Staff Recommendation: Information Only

Item 3: Intergenerational Real Property Transfers (SB 293)

Issue. The Governor’s Budget includes \$154,000 in one-time General Fund for the BOE to complete workload related to the implementation of Senate Bill 293 (Pérez), Chapter 539, Statutes of 2025.

SB 293 amended the requirements for an intergenerational transfer exclusion that would reduce property tax liability, specifically for those homeowners with homes damaged or destroyed in specified 2025 wildfires for a limited time period.

Background. Currently all property is taxable unless explicitly exempted by the Constitution or federal law and the maximum amount of any ad valorem tax on real property is limited to 1% of full cash value, plus any locally-authorized bonded indebtedness, and caps a property’s annual inflationary increase in taxable value to 2%.

Assessors are required to reappraise property whenever it is purchased, newly constructed, or when ownership changes (California Constitution, Article XIII A, as added by Proposition 13, 1978). However there are exclusions for assessment at ownership changes when property is transferred from one generation to the next (Propositions 58 and 193), specifically parents to children or Grandparents to grandchildren if parents are deceased. A transferee must claim the exclusion within six months from the date of a Notice of Supplemental Assessment or Notice of Proposed Escape Assessment to file a timely claim to retroactively apply the exclusion. Proposition 19 in 2020 further narrowed this exclusion requiring the property to have been the primary residence of the person giving the property and to become the primary residence of the person receiving it. The person who inherits the home must move in and claim a homeowners’ or disabled veterans’ exemption within one year of the transfer. An eligible transferee has six months from the date of a Notice of Supplemental Assessment or Notice of Proposed Escape Assessment to file a timely claim to retroactively apply the exclusion, similar to Propositions 58 and 193.

A decedent’s representative is required to let assessors know within 150 days of the death of a property owner and directs assessors to enroll the correct value for the property when discovering unrecorded changes in ownership, and issue appropriate escape assessments for prior years that fall within the statute of limitations, which is eight years for unrecorded changes in ownership.

Senate Bill 293 extended to three years the current six-month deadline from the date of notice for supplemental assessment under Propositions 58, 193, and 19 for taxpayers to apply an intergenerational change in ownership exclusion when all of the following circumstances apply:

- a) The assessor conducts a disaster reassessment as a result of that property being damaged or destroyed by the 2025 Palisades Fire, Eaton Fire, Hurst Fire, Lidia Fire, Sunset Fire, or Woodley Fire, for which the Governor proclaimed a state of emergency.
- b) The assessor issued a supplemental or escape assessment on or after the date of the state of emergency, as a result of a transfer or purchase of real property in which no instrument evidencing a change in ownership of the real property was recorded.

- c) The transferee acquires ownership of the property on or after the date of the state of emergency.

The bill also deems as timely filed a claim for a homeowner's or disabled veteran's exemption if it is filed within a year of the date of mailing of a notice of supplemental or escape assessment issued as a result of the transfer of the real property for which the claim is filed.

The changes in this bill only apply to claims filed before January 1, 2031.

The fiscal analysis of SB 293 at the time of passage estimated costs of approximately \$27,000 in fiscal year 2025-26, \$154,000 in 2026-27, and \$113,000 in 2027-28, with decreasing costs thereafter, to BOE to issue guidance to impacted county assessors, update informational materials, answer public inquiries, and accommodate other administrative workload.

The BOE notes that SB 293 directly affects BOE's property tax oversight responsibilities, creating limited time workload. This workload is related to both actual processing of the additional tax exclusions provided by SB 293, but also the significant workload related to developing and updating guidance and public facing resources, and support of inquiries from and assistance to assessors, taxpayers, stakeholders, and others. The request additional notes that funding would be used for a combination of overtime for current employees and temporary help.

Suggested Questions.

- The fiscal analysis of the bill noted that three years of resources are likely needed, yet the request is for one year of funding. Has the BOE assessed the need for resources and determined some workload is able to be absorbed?
- What types of activities will be covered with overtime and which with temporary help? Is the BOE confident they can find temporary hires to cover the workload?

Staff Recommendation. Hold open.

Item 4: Information Technology Modernization Project

Issue. The Governor’s Budget includes \$3.2 million General Fund in 2026-27 and \$3.1 million in 2027-28 for the State Board of Equalization (BOE) to implement a cloud-based, fully integrated tax administration system to support BOE workload on valuation, assessment, and allocation of property taxes from state-assessed property.

Background. While most property in California is assessed locally by County Assessors, the BOE is required by Article XIII, section 19 of the California Constitution to directly assess certain telephone, gas, electric companies, independent power producers, regulated railroads, and intercounty pipelines throughout the state. These properties are also not subject to Proposition 13 (1978), and BOE must annually determine the property’s fair market value, including improvements, personal property, and land. BOE develops the fair market value by considering market conditions, income generated by the property, replacement costs, investments in the property, regulatory climate, depreciation, and other factors as of the January 1 lien date. Each year, the Board sets the values in May and must adopt the annual State-Assessed Property Roll (Board Roll) in July to transmit the information timely to County Auditors. State-assessed properties are assessed at approximately \$167.2 billion in property value annually resulting in \$2.8 billion in property tax revenues collected by 58 counties.

