

STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

THURSDAY, APRIL 12, 2018

GERALD GOLDBERG AUDITORIUM
9646 BUTTERFIELD WAY
SACRAMENTO, CALIFORNIA

REPORTED BY:

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APPEARANCES

BOARD MEMBERS:

BETTY YEE, CHAIRPERSON

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JACQUELINE WONG-HERNANDEZ

GEORGE RUNNER

STAFF:

SELVI STANISLAUS, EXECUTIVE OFFICER

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MICHAEL BANUELOS

TONI KALPAKOFF

ANNETTE KUNZE

REBEKAH MACHADO DE QUEVEDO

JULIE MORENO

NATASHA PAGE

LAUREEN PHILIPP

CRAIG SWIESO

MONICA TREFZ

TIPHANIE WEISS

COUNSEL:

JOZEL L. BRUNETT

BRUCE LANGSTON

APPEARANCES CONTINUED

ALSO PRESENT:

CLIFF BERG, Governmental Advocates, Inc.

ANDREW GOVENAR, Governmental Advocates, Inc.

CHRIS PARKER, Moss Adams

JEFFREY M. VESELY, Pillsbury Winthrop Shaw

Pittman LLP

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SACRAMENTO, CALIFORNIA

THURSDAY, APRIL 12, 2018, 1:30 P.M.

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CHAIRPERSON YEE: Good afternoon. This is the scheduled time for the meeting of the Franchise Tax Board.

Would the board liaison please call the roll to determine if a quorum is present.

MS. CASEY: Member Runner.

MEMBER RUNNER: Here.

MS. CASEY: Member Wong-Hernandez.

MEMBER WONG-HERNANDEZ: Here.

MS. CASEY: Chair Controller Betty T. Yee.

CHAIRPERSON YEE: Here.

At least two members or their designated representatives being personally present, there is a quorum and the Franchise Tax Board is now in session.

Please stand and join me in the Pledge of Allegiance.

(Pledge of Allegiance recited in unison)

CHAIRPERSON YEE: The public has the right to comment on each agenda item, and if there are any members of the public who wish to speak on an item, please come forward when that item is called, and you will have three minutes to address the board.

The first item, Members, is approval of the minutes. We have the minutes of the December 7, 2017, board meeting and the Taxpayer Bill of Rights hearing.

Is there a motion or any comments?

MEMBER WONG-HERNANDEZ: I have a comment.

So I was able to review these minutes with Eraina Ortega, my predecessor, and am prepared to move the minutes at the appropriate time.

CHAIRPERSON YEE: All righty.

MEMBER RUNNER: I'm not voting.

CHAIRPERSON YEE: So I will take that, Member Wong-Hernandez, as a motion, and I will second that motion, with Mr. Runner not voting, the minutes are approved.

Thank you.

Okay. Item number 2 is a presentation on the 2017 Awards and Accomplishments. We have Cynthia Abercrombie to present the 2017 Awards and Rebekah Machado De Quevedo to present the accomplishment video. And this is an information item.

Good afternoon.

MS. ABERCROMBIE: Good afternoon. My name is Cindy, and this is Rebekah here, to my right.

My part of the agenda item is to present the awards FTB issued in 2017. Then I will hand it off to Rebekah to talk to you about our overall accomplishments.

At previous board meetings, you have heard us talk about our commitment to recognize staff who go above and beyond, to help us accomplish our mission. In just a minute, we'll begin a short slide show to recognize around 20 staff, the top 2 percent of leaders, who were awarded the Supervisory Bonus Award in 2017. These are supervisors who demonstrate outstanding job performance and exemplify our value of leading with integrity and inspiration.

Also included in this presentation are the Large Team Awards from 2017. We recognize employees for their outstanding contributions as part of large teams that contributed to the Department's mission, goals, and values. FTB's culture encourages enterprise thinkers and doers, and this has resulted in larger teams and projects requiring their own special recognition.

While there is no monetary component to the awards program, there is an annual awards ceremony. All members who contributed to the success of a large team or project are recognized with a certificate and a lot of appreciation at a ceremony specifically tailored for these types of teams.

For purposes of this program, a large team or project is defined as 16 or more individuals whose joint efforts made a significant contribution to the enterprise.

These programs are a big deal here at FTB. We firmly believe it's important to appreciate and celebrate what's been accomplished, so you have the perseverance and fortitude to meet tomorrow's challenges and opportunities. This is one of the ways FTB acknowledges great leaders and great teams.

(Video presentation)

CHAIRPERSON YEE: Thank you, Cindy, very much.

Never enough opportunities just to really express our appreciation.

And we would now like to have all new recipients who are here in the audience to please stand so that we may acknowledge you publicly.

(Applause)

CHAIRPERSON YEE: Thank you all very much for the great work.

Okay. And then, Rebekah, you are going to be presenting the accomplishments?

MS. MACHADO DE QUEVEDO: Yes.

CHAIRPERSON YEE: Great. Thank you.

MS. MACHADO DE QUEVEDO: Good afternoon. My name is Rebekah Machado de Quevedo, and I work in Communications Services Bureau here at FTB.

To provide you a little background, we started creating these accomplishment videos back in 2013 for our employees. It was an easy and cost effective way to celebrate successes in both a fun and memorable way. The videos last only three to four minutes and are an important step to closing out the year to celebrate our successes. You will see that each accomplishment is highlighted by different employees throughout FTB.

You may not understand every accomplishment highlighted here, but we're hoping you get a glimpse into our culture that empowers staff to accomplish great things. We also hope you will see the strong sense of community we have amongst all our staff, both at central office and out in the field. No matter where we work, we each play an important part in accomplishing our mission.

To reflect back, we've recently adopted a theme of, "We are one FTB," which you will also see repeated in this video. So without further delay, please take a look at FTB life in 2017.

(Video presentation)

MS. MACHADO DE QUEVEDO: Thank you so much for allowing us to share this video with you here today. We hope you enjoyed taking a look behind the scenes to celebrate a few of our successes with us. And thank you for being a board who is just as vested in FTB's success as we are.

And now, I would be happy to answer any questions you might have.

CHAIRPERSON YEE: Great.

Questions or comments, Members?

Thank you very much.

MS. MACHADO DE QUEVEDO: You are very welcome.

CHAIRPERSON YEE: Members, we are now on Item 3, which is related to leadership development. This is another information item and a PowerPoint. And we have Toni Kalpakoff to present it. Thank you, Toni. Good afternoon.

MS. KALPAKOFF: Good afternoon. My name is Toni Kalpakoff. I am a manager at FTB's Audit Division and share responsibility for our department's Leadership Development Programs.