Since 1996, BOE’s State-Assessed Properties Division (SAPD) has relied on a mainframe system to manage the assessment, valuation, and allocation of property taxes for these specified properties. The BOE notes that the system is over 35 years old and IBM, which originally created the system, no longer supports the system. As a result, the current mainframe system is functionally obsolete and has been near failure in recent years. The system depends heavily on manual data entry, paper-based documentation, and outdated coding practices, which creates even greater risk of human error and causes excessive delays in generating the State Assessment Roll. For example, the current system requires physical printouts for staff to view totals and other amounts because the numbers are not visible on the user interface. SAPD staff spend over 18,000 hours annually entering data manually. Finally, the current system cannot perform basic operations such as property searches, automated data processing, and lacks security functions required for the interactive electronic storage of assessment data. With all these factors, coupled with constitutional and statutory deadlines, SAPD staff must currently redirect time reserved for property tax audits to compensate for the weaknesses in the current mainframe system.

According to the BOE, modernizing SAPD technology through a cloud-based, integrated tax administration platform would ensure annual tax revenue streams for counties but also directly address core operational vulnerabilities, improve staff efficiency, and enhance audit capacity. By replacing the outdated mainframe with a fully automated solution, BOE would eliminate excessive manual workflows, reduce data entry time, and mitigate risks of misallocation or miscalculation in the Board Roll. SAPD’s staff includes professional appraisers and auditor-appraisers who currently spend over half of their time on manual data entry tasks. As a result, SAPD does not currently have the capacity to analyze financial and technical studies, conduct research related to valuation indicators and factors, or evaluate changes in accounting rules and standards. These factors directly contribute to reduced property tax assessment and roll changes, which impact

property tax revenue for school districts and local governments. Additionally, SAPD staff are unable to conduct as many audits as otherwise would be possible. Modernizing BOE's SAPD through technology will redirect professional staff away from data entry tasks and will instead allow them to perform significantly more of the analysis and auditing work they were intended to perform. Historically, audits have impacted the net change value of the assessed properties and provided additional property tax revenue to local government, school districts, and special districts, which depend on these funds.

The implementation will begin in 2026–27 and follow a phased procurement and rollout schedule in alignment with CDT's State Technology Procurement and the PAL framework. According to the planned schedule, the system would be live for use in October 2027.

The BOE projects that the staff time saved by moving to a more functional system will allow staff to significantly increase activities related to state-assessed properties as shown below:

Workload Measure	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Manual Entries - Property Tax Returns - Hours	18,750	18,750	375	375	375	375
Appraisal	18,756	18,757	18,757	18,757	18,757	18,757
Appraisal of Non-Compliant Taxpayers	0	0	4,560	4,560	4,560	4,560
Audits	2,997	2,997	9,000	9,000	9,000	9,000
Financial, Statistical, and Special Studies	8,361	8,361	16,000	16,000	16,000	16,000

Staff Recommendation. Hold open.

7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Item 5: Department Overview - CDTFA

The California Department of Tax and Fee Administration (CDTFA) administers numerous tax and fee programs, including the Sales and Use Tax Program, the Cigarette and Tobacco Products Tax Program, and the Cannabis Taxes Program. The CDTFA also administers the Alcoholic Beverage Tax Program and the Insurance Tax Program pursuant to agreements with the State Board of Equalization (BOE).

CDTFA 2026-27 Proposed Positions and Expenditures

Code	Program	Positions	Dollars*
6275	Administration of the California Department of Tax and Fee Administration	3,884.8	\$744,949
9900100	Administration	373.9	\$66,297
9900200	Administration - Distributed	-	-\$65,880
Totals, Positions and Expenditures (excluding Infrastructure)		4,258.7	\$745,366
Infrastructure Expenditures		-	\$-
Totals, Positions and All Expenditures		4,258.7	\$745,366

*Dollars in Thousands
Source: Department of Finance

Suggested Questions:

- What key trends are there in the collection of sales and use tax over the past few years?
- What types of risk, privacy, or security assessments does the CDTFA conduct when handling taxpayer data?
- How has the workload of CDTFA changed over time?

Staff Recommendation: Information Only

Item 6: Delivery Network Companies Sales Tax Collections

Issue. The Governor’s Budget proposes trailer bill language that would require, starting January 1, 2027, Delivery Network Companies who have at least \$500,000 of sales in California to register as Marketplace Facilitators and collect and remit sales and uses taxes on behalf of businesses using their platforms for sales.

Background. Delivery Network Companies are companies that facilitate orders through a website or mobile app, such as DoorDash or Uber Eats. Marketplace Facilitators are entities that operate or control a physical or electronic marketplace and facilitate the sale of product from third-party sellers. The Marketplace Facilitator Act (AB 147 (Burke), Chapter 5, Statutes of 2019) required Marketplace Facilitators to collect and remit sales and use taxes on behalf of third-party vendors using their site to ensure taxes were collected on sales on Amazon or eBay. Currently, Delivery Network Companies may elect to be considered a Marketplace Facilitator or not.

According to the Department of Finance, of the 45 states who collect sales tax, at least 40 states already require that Delivery Network Companies register as Marketplace Facilitators. The Administration notes that this policy change will increase tax compliance overall and reduce the sales tax compliance burden on small businesses who are using Delivery Network Company platforms, and provides the following estimate of increased General Fund Revenues as a result:

The Department of Finance estimates that the additional compliance resulting from this proposal would increase state and local revenue by \$22.2 million in 2026-27, including \$10 million General Fund, and \$44.4 million per year beginning in 2027-28, including \$20.1 million General Fund. Fiscal year 2026-27, reflects a half-year revenue impact due to the start date of January 1, 2027.

Revenue Increase (\$ in Millions)	2026-27	2027-28	2028-29	2029-30
General Fund	\$10.0	\$20.1	\$20.1	\$20.1
Local Funds	\$12.2	\$24.3	\$24.3	\$24.3
Total	\$22.2	\$44.4	\$44.4	\$44.4

Suggested Questions.

- How were the revenue estimates determined?
- Does this policy change reduce or change workload for CDTFA?
- Concerns have been raised from stakeholders that the way this proposal is structured would apply the tax to “service fees”. Can DOF or CDTFA respond?

Staff Recommendation. Hold open.

Item 7: Sustainable Aviation Fuel Tax Credit

Issue. The Governor’s Budget proposes trailer bill language that would provide a credit against diesel excise tax liability of \$1 to \$2 for every gallon of Sustainable Aviation Fuel (SAF) sold for use in California from 2026 through 2035. Credits can be claimed against diesel excise tax on returns filed on or after November 1, 2027. If the credits exceed liability, the credits can be carried forward for up to five years.

Background.

SAF is a lower-carbon alternative to petroleum-based jet fuel made from renewable non-petroleum feedstocks (such as vegetable oils and waste fats). There are approximately six refineries that currently have the capacity to produce SAF, the largest of which is the Phillips 66 Refinery in Rodeo, California. Researchers estimate that it costs at least three times as much to produce SAF as to produce petroleum jet fuel. Existing incentives to produce SAF include credits in the renewable fuel standard, low carbon fuel standard credits from California and other federal tax credits.

The state Diesel Excise Tax is a \$0.47 per gallon tax producers pay on diesel when it is sold at the wholesale level. Diesel excise tax revenue is distributed to local governments for transportation programs and to state transportation projects. Approximately \$1.6 billion is collected in diesel excise tax annually.

The federal government includes tax credit incentives for SAF. Specifically under the Inflation Reduction Act in 2022, a per gallon tax credit was included of up to \$1.75. In 2025, H.R. 1 reduced that that tax credit, to \$1 per gallon. Some states also offer SAF incentives such as tax credits (Washington, Minnesota, Nebraska, Illinois, and Iowa).

Governor’s Tax Credit Proposal:

In order to qualify for the tax credit, SAF must have a carbon intensity at least 50 percent lower than traditional jet fuel. The tax credit amount is \$1 per gallon for SAF that achieves a 50-percent emissions reduction compared to jet fuel, plus an additional 2 cents per gallon for each additional percentage point of reduction, with a maximum tax credit of \$2 per gallon. The California Air Resources Board will certify and calculate the credit and provide the necessary information to the California Department of Tax and Fee Administration to administer the credit.

These tax credits would apply against diesel excise tax liability. Firms that sell wholesale diesel and SAF would be able to easily claim the credit. Stakeholders indicate that, as proposed, the credit would likely be used in different ways. Firms who only sell SAF may make some financial agreements with those who sell diesel in order to pick up the credit, potentially lowering the value of the subsidy. The credit may also incentivize arrangements that result in the importing of SAF from other states. These incentives could make the impact of the credit difficult to estimate.

According to the Department of Finance, the tax credit is estimated to reduce diesel excise tax revenues by approximately \$165 million per year beginning in 2027-28 if the credit uptake were limited to the in-state SAF producers with diesel tax liability, growing to \$300 million in later years. The DOF did include an estimate if SAF were imported from out of state.

Revenue Decrease (\$ in Millions)	2026-27	2027-28	2028-29	2029-30
Diesel Excise Taxes (State Funding)	\$0	\$88	\$88	\$88
Diesel Excise Taxes (Local Funding)	\$0	\$77	\$77	\$77
Total	\$0	\$165	\$165	\$165

Legislative Analyst’s Office (LAO) Analysis: The Legislative Analyst’s Office reviewed this proposal in their February 2026 report, “*Governor’s Sustainable Aviation Fuel Tax Credit Proposal*”. In their analysis, the LAO notes several concerns:

- The proposal is a relatively expensive approach to decarbonization. When the costs of subsidies needed for SAF are factored in, the costs are far above other approaches to reducing greenhouse gas emissions.
- It makes more sense to focus on cost-effective approaches to reducing greenhouse gas emissions. Supporting more costly approaches could make sense if they help bring new, transformative technologies into the marketplace that substantially bring down long-term costs or achieve other societal benefits (such as reducing local air pollution). However, in our assessment, the Governor’s proposal is not structured to incentivize the development or implementation of novel technologies for SAF production. Instead, it appears more likely to increase in-state use of SAF made from established approaches.
- The environmental benefits of SAF are subject to substantial uncertainty and some research indicates they could be notably smaller than certain estimates suggest. There is possibility that the incentives created could lower the production of renewable diesel and the policy would result in “shuffling,” or replacing one lower carbon fuel with another rather than simply increasing overall use, thus limiting any net environmental benefits.
- The complexity of renewable fuel production and distribution—as well as the overlapping state and federal policies—also create significant uncertainty in estimating the fiscal impact of the Governor’s proposed credit.
- The proposal reduces diesel excise tax revenues and negatively impacts transportation programs. Based on the administration’s near-term estimate of potential foregone diesel excise tax revenues—\$165 million per year beginning in 2027-28, the proposal would result in the following impacts based on the existing statutory allocations of these revenues:
 - *Caltrans*. Annual reduction of \$70 million to Caltrans and its highway maintenance and rehabilitation programs. This reduction would specifically affect Caltrans’ State Highway Operation and Protection Program (SHOPP), which funds rehabilitation, reconstruction, and safety projects on the state highway system.

SHOPP is supported by a combination of state and federal funds and is projected to receive around \$4.4 billion annually—meaning this proposal would result in a reduction of about 2 percent each year.