Both Cal HR and Government Operations Agency recognize the importance of and need for strong leaders, which has led to the development of statewide leadership-specific programs and continuing education requirements at all levels of management.

FTB also recognizes the importance of leadership, so much so that one of our five core values explicitly instructs us to lead with integrity and inspiration.

Additionally, one of the ten services of our overall talent management strategy focuses on developing leaders and a set of core competencies. Because of the inevitable wave of potential retirements over the next two to three years, it is more important than ever to prepare our future leaders.

I'm sure you have heard of knowledge transfer, which is basically the concept of transferring institutional knowledge from one person or program to another. We prefer to call this process wisdom transfer. We feel wisdom transfer goes beyond the knowledge someone could obtain in researching the manual or reading documentation. In other words, wisdom transfer isn't just what you need to know, but what needs to be done and how to apply that knowledge.

Wisdom transfer focuses more on experiences, lessons learned, and tips and tricks concerning how something should be done. It is just what it sounds like: Passing accumulated wisdom on to our future leaders.

An easier way to describe this is that knowledge is knowing that a tomato is a fruit. Wisdom is knowing not to put one in a fruit salad.

We have developed several programs that all play a role in preparing our leaders to be successful. Some formal programs include our Management Development Program, which is a one-year program aimed at the development of mid-level managers;

An Executive Assessment and Development Program that focuses on preparing leaders for executive management;

We also have a program aimed at growing leaders at all levels which focuses on the core skills needed for leadership;

And our Management Rotation Program is an opportunity for our leaders to build on what they have learned, acquire new knowledge, and further develop from a more holistic understanding of the department;

In addition, we have mentoring programs where leaders can be a mentor, mentee, or plan to be part of a mentoring group, where they can benefit from an exchange of ideas and synergy of an entire group of leaders they may not normally have the opportunity to engage;

And finally, besides these home-grown programs, our FTB leaders have an opportunity to attend outside government leadership programs through the Sacramento State College of Continuing Education and the Project Management Leadership Academy offered by the California Department of Technology.

Besides these more formal leadership development programs, we also offer some less formal opportunities, such as leadership days and events hosted by different divisions to develop their staff skills;

We also provide the opportunity to lead projects of varying sizes and scope;

And the option to give presentations, host events, or speak on behalf of our department. In fact, giving this presentation today is one of these opportunities offered to me for which I am grateful.

FTB recognizes that well-trained and well-prepared leaders are a critical factor to achieving our department's business goals, contributing to a strong culture, and to increasing the level of employee engagement, as well as maintaining morale.

We also know that our leaders play a key role in our ability to retain our employees. Repeated studies show that a positive relationship with one's immediate supervisor is the number one reason that people choose to stay in a particular job.

We like to think that our focus on leadership development is one of the reasons 96 percent of our staff choose to remain with FTB year after year.

In closing, I would like to leave you with this quote, by Robin S. Sharma, that I feel does a good job summarizing our leadership philosophy: "Leadership is not about a title or a designation. It's about impact, influence, and inspiration. Impact involves getting results. Influence is about spreading the passion you have for your work and to inspire teammates and customers."

I think you would agree that these three adjectives aptly describes the benefits of leadership development. As always, we appreciate the board's support of our department and our leadership programs.

Now I would be happy to answer any questions you might have.

CHAIRPERSON YEE: Thank you very much, Toni.

Questions or comments, Members?

No? Thank you for the presentation. Appreciate that.

Our next item is item number 4. This is the cannabis update, another information item and PowerPoint presentation, by Laureen Philipp and Annette Kunze.

Good afternoon.

MS. KUNZE: Good afternoon. My name is Annette Kunze, and this is Laureen Philipp.

And as the primary cannabis contacts for FTB, as well as cosponsors of our enterprise cannabis team, we're here today to share information with you about FTB's cannabis efforts.

MS. PHILIPP: We last provided the board with an update in June of 2017. Since our new members are present, we would like to provide you with some background information, update you on where we are today, and then take a look ahead, at the future.

We like to think about this new challenge as a journey of sorts, and we want to begin our briefing today by taking a look back at past efforts.

Annette?

MS. KUNZE: And one of the first steps in this journey was to prepare for new laws:

In 2016, Proposition 64 legalized adult cannabis use in California;

Then last summer, Senate Bill 94 established a single system of administration for cannabis in California;

More recently, at the beginning of 2018, cannabis business licensing began at the state level.

As we saw changes heading our way, we formed a department team relating to cannabis implementation, made up of representatives from various business areas within FTB, who regularly

collaborate on cannabis activities and share knowledge among our staff, helping to ensure readiness for the new laws.

We also took a look at our no-cash policy given the limited access to banking in this industry. And moved to accepting cash on an exception basis. Laureen will share more information about our cash process shortly.

Another very important piece of cannabis implementation is our work with other agencies and industry representatives. We began collaborating early on in the process to learn and familiarize ourselves with this industry and to learn what other agencies were doing to implement the new laws.

As we continue to look back, we want to highlight a few efforts we've made in education and outreach.

We created a Web page specifically for cannabis businesses that provides basic information about filing and paying income taxes. We redesigned it late last year to improve the user's experience. The Web page also includes an e-mail address where taxpayers can reach out and ask questions about cannabis tax issues, and, so far, the e-mail has been successfully used by several businesses or their representatives on a variety of cash-related topics.

We've also participated in a variety of workshops and symposiums designed to reach taxpayers in this emerging industry. We share information about filing cash payments and our resources. But our work is not done, as you will see in the look ahead.

At last year's June board meeting, we mentioned that this tax information card was in development. After partnering with other agencies, we finished the creation of this cannabis information card, and here's the front side of the card, and you can see, it includes information about types of cannabis taxes applicable to cannabis businesses.

And on the back side, there's additional information about recordkeeping, payments, and licensing.

These cards have been given out at various events and we also place them in our field offices.

And now, Laureen will pick up the next segment of our journey.

MS. PHILIPP: Thank you, Annette.

And this brings us to today and where we are now.

Our Enterprise Cannabis Business Team has expanded with the addition of four subteams:

The Operational Subteam is responsible for filing and payment processing issues;

The Education and Outreach Subteam is working to educate taxpayers and practitioners on filing and payment requirements;

The Compliance Subteam is drafting our compliance strategy;

And the Legislation Subteam is keeping an eye on any impacts from new legislation and evaluating where we may want to propose changes to tax law.

As Annette mentioned earlier, we've been busy with education and outreach for some time.

I just want to highlight a few things we've been up to lately:

We used Facebook Live to present a short educational video on cash-base businesses. You can see this video now on YouTube or on a lobby monitor in a field office near you.