- *Local Streets and Roads*. Annual reduction of \$49 million to transportation funding that the state provides to cities and counties for work on their local streets and roads. State transportation funding suballocated to cities and counties for these purposes is projected to be around \$3.9 billion annually, meaning this proposal would result in a reduction of about 1 percent each year.
- *TCEP*. Annual reduction of \$46 million to the Trade Corridor Enhancement Program (TCEP). The program is supported by state and federal funds and receives around \$540 million annually, meaning this proposal would result in a reduction of about 9 percent each year.
- Finally, the LAO notes that the proposal deviates from the spirit of the transportation funding approach embraced by voters. Historically, the state has used the revenues from the taxes that road users pay to support activities that benefit those users, such as for the operation, maintenance, and improvement of the state’s surface transportation system. California voters have signaled their support for this general approach by amending the State Constitution to restrict the use of gasoline and diesel fuel tax revenues for streets, highways, and certain mass transit activities. In the LAO’s view, the administration’s proposal instead uses the revenue to subsidize the decarbonization of the aviation sector.

The LAO recommends that the Legislature reject the proposed tax credit, noting the proposal appears to be a relatively expensive approach to reducing greenhouse gasees and may not result in the full anticipated environmental benefits. The LAO also notes that the implementation of the proposed tax credit could have negative implications for transportation funding that could be significant and notes restrictions on the use of diesel tax revenues.

Suggested Questions.

- How did the Administration calculate the fiscal impact for this proposal? What impact will this have on transportation projects and maintenance for the state?
- Can the Administration respond to concerns that the fiscal exposure for transportation funds may be larger than anticipated?

Staff Comments. This proposal will be heard in subcommittee #2 on April 9th to more fully discuss the environmental impacts of the proposal, however, both stakeholder comments and the LAO raise concerns that this proposal would have a meaningful impact on reducing greenhouse gas emissions.

One alternative policy rationale for this proposal that has been raised is to keep refineries open. As of this writing, the Phillips 66’s Rodeo Renewable Energy Complex is the only refinery that staff

are aware of in California that could benefit from this proposal, as Phillips 66 produces both SAF and has sufficient diesel excise tax liability to benefit. The facility has reported hundreds of millions in losses in recent years, and this proposed tax credit could help keep this refinery open. Alternatively, closure of the facility would result in a loss of hundreds of jobs and would have the potential of further destabilizing the oil and gas supply and production in the state. Staff notes that this rationale should also be treated with caution, even if the Legislature approves the proposed tax credit, other factors could influence the company's ultimate decision to either maintain or close the facility, including federal policy changes or economic uncertainty.

If the Legislature moves forward with this or a modified proposal, the fiscal impact of the credits fall on state and local transportation funds across the state. Both the LAO and other stakeholders have noted that the Administration's revenue impact estimate only reflects existing companies and existing operations within California. The fiscal estimate provided by the Administration does not account for a response to the incentive that would increase imports of SAF or other financial arrangements that would allow the credit impact to be much larger. The Legislature may wish to consider ways to limit the potential impact to transportation funds.

Staff Recommendation. Hold open.

Item 8: AB 3218 Flavored Tobacco Products Ban and Unflavored Tobacco List

Issue. The Governor’s Budget includes \$3.8 million in 2026-27, \$3.7 million in 2027-28, \$3.7 million in 2028-29, and \$1.2 million in 2029-30 and ongoing from the Cigarette and Tobacco Products Compliance Fund (Compliance Fund) for enforcement of the requirements of AB 3218 and SB 1230.

Background. California’s existing law, SB 793 (Chapter 34, Statutes of 2020) prohibits tobacco retailers or any of their agents or employees, from selling, offering for sale, or possessing with the intent to sell or offer for sale, a flavored tobacco product or a tobacco product flavor enhancer.

AB 3218 (Chapter 849, Statutes of 2024) and SB 1230 (Chapter 462, Statutes of 2024) provide the authority for CDTFA for inspections, seizure and destruction of flavored tobacco products, imposition of fines and penalties, and other enforcement related activities. The legislation simplified enforcement by deeming any product not on the Unflavored Tobacco List as flavored and requiring the Attorney General to create a UTL to post on their website by December 31, 2025. Implementation of AB 3218 and SB 1230 will impact nearly 30,000 cigarette and tobacco account holders, including retailers, wholesalers, and distributors, and will provide CDTFA with the authority to properly implement and administer the mandate of AB 3218. The hazardous waste destruction component of seizing illegal products is the costliest part of this process. The destruction process involves destroying illegal product, through an external vendor, four times a year at two different warehouses.

CDTFA noted in its analysis of AB 3218, that a combination of lower-than-expected penalty revenues and the contract requirements necessary to destroy the seized products, could create pressure to increase licensing fees or obtain other General Fund support to keep this program operating and the Compliance Fund solvent. As a result, AB 573 (Chapter 269, Statutes of 2025) raises the license fee for selling tobacco products from \$265 to \$450 as of July 1, 2026 and provides CDTFA with additional authority to raise fees in future years. The fiscal analysis of AB 573 notes that CDTFA estimated the increase in licensing fees would generate an additional \$5.5 million in revenue for the Compliance Fund in 2026-27.

The 2025-26 Budget Act approved \$3.5 million one-time from the compliance fund for enforcement activities. CDTFA has since identified workload costs of \$5.8 million in 2026-27, \$5.7 million in 2027-28, \$5.7 million in 2028-29, and \$3.2 million in 2029-30 and ongoing. The \$2 million difference (\$5.8 million less \$3.8 million requested) between identified costs and this funding request will be absorbed by CDTFA via unused existing authority in the Compliance Fund, which also supports the Cigarette and Tobacco Products Licensing Program.