In addition, we took part in workshops hosted by the Bureau of Cannabis Control throughout the state, and hosted two interested parties meetings, so that we are better equipped to answer questions from current businesses and those contemplating going into the cannabis industry.

And now, looking a little further down the road, let's see what's on the horizon:

One of our first steps, or phase 1 of the acceptance of cash is partnering with CDTFA to leverage the work that they have already done to harden their field offices, making cash processing easier and safer.

Coming up shortly, you will hear another agenda item presented by Michael Banuelos, which deals with our funding strategy for this effort.

We will also continue to make improvements to our forms and our Web pages to ensure that cannabis taxpayers have the information they need to comply with tax laws.

Similar to our Facebook Live message, we are considering other options for education, such as webinars or YouTube videos.

And we are looking forward to working with our fellow state and private industry partners to participate in additional workshops and symposiums.

And finally, we will also continue to track developments and keep a close eye on any changes in federal and state legislation, including legislation that will affect banking or the deductibility of business expenses.

Thank you for allowing us to update you on FTB's efforts concerning cannabis.

Are there any questions that we may answer for you today?

CHAIRPERSON YEE: Thank you very much.

Questions or comments, Members?

Member Runner.

MEMBER RUNNER: I have a couple in regards to some processes and how we're dealing in regards to the businesses as they are registering and whatnot.

When somebody is registering as a business, do we have some kind of an identifier, some kind of a contact and know indeed that they are involved in a cannabis business?

MS. PHILIPP: When they get a license, there are several licensing agencies they may go through, including the Bureau of Cannabis Control --

MEMBER RUNNER: Right, right.

MS. PHILIPP: -- or CDPH.

MEMBER RUNNER: Right.

MS. PHILIPP: Also CDTFA.

MEMBER RUNNER: Um-hmm.

MS. PHILIPP: That information is made available to the Franchise Tax Board later on. So we would be getting some identifying information through that and also through our normal information sharing agreements.

MEMBER RUNNER: So when they register, we don't necessarily know, at that time, what their business is.

MS. PHILIPP: We do not.

MEMBER RUNNER: Any particular reason as to why?

Because we dealt with this issue at BOE. And right now, we're going through, and I believe CDTFA now has continued that, identified those as cannabis businesses.

Any particular reason why, on the FTB side, we're not trying to do that at the front end, as opposed to going and waiting, and, double-checking, based upon their license. Because they are already identifying themselves as the industry; legally, they have to in the State of California because they have to get a license. Why wouldn't we ask them, up front, from the FTB side what they do?

MS. PHILIPP: Well, when they register, they are registering generally through the Secretary of State, so that would be their first point.

MEMBER RUNNER: Um-hmm.

MS. PHILIPP: And I don't know what their processes are. We can look into that for you.

But as far as the Franchise Tax Board, we treat cannabis businesses similar to other businesses; and we don't have a unique cannabis income tax form. Forms for business entities do ask taxpayers to fill in their principal business activity.

MEMBER RUNNER: Right.

MS. PHILIPP: or PBA code.

MEMBER RUNNER: Um-hmm, um-hmm.

MS. PHILIPP: -- which is derived from the North American Industry Classification System, sometimes known as NAICS.

MEMBER RUNNER: Right.

MS. PHILIPP: But there is not a PBA code that is specific to cannabis. Oftentimes they will identify their principal type of business as bakery or pharmaceuticals.

MEMBER RUNNER: Right.

MS. PHILIPP: And so we get that information the way we would with every other taxpayer.

MEMBER RUNNER: The reason I think I have an interest in that because, again, unique to, bakeries or anything else, we, the State of California, have to track a certain amount of revenue that we believe is going to be a part of this particular industry, which is different than what we deal with bakeries or other groups.

And so the ability for us to track and see whether or not these goals are being met, I would think, would be important. And I guess we would just end up backing into that from their licensing, in trying to cross reference that information, how we accomplish that?

MS. PHILIPP: We will get licensing information and all that identifying information later on.

But we can certainly explore now whether there's something that we can put into place to do tracking.

MEMBER RUNNER: The other question is, right now, what level of compliance do we think we have with the industry? Because there's obviously a big question in regard to the industry that's had to live so much in the shadow, that they are coming out right now. What do we think our level of compliance is at this point?

MS. PHILIPP: At this point, it's a little early to tell. Many of them just started incorporating and doing businesses January 1st --

MEMBER RUNNER: Uh-huh.

MS. PHILIPP: -- and their first tax returns are not even due yet.

We have used Colorado's experience to estimate what compliance may be, and we don't know yet whether California's experience will be close or not.

We are estimating compliant businesses to be about 70 percent; and then our cash businesses from that, we're estimating to be about 45 percent of that number.

MEMBER RUNNER: Okay. In my opinion, I would think, if we would have an identifier attached, we would be able to get a better idea of estimating compliance -- would be just my thought in regards to that issue. But thanks --

MS. PHILIPP: We'll certainly explore that.

CHAIRPERSON YEE: Okay. Great question, Member Runner. Thank you.

Other comments, Members?

All right. Thank you very much for the update, and I anticipate we'll be getting these on a regular basis as we learn more. Thank you.

MS. KUNZE: Thank you.

CHAIRPERSON YEE: All right, Members. We'll shift into item number 5, and this regards exploring the use of the Nudge techniques in taxpayer compliance and education. This is also an informational item and a PowerPoint presentation with Julie Moreno and Monica Trefz presenting.

Good afternoon.

MS. MORENO: Good afternoon. I'm Julie Moreno. And with me is Monica Trefz. We're both members of FTB's Compliance Action Committee. And today we're here to share some information about an interesting initiative we've been working on called Nudging.

We would like to show you a short video that explains the concept very nicely, and this is from our friends at the Rotman School of Management.

(Video presentation)

MS. MORENO: We know that people generally want to do the right thing, and as you can see, Nudging isn't telling people what to do. It's helping them make choices that they normally would make, if they had been more mindful in the moment. This is the reason why Nudging is gaining a lot of popularity, as a way to communicate and educate people to make decisions that benefit both them and society.

So one important thing to know about Nudge is that it's rooted in and strongly backed by behavioral science. And to give you an idea about how it works, creating a Nudge starts with identifying an opportunity or a problem, as you saw in the video. Then behavioral insights are used to create the Nudge.

A behavioral insight is something like, understanding how people behave is actually based on the actions of people around them. So once a Nudge is developed and in place, we study it using randomized control trials. And what we mean by that is, we look at the actions of those who are Nudged, versus those who are un-Nudged, or a control group. And what we're trying to get out of that is data insights that will lead us to data-driven decisions.

So once we have results from our Nudge, we might actually abandon the Nudge because it didn't really yield the results we expected. We might adjust that Nudge because we found that there's another way we should be looking at it and improve that Nudge; or we might determine that the Nudge actually was successful in reaching our goal, and then we would be able to expand it to the population, knowing the same thing would happen at the greater population level.

Now I would like to turn it over to Monica to talk about some of the Nudge benefits.

MS. TREFZ: Good afternoon.

Probably the most intriguing benefit of this Nudge concept has to do with encouraging taxpayers to comply, without having to resort to enforcement efforts. So our tax system is built on the fact that most taxpayers comply with the law, and, many times, when taxpayers are out of compliance, it's not a deliberate thing. They are out of compliance because maybe they made a mistake somewhere along their filing or payment journey. And maybe they didn't understand the rules or they missed or forgot the estimated payment deadline.

So if we can incorporate Nudge practices into our business processes, we may be able to avoid enforcement activities for some taxpayers, and we think that's a really good thing.

Organizations that have used Nudge, including government, have found it to be very cost effective. But it's also beneficial for the taxpayer.

If we can help Nudge them in the right direction, then we may be helping them to avoid a mistake that could cost them time, money, and effort.

So to get a better idea of how these benefits play out, let's take a look at some real life Nudge examples:

In 2010, the United Kingdom became the first country to establish a government office that was solely devoted to leveraging the benefits of behavioral sciences. Since that time, their behavioral insights team has successfully implemented Nudge efforts or techniques across a variety of government services. One of their more notable studies used social norming to increase tax collections to one segment of their population. The UK already sends a reminder letter to their taxpayers when their payment is late, so, in this particular study, they just revised that letter to include one true statement that you see on the screen: 9 out of 10 people in your town pay their taxes on time. This simple Nudge increased the number of people making a payment by 15 percent.

To put that in perspective, they estimated that if they rolled this pilot out across the country, they could collect approximately \$250 million in additional revenue. And all of that revenue would be achieved at a very low cost; it's just adding a sentence to a letter they were already sending out.

Also, you've probably seen Nudge efforts on our utility bills, that include something like, "Did you know that your neighbor used 10 percent less water than you do?" Again, there's proven behavioral science that confirms that some people make positive behavioral changes when responding to statements like these, that help them make a decision in the moment.

Another example is found in the hotel industry. So maybe you have seen a card in your hotel room that says, "70 percent of our customers choose to reuse their towels to support a green environment." It's usually placed right next to the towels as a gentle reminder. You can still choose to use a new towel every day, but most people generally do want to be good stewards of the environment and reuse their towels at least once during their stay.

The Nudge provides the mental space and suggestion needed to make that green choice.

Here at FTB, we're just dipping our foot in the water with this Nudge concept by conducting pilot projects, and we would like to share a few with you now.

The first two have to do with education around itemized deductions. Phase 1 had to do with unreimbursed employee business expense. We saw a trend where some taxpayers were claiming much higher amounts of this deduction than the statistical average. We knew from our research that there could be confusion surrounding how and when this deduction applies. So we decided to send educational letters that would allow them to review the rules and their information and choose to self-correct, if they needed to.

The letter provided information about typical misunderstandings and pointed them to resources to further analyze how this deduction would be allowable in their tax situation. As a result of this effort, 60 percent reduced their deductions for the following year.

Because the results were so favorable, we decided to expand the pilot into a second phase. That involved sending educational letters to other -- others who claimed high percentages of other itemized deductions, like medical expenses and donations to charities. We sent the Phase 2 letters this January, again, hoping that the timing of the letters will impact the accuracy of the deductions reported on the 2017 return.

So now, Julie will share information about two other pilots that are in progress.

MR. MORENO: Thank you, Monica.

We also defined a Nudge concept to help spread the word about the Cal EITC credit. As you know, the credit is designed to help lower income people. As such, though, generally, they don't have enough income to trigger the requirement to file a return, yet, the way to claim the credit is to file a return. So this is challenging.

So how we decided to help was to develop three separate letters incorporating three Nudge concepts, and we sent them to 30,000 potentially qualified individuals. At the same time, we established the un-Nudged group, another 10,000 of potentially qualified individuals to serve as the control group for our study. In this study, we will examine whether any of the message and which of the messages might have caused people to file a return and claim the credit, compared to those who did not receive a message.

What we're hoping to gain out of this is insight to help us better understand and grow awareness about the credit so that more people will claim it in the future.

Our final pilot is the return accuracy and honesty pilot. It's an opportunity to test and study the effectiveness of priming for accuracy and honesty in return filings. Studies have shown that a reminder or a Nudge at just the right time, prior to an action requiring honesty, actually causes people to be more honest. Can you believe it? Up to a hundred percent more honest.

We wanted to explore this with tax return preparation. So this year, we're working with one online software product to display a reminder just as people start to prepare their 2017 return. The Nudge asked them to affirm their responsibility to complete the return accurately and honestly.

Now, if they want more information about the statement, they simply click a link, and it previews the penalty of perjury statement that they are going to see at the end of the return when they are asked to sign.

So as you can see, from what we've highlighted today about Nudge, it really provides better customer experience and also delivers results-oriented education to people. We're very excited about the results we're seeing, and we really think this is a win for both government and for taxpayers.

So now we would like to answer any questions that you have.

CHAIRPERSON YEE: Thank you both very much.

Questions, Mr. -- Member Runner and then Member Wong-Hernandez.

MEMBER RUNNER: Yeah. Just real quick.

I think it's fascinating, and I think it certainly is a much more positive, less punitive, approach.

My thought would be if, indeed, we see success in there, one of the issues that we may try to expand in and experiment with is going to tax preparers. Since such a large number of tax filing is done by preparers, maybe, at that point, that would be a way to help educate them in that process too, particularly if we can sort them out and distinguish between their returns versus other preparers' returns, if, indeed, we are seeing responses. I think it's a great idea.

MR. MORENO: We look forward to that. And that's one of the benefits of conducting a randomized trial, is to really give us that look at how does an apples-to-apples comparison work and enable us to expand that.

CHAIRPERSON YEE: Thank you.

Member Wong-Hernandez.

MEMBER WONG-HERNANDEZ: Thank you for the presentation. I think this is really interesting and really promising. And I like that it is a way to get on the, kind of, front end of compliance and really nudge people in that direction.

I hope to see some continued updates at future board meetings about how it's going and what you find out this year.

Thank you.

CHAIRPERSON YEE: Thank you. Look forward to that. Thank you both very much.

MS. MORENO: Thank you.

CHAIRPERSON YEE: Thank you.

All right. Members, our next item is item number 6. This is a regulation matter. It is also an action item.