The following information from CDTFA compares the workload history with the projected changes from the additional funding. While the number of licenses is not expected to change, the enforcement activities would increase.

Workload History

Workload Measure	2020-21	2021-22	2022-23	2023-24	2024-25
Number of Licenses	29,079	29,678	29,286	28,959	29,094
Inspections Completed	4,497	7,312	2,628	3,320	2,950
Seizures Completed	378	290	305	458	847
Citations	179	160	85	255	453
Appeals	172	95	60	76	24

Projected Outcomes

Workload Costs	2026-27	2027-28	2028-29
Number of Licenses	29,850	29,850	29,850
Inspections	3,350	3,350	3,350
Seizures	2,350	2,350	1,175
Citations	2,350	2,350	1,175
Appeals	775	775	775

LAO Analysis. The LAO reviewed this proposal in February 2026 in their report “*CDTFA’s Cannabis and Tobacco Programs*”. In their analysis, the LAO covers Issues 8, 9, and 10 in this agenda.

The LAO suggests that the Legislature consider two main questions when considering these proposals:

- How much should CDTFA spend on cannabis and tobacco enforcement?
- Should the state pay for these activities?

Specifically the LAO notes that state faces significant cannabis and tobacco compliance problems. Tobacco compliance has become a larger problem under the flavored tobacco ban. From 2021-22 to 2024-25 tobacco tax revenues dropped 14 percent. This could be due to a drop in actual tobacco consumption and or consumers shifting their purchases from tax-compliant to tax-noncompliant products. The enforcement work of the CDTFA has become more complex and expensive with recent laws such as the flavor ban. Approximately 85 percent of CDTFA’s illegal tobacco product seizures violate the flavor ban. However the Administration’s proposal covers the increased expenses that come with inspections without significantly increasing the number of inspections.

The LAO recommends that the Legislature consider these proposals as part of sustained effort to address the policy challenges. For the Tobacco Licensing Program, the Legislature should consider modifying the proposals to revisit program resources in the 2027 and/or 2028 budget processes:

- Going into 2027, a key question is whether CDTFA can hire and retain enough inspectors to carry out the desired level of enforcement. The Legislature may wish to monitor this issue by scheduling some of the proposed funding to expire after 2026-27, requiring CDTFA to report on vacancies in key areas, or some combination of the two.
- Assembly Bill 573 requires the LAO to publish a report on tobacco retail enforcement by December 1, 2027. If this could lead to budget adjustments, the Legislature may wish to schedule some of the proposed funding to expire after 2027-28

Suggested Questions:

- With additional funding, the number of enforcements activities are anticipated to increase significantly. How will the CDTFA measure whether enforcement actions are impacting the amount of illegal product being made available to consumers?
- What are the major ways that consumers obtain untaxed tobacco products?
- What strategies do CDTFA and other law enforcement partners use to address these avenues for tax evasion?
- Why has the number of tobacco inspections declined so much since 2020-21 and 2021-22, and why do the new resources not reflect a significant increase in the number of inspections?
- What steps has the Administration taken to improve recruitment and retention of tobacco enforcement personnel?

Staff Recommendation. Hold open.

Item 9: Cannabis Tax Program Compliance and Enforcement

Issue. The Governor’s Budget includes \$5.6 million in fiscal year 2026-27 and ongoing from the Cannabis Tax Fund to maintain audit, enforcement, compliance, and appeals activities under the Cannabis Tax Program

Background. CDTFA administers the provisions outlined in Proposition 64, the Control, Regulate and Tax Adult Use of Marijuana Act of 2016 (AUMA); the Medicinal and Adult-Use Cannabis Regulation and Safety Act of 2017 (MAUCRSA), Chapter 27, Statutes of 2017 (SB 94); and the Cannabis Tax Reform of 2022, Chapter 56, Statutes of 2022 (AB195). AUMA and MAUCRSA legalized the cultivation, manufacture, and sale of cannabis and cannabis products. AB 195 repealed the cultivation tax on cannabis and shifted the responsibility for collecting, reporting, and paying the cannabis excise tax from cannabis distributors to cannabis retailers. In addition, the reform provided CDTFA with the authority to suspend or revoke cannabis retailer excise tax permits for noncompliance and expanded seizure and collection authorities. It also holds officers, members, or other person with control, personally liable for cannabis taxes. The reform holds any unlicensed person conducting commercial cannabis activities liable for excise and the prior cultivation tax.

MAUCRSA and AB 195 authorizes CDTFA to spend up to 4 percent of cannabis excise tax revenues. CDTFA’s prior expenditures range from 0.9 percent to 2.1 percent of revenue. If this request is approved, the resources will bring CDTFA’s cannabis expenditures to 2.8 percent of cannabis excise tax revenues, which totaled \$634.9 million in 2024-25, and is within the allowed expenditure range.

The following chart shows the resources history and notes that actual expenditures have been higher than budgeted expenditures. According to the LAO, the January budget documents show that CDTFA’s spending on the Cannabis Tax Program has come not just from the Cannabis Tax Fund, but also from the General Fund. For example, in 2024-25, \$13.1 million of CDTFA’s Cannabis Tax Program spending came from the Cannabis Tax Fund, while \$3.1 million came from the General Fund, specifically from CDTFA’s General Fund appropriation in the budget act.