We have Craig Swieso and Natasha Page with regulation sections 25137-1 and 17951-4. I understand, there are several speakers signed up to speak on this regulation item. And, if you will come to the podium when I call your name. But we will have, first, Mr. Swieso, perhaps you could present the item and we'll then get into the public testimony.

Good afternoon.

MR. SWIESO: Good afternoon. I am Craig Swieso, Assistant Chief Counsel of the Multistate Tax Bureau with the Legal Division. And with me today is Natasha Page, Tax Counsel IV, in the Tax Administration and Procedure Bureau of the Legal Division.

We are here today to speak about a regulation project that encompasses regulation section 25137-1, which pertains to corporations that do business within and without California, that have an interest in a partnership, and regulation section 17951-4, which pertains to nonresidents that have an interest in a partnership, which does business within and without California.

There have been three interested parties meetings held on the regulation project. During September 2014, your board authorized staff to proceed with the formal regulatory process. A formal regulatory hearing was held during December 2017. The focus today is on regulation section 17951-4. The initial proposed revisions to that regulation included language recognizing that Revenue and Taxation Code section 17952, which deals with the income of a nonresident from intangibles, is inapplicable with respect to certain types of income received from a partnership that does business within and without California.

During the formal regulatory hearing that was held during December 2017, comments were offered that the language referencing Revenue and Taxation Code section 17952 is inappropriate. After

consideration, FTB staff issued a 15-day notice during February of 2018 informing the public that the sentence pertaining to Revenue and Taxation Code section 17952 was being excised in the proposed revisions to the regulation 17951-4.

However, during the 15-day notice period, correspondence was received indicating that the sentence pertaining to Revenue and Taxation Code section 17952 should not be excised. As you can see, opinions have been expressed by tax practitioners on both sides of the matter.

Copies of the transcript of the December 2017 formal regulatory hearing, the 15-day notice, and the correspondence received in response to the 15-day notice, indicating that the sentence referencing Revenue and Taxation Code 17952 should not be excised, are included in the materials provided to your board.

And I understand, there are people who....

CHAIRPERSON YEE: Let me just ask.

Members, any comments at this point, before we go to the public speakers?

Okay. Very good.

So let me first call up Mr. Jeffrey Vesely, followed by Chris Parker. And you will each have three minutes.

MR. VESELY: Chairwoman Yee, Members of the Board.

Good afternoon. My name is Jeffrey M. Vesely. I am a partner with the San Francisco law firm of Pillsbury Winthrop Shaw Pittman. And I have two brief comments today:

First of all, we are fully in support of staff's deletion of the following sentence from proposed amendments to regulation 17951-4(d)(1), and that is, quote, Revenue and Taxation Code section 17952 is not applicable in determining the source of income allocated to the nonresident taxpayer by a partnership.

We agree with staff that that should be deleted. That sentence was directly at odds with the section 17952 and the case law which has interpreted it.

My second comment is directed to the 15-day notice. And on page 2 of that notice, in the first full paragraph, in the middle of that paragraph, it is stated the following:

(As read) "Moreover, the hearing officer has come to the conclusion that the language that is proposed to be stricken is repetitive in that the only nonbusiness income from a partnership will be subject to the purview of section 17952."

That sentence should be stricken from the notice, since it is contrary to the plain language of section 17952 and, thus, may create confusion.

Indeed, section 17952 says nothing about business or nonbusiness income. It simply states the following:

(As read) "Income of nonresidents from stocks, bonds -- excuse me -- notes, or other intangible personal property is not income from sources within this state, unless the property has acquired a business situs in this state." Nothing is said about business or nonbusiness income.

Accordingly, we respectfully submit that to avoid any confusion, that sentence should be deleted from the 15-day notice.

Thank you very much.

CHAIRPERSON YEE: Thank you, Mr. Vesely.

Members, if I might, I don't want to lose these thoughts as they come up. But perhaps, Craig and Natasha, can you speak to the issue about the statement by the hearing officer and the consistency of that statement?

MS. PAGE: The statement is reflective of the language in 17951-4, which is the part that is being amended. And it states, in that section, that, (as read), "Except as provided, the total business income of the partnership shall be apportioned at the partnership level. In accordance with the apportionment rules of UDIPTA, sections 25120 through 25139, Revenue and Taxation Code, and the regulations thereunder."

That's the portion of the code that exists even prior to any amendment that might occur, and that does not refer to 17952, et al., so that's consistent with the 15 day-notice that says, "Only nonbusiness income is subject to 17952," since this paragraph right here says that "business income is subject to sections 25120 to 25139."

Does that answer your question?

I'm happy to answer more.

CHAIRPERSON YEE: Yeah. I follow on that.

So is it, then, the point that Mr. Vesely raised is really taking that portion of the statement from the hearing officer, a little misplaced with respect to what it actually is in reference to?

MS. PAGE: Right. And we're referring to 17951-4 only, because that's what is being amended.

CHAIRPERSON YEE: Got it. Okay. All right.

Well, any other comments at this point? Okay.

Let me have Mr. Parker come forward, followed by Mr. Cliff Berg and then Andrew Govenaar.

MR. PARKER: Good afternoon, Members. My name is Chris Parker. I'm with Moss Adams.

We want to thank the board members and their staff for their commitment to transparency and communication throughout this process. I also wanted to personally thank the FTB staff for their communication regarding the regulation project. We support the staff recommendation to remove the draft language in the proposed regulation regarding California Revenue and Taxation Code section 17952.

Thank you for your time.

CHAIRPERSON YEE: Thank you, Mr. Parker.

MR. BERG: Thank you, Madam Chair, Honorable Members.

For the record, I am Cliff Berg with Governmental Advocates, and with me today is my partner Andrew Govenar, who may or may not join me up here since it's a single podium.

We are here today because we are very concerned about where the regulatory process has left the state of the law. Your board has invested more than three years in a public process, in which staff has changed its position not once, but three times.

First, staff stated that a regulation was needed to overturn the "Valentino" and "Venture" decisions. Then staff stated that it would be done on a prospective basis.

Now, as of two months ago, staff is stating that a change is not necessary since staff will not follow the only available authorities.

Although staff is apparently unbothered by their changing positions, taxpayers, who are required to self-assess their tax liability, have been left to rely on misleading pronouncements coming out of this regulatory process. Taxpayers were left with no other option but to follow the "Valentino" and "Venture," given that the proposal to amend 17951-4 had a prospective effective date. California tax law should be clear and transparent, not an insider game.

Taxpayers deserve certainty and should be able to rely on the written pronouncements of the department. Those who choose to invest in California should know that the tax laws will not change without adequate notice. Relying on lengthy and expensive litigation is an abdication of the FTB's duty to provide guidance and assistance built on self-compliance.

As a result, we respectfully request that the board direct staff to follow "Valentino" and CRTC section 17952 with respect to intangible income until there's a fair and transparent process to change that treatment.

We also agree with the prior witness that the comments included in the 15-day notice of amendment issued by the FTB around February 20 be stricken. We believe that this is a disingenuous attempt to change the law and is really an underground regulation.

Thank you.

CHAIRPERSON YEE: Thank you, Mr. Berg.

Let's hear from Mr. Govenar, and then I will --

MR. GOVENAR: Andrew Govenar. Just one quick comment.

I did bring copies for the board. We tracked the public comments from FTB staff, starting in July 2014, where they said staff believes that the regulation should be amended. They brought it up that it should be, that it was inconsistent, which is why they were actually offering the regulation on July 8th, 2014.

Then, the next interested parties meeting, they asked the public to comment on whether it should be retroactive or prospective. They then took the prospective comment at the next public published formal rulemaking, which was December 2017. That was actually in there, as prospective. And staff identified

that the reason they were making this change was that they needed the clarification because it was ambiguous and inconsistent.

So if the board would like to see this, these are all the public comments. So really the question is, why would FTB staff publicly state that they needed to make this change; make the change; go out to other public comments; then ask the board to make the change; the board approved going forward of making that change; now they have taken it out; and now they say, by the way, we didn't even need to do it, because we're just saying, it's actually the law right now.

So with that, thank you.

CHAIRPERSON YEE: Okay. Thank you very much.

Let me just say, any perception or allegation of any kind of underground rulemaking is a serious allegation. And I wanted to turn to Mr. Swieso and Ms. Page about this.

My understanding is that this whole effort was for the purpose of providing clarification to an existing regulation, and not establishing a rule of law. And if there's any criticism of what has transpired here, I will weigh in a little bit on this during my board member time. It probably is that the process could have been improved with respect to just the communication back and forth, probably a little bit more transparency with respect to what was being contemplated.

And I don't know that, given the complexity, perhaps, of what was trying to be accomplished and trying to track all of this, over three IP meetings, that maybe some interpretations got lost. But I want to just turn it over to Craig and Natasha for any comment on just going back to the original intent of this effort and where there may have been some breakdown with respect to how some taxpayers and advocates are perceiving the intent of what we're trying to do here.

MR. SWIESO: The purpose of the regulation and amendments were to not establish, but reaffirm long-standing policy with respect to sourcing income to nonresidents from passthrough entities. And that's what we were seeking to achieve.

We were not seeking to set forth, as you have stated, a new rule of law. We are under the opinion that it's a long-standing rule of law of how to source income items from passthrough entities to nonresidents.

CHAIRPERSON YEE: On the issue of -- the way Mr. Berg raised it -- as to whether the Franchise Tax Board is following "Valentino."

Can you speak to that, because, obviously, there were some --

MS. PAGE: The board has always followed "Valentino" since it was first promulgated, and we continue to follow "Valentino."

CHAIRPERSON YEE: Okay. All right.

Questions or comments then, Members?

Member Runner.

MEMBER RUNNER: Just a couple quick observations.

At least what I am hearing so far, from testimony, is that there seems to be agreement on the issue of the strikeout. I think, in the beginning and certainly with this discussion and earlier responses, there might have been some confusion on that. But at least, right now, it sounds like we have that on agreement, on the strikeout side.

On the regulation, the bottom line -- at least what I am hearing -- is that there seems to be a dislike on the explanation that's in the material, given to justify the strikeout. I think that becomes, kind of, the core issue, I guess, of the disagreement.

I think the issue of "Valentino" was an important discussion, to have in terms of the direction. Because I think one of the issues I'm concerned about is that taxpayers have clarity as they look to the future and how it is that they respond to what the court decision was at that point.

Let me just ask, at this point, then, do we feel like we are clearly inconsistent with federal tax law, then, as we proceed in these issues and as we apply what is in this regulation?

MR. SWIESO: Well, actually, with respect to federal tax law, Senator Runner, this is about apportioning income between a variety of jurisdictions. The federal laws do not address that concept.

Instead, for instance, with respect to foreign nationals who might be nonresidents, there might be issues at that level. But with respect to nonresidents that are in the United States, that are not residents of California, that's pretty exclusively within state law.

So we're not countering federal law because there is no federal law on this issue.

MEMBER RUNNER: In regards to the clarity, then, and, again, at least what I thought I was hearing, then, from some of those who were concerned about the explanation of the strikeout, is the potential added confusion that may be there for the taxpayer.

Do you believe that the taxpayers have clarity in regards to the application of the regulation, then?

MR. SWIESO: The regulation that already exists is very open about how you treat items of income from pass through entities to non-residents. Those rules have been in existence for quite a while. These are merely amendments to those rules.

So taxpayers have been filing based on the existing regulations. With respect to any of the proposed amendments to this, it is merely a proposed amendment that needed to go through the vetting process, through stakeholders, through interested parties meetings, to regulation hearings, so it's still in a process of being formed; it's not definite yet.

MEMBER RUNNER: And let me ask here, again, from you, in regards to the concern that we were hearing, in regards to the kind of concern, in regards to the explanation that is being asked to be struck out also.

Where is it that you would believe they are wrong in regards to the issue of that?

MR. SWIESO: Well, Natasha earlier expressed how they were sort of wrong about that, or had a different view, so to speak.

But what we're talking about is a statement in a 15 day-notice, which is a statement of staff as to why we're making a revision to an existing proposed revision. And so that's, again, merely an expression of

staff. That does not carry any authority. So it's not as if the FTB can use that at any point against the taxpayer. It's an expression of our interpretation, but in and of itself, it has no authority.

MEMBER RUNNER: Okay. Madam Chair, I don't know what procedures are here.

So I guess what I would be interested in hearing from some of those who do believe that, indeed, that language has some authority. So I'm not sure procedure-wise.

CHAIRPERSON YEE: Sure. I can bring the speaker back.

MEMBER RUNNER: To me, that's the core issue, in regards to why it is that you would believe there is no authority there, and they would believe that it does, indeed, have authority that affects them, the taxpayer, and that would be the question I would have.

MR. LANGSTON: I can add a little bit here. This is Bruce Langston, board counsel.

MEMBER RUNNER: Okay.

MR. LANGSTON: You know, everything will become part of the record. The explanation of why we made the change was just staff's description of what happened at the last regulation meeting. But that, along with all of these other comments that we're hearing today, are going to become part of the regulation file.

So, I agree with Craig. There really is no weight to the description in the 15-day notice. Really, the question is, what's the language of the regulation? Is that sentence in or out?

So that's our interpretation. But we can hear from Mr. Vesely.

CHAIRPERSON YEE: Yes, Mr. Vesely.