Resource History
(Dollars in thousands)

Program Budget	2021-22	2022-23	2023-24	2024-25
Budgeted Expenditures	\$9,347	\$9,750	\$10,607	\$10,666
Actual Expenditures ⁵	\$8,398	\$11,380	\$13,142	\$16,230
Revenues	\$934,698	\$515,835	\$635,018	\$634,868
Actual Expenditures as a % of Revenues (Expenditures not to exceed 4% per MAUCRSA and AB 195)	0.9%	1.9%	1.6%	2.1%
Authorized Positions	39.8	39.8	39.8	39.8
Filled Positions ⁶	34.9	51.9	56.6	79.3
Vacancies	4.9	0	0	0

The following information from CDTFA compares the workload history with the projected changes from the additional funding. Generally, the new funds would not increase compliance activities significantly but rather cover the gap between what has been budgeted for the program and what the actual expenditures were.

Workload History⁷
(dollars in thousands)

Workload Measure	2021-22	2022-23	2023-24	2024-25
Registered Accounts	1,896	1,862	1,913	1,795
Returns Processed	7,859	6,913	6,945	9,040 ⁸
Return Desk Audits Completed	N/A	N/A	425	245
Delinquencies Cleared	3,316	2,472	1,402	1,512
Audits Completed	153	290	396	383
Audit Petitions/Appeals Closed	2	4	35	18
Relief Requests Processed	732	834	1,029	1,369
Inspections Completed	771	558	635	588
Seizures Completed	278	338	521	537
Seizure Retail Values	\$11,444	\$35,578	\$13,073	\$16,725
Accounts Receivable Balance	\$527,162	\$1,001,801	\$1,200,483	\$1,058,033
Account Receivable Recoveries	\$134,319	\$92,512	\$88,548	\$87,824

Projected Outcomes

Workload Measure	2026-27	2027-28	2028-29
Registered Accounts	1,800	1,800	1,800
Returns Processed	8,200	8,200	8,200
Return Desk Audits Completed	400	400	400
Delinquencies Cleared	1,700	1,700	1,700
Audits Completed	400	400	400
Petitions/Appeals Close	30	30	30
Relief Requests Processed	1,100	1,100	1,100
Inspections Completed	600	600	600
Seizures Completed	530	530	530

LAO Analysis. The LAO reviewed this proposal in February 2026 in their report “*CDTFA’s Cannabis and Tobacco Programs*”. In their analysis, the LAO covers Issues 8, 9, and 10 in this agenda.

The LAO suggests that the Legislature consider two main questions when considering these proposals:

- How much should CDTFA spend on cannabis and tobacco enforcement?
- Should the state pay for these activities?

The LAO notes that while tax and fee programs are typically funded exclusively by the tax and fee revenues collected by the program itself, in this case, the Department was covering some costs with their General Fund budget. The LAO notes that this use may not have been aligned with the intent of the Legislature in budgeting for CDTFA nor with the intent of the voters in enacting Proposition 64 that designates funds from the cannabis tax fund to pay for the program.

The LAO recommends that the Legislature consider these proposals as part of sustained effort to address the policy challenges. Specifically for the Cannabis Tax Program the LAO recommends that the Legislature adopt this proposal with the following modifications:

- Direct the Administration to stop spending General Fund on the Cannabis Tax Program immediately, rather than waiting until 2026-27 and consider adding provision language to prevent the Administration from using General Fund for these purposes without specific authorization or discussion with the Legislature.
- Direct the Administration to use its continuous appropriation authority to augment CDTFA's allocation from the Cannabis Tax Fund by the proposed amount, prorated to cover the remainder of 2025-26.
- Direct the Administration to make any future adjustments needed to support the program without spending any money from the General Fund.
- Reduce CDTFA's General Fund appropriation by the amount of the department's annual General Fund spending on the Cannabis Tax Program (as these funds clearly are not needed).

Staff Recommendation. Hold open.

Item 10: AB 8 Cannabis: Cannabinoids: Industrial Hemp.

Issue. The Governor’s Budget includes \$3.3 million of augmentations in 2026-27 and ongoing to address enforcement responsibilities stemming from a new law on hemp-derived cannabinoids (Chapter 248 of 2025 [AB 8, Aguiar-Curry]). In 2026-27, \$2.8 million of these appropriations would come from the Compliance Fund to pay for costs in the Tobacco Licensing Program, while \$0.5 million would come from the Cannabis Tax Fund to pay for costs in the Cannabis Tax Program. \$0.2 million of these costs would shift from the Compliance Fund to the Cannabis Tax Fund starting in 2027-28.

Background. Beginning January 1, 2026, Assembly Bill (AB) 8, Cannabis: cannabinoids: industrial hemp (Chapter 248, Statutes of 2025): (1) expands California Department of Tax and Fee Administration’s (CDTFA)’s authority to seize cannabis or cannabis products from a cigarette and tobacco products (CTP) licensee or an unlicensed cannabis business to also include authority to seize products presumed to be cannabis products because they contain or purport to contain cannabinoids derived from industrial hemp, including synthetic cannabinoids, and (2) authorizes CDTFA to issue civil penalties to a CTP licensee and suspend or revoke a CTP license, as specified, for possessing or selling those products. Beginning January 1, 2028, AB 8 expands the definition of cannabis products to include concentrated cannabis derived from industrial hemp and subjects them to the existing cannabis excise tax.

Forecast revenues from issuing civil penalties range from \$235,000 to \$423,000 starting in 2026 and ongoing, while forecast revenues from expanding the definition of cannabis products to include intoxicating industrial hemp range from \$8.25 million to \$33 million starting in 2028 and ongoing.

LAO Analysis. The LAO reviewed this proposal in February 2026 in their report “*CDTFA’s Cannabis and Tobacco Programs*”. In their analysis, the LAO covers Issues 8, 9, and 10 in this agenda. Their analysis and recommendations are reflected in the two previous items.

Suggested Questions.