MR. VESELY: Yes. We completely agree that that statement in the notice has no weight. It has no weight.

However, it's in there. And we think that it would create confusion for taxpayers, for anybody deciding cases in this area, perhaps, the OTA, a court. Well, why is that statement in there? Does that have any merit at all?

The section 17952 says nothing about business or nonbusiness income. If, indeed, that's the way staff thinks it should be interpreted, I would suggest that we get a legislative change to 17952, but not by regulation or by a statement in a notice.

That's all I'm saying here.

I think it creates confusion. It's in there, and I don't think it's consistent with the actual language of 17952 and with the cases that have been decided under it. Recently, the Board of Equalization "Bills" case, the "Aames" case. You know, other cases like that. They had nothing to do with business/nonbusiness income. That's all I am saying.

MEMBER RUNNER: Let me just follow up, then, on that.

If, indeed, you would believe it has no weight, you all believe it has no weight. Why not take it out?

MR. LANGSTON: There isn't really a way to take it out.

MEMBER RUNNER: Okay.

MR. LANGSTON: I mean, a 15-day notice has already gone out.

MEMBER RUNNER: It's been noticed.

MR. LANGSTON: Unless we were to issue another 15-day notice to put the language back in, there isn't a vehicle to do it.

However, as I was saying earlier, all of this testimony -- will be in the transcript and will be included.

So we don't believe that language has any real weight. It was a description that we have to describe why we're making the change, but, clearly, all of these comments will also be in the record.

MEMBER RUNNER: And Mr. Langston, when you say it's in the record, I'm assuming that you mean that as this process continues.

CHAIRPERSON YEE: Rulemaking file.

MEMBER RUNNER: And can you just, for explanation for us newbies --

MR. LANGSTON: Sure. There is --

MEMBER RUNNER: -- explain, then, what you mean by it's in the record, and what the next steps would be if, indeed, there was concern?

MR. LANGSTON: There is a formal regulation file that's always open to the public, as part of the Administrative Procedure Act process. If your board today follows staff recommendation, and does not want to put the language back in, then when the regulation was first noticed, there was a one-year period in which it goes to OAL; it goes to Department of Finance. And then, finally, it becomes published.

And as part of that, the OAL considers all of the comments made and all of the issues as part of the file.

So what would happen is, the language of the regulation would get published without that sentence. And anyone who was interested, doing litigation or whatever, would be able to not only see the 15-day notice, but would be able to see all of these comments. Because the transcript of this meeting today, with respect to this issue, is going to be entered in that file. So that's the way I would explain it.

MEMBER RUNNER: Thank you.

CHAIRPERSON YEE: Let me just interject here.

So Member Runner and I know the point you are trying to drive to is, how do we get clarity with respect to the language of the rule?

And I think there's a part that even could occur subsequent to the adoption of the rule, by OAL. And that is, I think we have to be right back out there -- the rulemaking file is the rulemaking file -- to try to put all of those pieces together with respect to what the effect of the change is; could be daunting for some parties. But I would ask the legal department to think about what subsequent step could be

taken, just to be sure that taxpayers and practitioners are very clear about what the resulting guidance of the rule will have.

MS. BRUNETT: Definitely, we can do that.

CHAIRPERSON YEE: Okay. Okay.

MR. VESELY: Thank you.

CHAIRPERSON YEE: Thank you, Mr. Vesely.

Mr. Berg?

MR. BERG: Thank you.

And I do want -- I mean, I like your suggestion. We think it should come out. We think whether you make the argument of how much weight it has, it still needs to come out. We think it is, in essence, an attempt to influence the direction of the underlying policy arguments. We believe, also, that the reason the board has been told that this is being deleted is -- this regulation is being deleted, and we were told repeatedly was because stakeholders indicated that the regulation did not -- it was not statutory authority and, in fact, the regulation was in conflict with statute. That's not what's in the comment.

And the fact that the underlying regulation that's being deleted arguably was in conflict with statute argues also to the underlying issue that we think exists, which is an attempt to change or clarify the rules underlying "Valentino," "Venture," through, in essence, a backdoor policy versus doing it through regulation or statute.

We think the law needs to be clarified by statute or by regulation. If there's not statutory authority for the regulation, and that's the underlying reason why it's being withdrawn, then that ought to be clear.

CHAIRPERSON YEE: Thank you, Mr. Berg.

This is interesting because I think one of the interpretations that lead to this whole process was the observation, by many, that FTB was actually narrowing the application of the statute. And so I think this was really an attempt to try to clarify that aspect of it.

I do think that there are some steps that, certainly, the legal department, as Ms. Brunett has committed to doing, to really be sure that the guidance is clear, once the rule is adopted by OAL and that we're sure that taxpayers and practitioners are on the same page with respect to its application.

Other comments, Members? Member Wong-Hernandez? Do you have a comment?

Okay. All right. So we have the -- both amendments before us, Members. Any further comment or observation? And if not, is there a motion?

MEMBER WONG-HERNANDEZ: Unless anyone has other comments, I will move the regulation -- adoption of the regulations --

CHAIRPERSON YEE: Okay.

MEMBER WONG-HERNANDEZ: -- as proposed by staff.

CHAIRPERSON YEE: All right. I will second that motion.

Further discussion?

MEMBER RUNNER: I am certainly going to be supportive, but, at this point, I do believe that, certainly, through the testimony here we see that there's at least an uneasiness in regards to the clarity. And I think that through the rest of this process, I think the staff needs to continue to address that issue, and I hope the taxpayers or representatives here, who are concerned with this, will continue to work in the process, too, to help create that clarity that I believe taxpayers deserve.

CHAIRPERSON YEE: Point well taken. Thank you.

Yes, Member Wong-Hernandez.

MEMBER WONG-HERNANDEZ: I know we're mid-motion, but I wanted to echo that I would hope that staff would continue to work with this, and it seems like everyone has been willing to recognize that maybe there was some process obstacles and that there were some misunderstandings and lack of communication, and that, at the core, though, the regulations, as they are being proposed now, I think get to a place where the regulations themselves and their language is making everybody feel like they are on the same page, and are comfortable with that.

Sort of moving forward with the other pieces of clarification, I think that it's going to be part of the process for them. So thank you all for taking also the time to explain this.

MEMBER RUNNER: I would be remiss if I didn't thank both the staff and also the taxpayers. The staff came over, met with the other taxpayers in my office, kind of walked through their issues, and I appreciate the openness in regards to trying to resolve that issue.

CHAIRPERSON YEE: Thank you, Member Runner.