- What challenges does CDTFA anticipate as they take on this new workload?
- How will CDTFA work to educate licensees on the new requirements? What are the enforcement steps taken prior to the suspension or revocation of a license?
- How are costs split between the Compliance Fund and the Cannabis Tax Fund?

Staff Recommendation. Hold open.

Item 11: Centralized Revenue Opportunity System (CROS) Reappropriation

Issue. The Governor’s Budget includes a reappropriation of \$3.8 million General Fund from 2025-26 to 2026-27 for the Centralized Revenue Opportunity System (CROS).

Background. The CDTFA administers California’s sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs.

The CROS Project (Feasibility Study Report Project 0860-094) is an information technology modernization effort that has enabled the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues reducing the tax gap.

CROS is a tax collection and distribution information technology system approved in 2011 and designed to improve the efficiency and effectiveness of the CDTFA’s operations, expand tax and fee payer services, and enhance the CDTFA’s ability to generate increased revenues. On August 30, 2016, the CDTFA completed the CROS Project’s Procurement Phase and signed an agreement with FAST Enterprises Inc. (FAST) to implement its commercial off-the-shelf software solution, GenTax, as the CROS Solution. GenTax is specifically designed for integrated tax administration and provides full functionality for processes such as registration, returns, payments, refunds, collections, revenue accounting, audit, correspondence, imaging, analytics, and workflow.

CDTFA maintains vendor support from GenTax to assist with program updates and changes to the system. CDTFA contracts with FAST for maintenance and operations costs over a 2 year period. Software licensing agreements are renewed on an annual basis.

The 2025-26 Budget Act approved funding for CDTFA of \$9.3 million General Fund for OE&E for 2025-26 and 2026-27.

- \$6.1 million annually for maintenance and operations costs (Contractor Services)
- \$3.2 million software licensing.

CDTFA notes that after the enactment of the 2025-26 budget, they were made aware of a software, upgrade of the GenTax software to its most current version, Core 26. CROS operates on an older version of GenTax (Version 11), which was first released in 2018. GenTax Core 26 provides critical operational benefits including:

- Strengthened security
- Enhanced services for tax and fee payers
- A more current and widely used programming language for better supportability
- Compliance with updated web content accessibility standards
- Improved system reliability
- Reduced software and infrastructure cost

Given budget constraints, CDTFA designed this request to stay within its previously approved budget request for CROS of \$9.3 million in 2025-26 and \$9.3 million in 2026-27. The

reappropriation will reduce expenditures in 2025-26 to \$5.5 million (\$9.3 million less \$3.8 million) and provide \$13.1 million (\$9.3 million plus \$3.8 million) in 2026-27. To fund the upgrade, CDTFA will delay non-urgent system changes (e.g., customized reports) in 2025-26 to 2026-27.

Key Questions: To delve deeper into this issue, the Subcommittee may wish to consider some of the following lines of inquiry:

- What workload was planned in 2025-26 is now proposed for delay under this proposal?

Staff Recommendation. Hold open.

7730 FRANCHISE TAX BOARD (FTB)

Item 12: Department Overview- FTB

The Franchise Tax Board (FTB) is responsible for collecting personal income tax and corporation tax revenue; operating various collection programs; and conducting field audits for the Fair Political Practices Commission.

FTB 2026-27 Proposed Positions and Expenditures

Code	Program	Positions	Dollars*
6280	Tax Programs	6,222.1	\$1,143,870
6285	Political Reform Audit	13.0	\$-
6290	Department of Motor Vehicles Collections Program	81.1	\$11,375
6295	Court Collection Program	101.2	\$15,528
6300	Legal Services Program	-	\$3,077
6305	Contract Work	62.2	\$14,633
9900100	Administration	320.6	\$47,542
9900200	Administration - Distributed	-	\$-47,542
Totals, Positions and Expenditures (excluding Infrastructure)		6,800.2	\$1,188,483
Infrastructure Expenditures		-	\$-
Totals, Positions and All Expenditures		6,800.2	\$1,188,483

*Dollars in Thousands
Source: Department of Finance

Suggested Questions:

- How does FTB work to make filing of taxes more fair, and less burdensome for Californians?
- How does FTB ensure taxpayer compliance?
- What tax data is generally available to the public?
- How does FTB work internally and/or with cybersecurity and law enforcement entities to prevent fraud or the sharing of sensitive information?
- What types of risk, privacy, or security assessments does the FTB conduct when handling taxpayer data?

- How does FTB work to protect taxpayer data when sharing information with others in federal or state government?

Staff Recommendation: Information Only

Item 13: Enterprise Data to Revenue (EDR 2) Project
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Issue. The Governor’s budget includes \$59,857,000 in FY 2026-27, \$23,975,000 in FY 2027-28, \$17,635,000 in FY 2028-29, \$17,641,000 in FY 2029-30, \$17,637,000 in FY 2030-31 and ongoing, and the full time equivalent of 20.0 permanent positions for the sixth-year implementation of 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 will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Background. In 2007, the staff created a 30 year three-phased modernization strategy for FTB's information technology systems. The primary objective of this strategy addresses refreshing FTB’s aging legacy systems, while also taking the opportunity to further advance FTB’s strategic goals using the latest technologies and industry best business practices.

- Phase 1 (EDR Project, completed December 2016) – Build the key infrastructure and foundational architecture for the three phased effort and update FTB’s existing imaging, case management, return processing, and modeling processes while also developing two new applications (Taxpayer Folder – internal view for FTB staff and MyFTB – external view for taxpayers and practitioners) to consolidate taxpayer data for ease of use, increased customer service and better transparency.
- Phase 2 (EDR2 Project, projected start July 2021) - Leverages the architecture delivered and will expand case management, modeling, MyFTB, and self-service options. This project will also decommission end-of-life legacy systems for Audit, Filing Enforcement and Collections.
- Phase 3 – (projected start 2026) This Final Phase will replace FTB’s end-of-life legacy accounting systems and finish addressing FTB’s six key business problems.

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 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.

The EDR2 project is vital to FTB’s operations. The technology currently supporting two of FTB’s major legacy systems - Accounts Receivable Collection System (ARCS) and professional Audit Screening and Support System (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 the EDR2 project 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. Additionally, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

System	Date Implemented	System Age in Years (as of 2025)
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ARCS	1999	26
INC	2001	24
PASS	1997	28

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 Special Project Report (SPR) #2. The SPR #2 was approved on January 10, 2025.

The EDR2 Project implementation efforts were completed in January 2026. The EDR2 project has since moved into the warranty period which will end December 31, 2026.

The EDR2 project plans to achieve the following objectives in 2026-27:

- Partner with the contractor to mature the system, including prioritizing and resolving defects in the delivered solution;
- Complete the transition of the operations of the system from the Contractor to FTB, including completing project closeout activities;
- Fully retire the ARCS and PASS legacy systems and prepare for the retirement of the INC system;
- Maintain the data integrity and availability in FTB’s tax systems and their ability to perform critical state tax functions;
- Complete technical knowledge transfer between SP and FTB staff;
- Transition ownership of IT assets from SP to FTB;
- Migrate Case Management and Splunk to the Cloud.
- Increase revenue and efficiencies by:
 - Using the new tax return, stand-alone forms, third party and unstructured data delivered during the project in FTB’s Audit, Collections, and Non-Filing processes;
 - Continuing to optimize the solutions delivered during the project to successfully select best value cases for compliance efforts using the innovative technology delivered in the project, including analytic modeling using machine learning;
 - Expanding the use of the enterprise knowledge library accessed by users and external customers;
- Perfect procedures and processes implemented during the project to maximize efficiency

Final delivery of the EDR2 solution to FTB was in January 2026 with full state acceptance of the solution in January 2027 (end of the warranty period.) According to the FTB, the total cost of EDR2 is estimated to be just over \$750 million and will ensure continued collection of over \$4 billion in annual revenues. After full implementation, the project is projected to bring in additional new revenues of \$300 million annually.

Suggested Questions.

- How will FTB report back to the Legislature on the successfulness of the new system?
- What does Phase 3 involve, where is FTB in the process, and when would the state see related cost pressures?

Staff Recommendation. Hold open.

Item 14: Mainframe Growth Workload

Issue. The Governor’s budget includes \$13,111,000 in Fiscal Year (FY) 2026-27 and \$389,000 in FY 2027-28 and ongoing, to replace primary and disaster recovery mainframe servers to increase memory and processing capacity, and upgrade software to meet workload growth projections.

Background.

The Franchise Tax Board (FTB)’s primary and disaster recovery mainframe servers have reached End of Market (EOM), necessitating a critical refresh to ensure continued system reliability, performance, and security. A mainframe is a high-performance computer equipped with vast memory and powerful processors, capable of handling billions of transactions and calculations in real time. It is a mission-critical system known for its exceptional resiliency, security, and agility; essential qualities for industries that demand reliability at scale. FTB relies on its mainframes to ensure seamless operations and unparalleled processing power. When information is modified on FTB systems, programs, or applications, the data is updated/processed on the mainframe server.

The current primary mainframe server was purchased in 2020-21 and reached EOM at the end of 2024. FTB frequently monitors capacity and has determined the primary mainframe has adequate capacity until 2026-27. The current disaster recovery mainframe server was purchased in 2019-20 and reached EOM in September of 2022. FTB has mitigated risks associated with EOM by extending the disaster recovery mainframe maintenance agreement, allowing it to remain in service until April 2027.

As components reach EOM, the availability of new replacement parts diminishes, making it increasingly difficult to maintain and upgrade the systems. The lack of availability of replacement parts and software due to EOM pose the following significant operational risks:

- **Network Constraints:** High-speed adapter cards that connect the mainframe to the network are no longer available to purchase, restricting FTB’s ability to scale network connectivity.
- **Software Compatibility Risks:** With memory components at EOM, FTB risks being unable to upgrade critical software or may be forced to use unsupported versions, introducing security and compliance concerns.
- **Performance Degradation:** Without the ability to expand processing capacity, unexpected increases in CPU demand, due to software updates or application changes, could slow down mission-critical operations.
- **Limited new component availability:** Availability of new manufactured components for replacement of defective parts will be limited, further increasing the risk of prolonged system downtime in the event of hardware failure.

FTB’s Data Center, which hosts the mainframe environment, provides the necessary operating and storage capacity for FTB to administer its programs successfully. As a result of FTB’s efforts, in FY 2024-25, FTB processed more than 22.8 million tax returns, over 9.9 million payments, responded to more than 3.1 million telephone calls, serviced over 59.8 million internet contacts,

and collected about \$166 billion in revenue, representing approximately 78 percent of California's General Fund revenue.

The FTB provides the following implementation timeline:

July 2026: Funding approved and available

July 2026: Complete procurement process and award contract

September - November 2026: Install/Configure mainframe hardware/software for the primary mainframe server replacement

November 2026: Implementation of the primary mainframe server replacement into production at the primary location (system acceptance)

April - May 2027: Install/Configure mainframe hardware/software for the disaster recovery server replacement

May 2027: Implement disaster recovery server replacement into production at secondary location (system acceptance)

Staff Recommendation. Hold open.