I was going to save this for board member time, but maybe it's more relevant here, with respect to process. And that is, we have a number of different avenues to communicate with taxpayers. And I think, from my perspective, relative to an instance like this, obviously we all, I think, want to adhere to the highest level of transparency, but certainly using our monthly publication of "Tax News" to put forth more information as these types of issues continue through the process and certainly upon adoption would be appropriate.

I think the issue with respect to this particular effort was that there was a period of time when there was no activity. And so I think that perhaps it would have been appropriate to have an additional interested parties meeting before going into the formal rulemaking process. And so I would just ask that we keep tabs a little bit better with respect to the time frames that have lapsed in between activity on these types of matters.

And then, I know there's a lot of interest with respect to what the future OTA may do or just decisions by other bodies. But to the extent that the Legal Department with the Franchise Tax Board can be more forthcoming, more transparent, when a decision is made not follow a non-precedential decision, I think that also could be very helpful, so that when we do get into any kind of formal rulemaking process, we at least have had some clarity around those issues. Okay?

So with that, we have a motion and a second.

Is there an objection?

Without objection, the staff recommendation is approved.

Thank you very much. Thank you all very much for your input.

Moving on, our next item is item number 7. These are administrative matters. And we have Tiphonie Weiss and Michael Banuelos, who will be presenting the Spring Finance Letter and the IT Consolidation Finance Letter, as action items for board approval.

Good afternoon.

MR. BANUELOS: Good afternoon, Board Members. It's very nice to see you all here today. My name is Michael Banuelos and I'm with the Finance and Executive Services Division.

I'm here today with my colleague and friend, Tiphonie Weiss. Tiphonie is the director of FTB's Financial Management Bureau. And Tiphonie and I are here to present two Spring Finance Letters for your consideration and approval today.

With your permission, I will present the two proposals, and then we would be happy to answer any questions that you may have about such proposals.

CHAIRPERSON YEE: Thank you.

MR. BANUELOS: Okay. So the first item we are presenting is our Cannabis Finance Letter. So obviously, earlier in the board meeting, you heard a presentation from Laureen and Annette, talking about the programmatic aspects of what we are doing. And now Tiphonie and I get to come up and ask for the money to do some of those things, here today.

FTB is requesting a \$193,000 augmentation in fiscal year 18/19 and a \$247,000 augmentation in 19/20, and ongoing, to handle the increase of cash being delivered for tax payments, due to the new adult use cannabis law.

This request includes funds for the partnership with CDTFA, and the funds will be used for additional supplies, increased security, and armored car services needed to process payments of this nature.

And the second finance letter that we are submitting for your approval is related to the recent information technology classification consolidation. So this may be impacting you folks, back at your department as well.

FTB is requesting a \$1.76 million augmentation in fiscal year 18/19 and a \$2.33 million augmentation in fiscal year 19/20, and ongoing, to cover the costs of transitioning staff to the new IT classification series.

On January 11th, 2018, the State Personnel Board approved California's IT classification plan that modernizes IT classifications to attract and retain competitive and knowledgeable staff.

Effective January 31st, 2018, California began using the new IT classification structure. This project abolished and transitioned 36 IT classifications into 9 classifications.

The consolidation plan created deep classes that provide for employee retention by increasing levels of work experience and compensation without requiring repetitive examinations. While this creates a career path and promotes retention, it also creates somewhat of a salary gap at FTB.

With the classification consolidation, the maximum salaries increased for eight of the former IT classifications that were included in this effort.

Earlier in the Leadership Development Presentation that you heard from Toni, you heard her mention that FTB has a high retention rate here, and that would be inclusive of our Technology Services Division as well.

The increased funding needed, that we're asking for today, is significantly attributed to FTB's high retention rate. So I will throw out a couple statistics:

Roughly 60 percent of our IT staff consolidated into the IT Specialist I classification, and they are at maximum salary;

And three of the six prior classifications consolidated into the new IT Specialist 1 classification now have a new maximum salary that's available to them.

So overall, FTB estimates approximately 30 percent, which is roughly about 300 people, of our IT staff are eligible for a salary increase.

FTB also assumes a similar percentage of employees will continue to progress, receive salary increases, and ultimately reach the maximum salary for the new classifications, creating the identified funding need.

This request provides the funding necessary for FTB to implement the new IT classifications, consistent with California's IT Classification Plan.

I now ask for the board's approval of these two proposals, and we would be happy to answer any questions you may have.

CHAIRPERSON YEE: Thank you very much, Michael.

Questions, Members?

MEMBER RUNNER: Move adoption --

CHAIRPERSON YEE: Okay.

MEMBER RUNNER: -- of 7 and B.

CHAIRPERSON YEE: Okay. We have a motion by Member Runner to adopt both finance letters.

I will second that motion.

Ms. Wong-Hernandez is abstaining?

MEMBER WONG-HERNANDEZ: Yes, thank you.

I mean, I'm happy to support it going through our process at Finance, but I won't be voting.

CHAIRPERSON YEE: Very good. Thank you.

With that, without objection, both finance letters are approved.

MR. BANUELOS: Thank you all for your support.

MS. WEISS: Thank you.

CHAIRPERSON YEE: Tiphannie, I believe we welcome -- remarks are in order for you. Welcome.

MS. WEISS: Thank you.

CHAIRPERSON YEE: Item number 8. We will now move into Executive Officer's Time. Selvi.

EXECUTIVE OFFICER STANISLAUS: Good afternoon, Madam Chair and Honorable Board Members.

To begin my time, I would like to welcome two new faces to our board, and then I would like to share some of our highly seasoned achievements thus far.

First, Board Member George Runner. Mr. Runner is the chair of the Board of Equalization and represents more than 9 million Californians in BOE's first district. In addition to several years with the BOE, Mr. Runner has a distinguished career by serving in the State Senate and Assembly. We value your experience, Mr. Runner, and we're very happy to have you here on our board.

MEMBER RUNNER: Thank you.

EXECUTIVE OFFICER STANISLAUS: Next, Ms. Jacqueline Wong-Hernandez. Ms. Wong-Hernandez serves as representative of Finance Director Michael Cohen, who sits on our board as well.

We value your help and advice and all your counsel you have given to us thus far, and we are so glad to have you here as well.

From all of us at FTB, we want to wish you both a very warm welcome.

(Applause)

EXECUTIVE OFFICER STANISLAUS: All right. Now I would like to share a few highlights from this year's filing season.

As a reminder, this year, the final filing date is extended to Tuesday, April 17th. You will sense the energy around the campus today, as staff works very hard to finish this filing season strong. And from all reports, I'm confident this season will be another success.

So let me tell you why: The number one reason people contact us during filing season is to check on their refunds. I'm happy to say that refunds have been very timely this year. Nearly 89 percent of taxpayers who e-filed received their refunds within two weeks. And since 87 percent of personal income taxpayers chose to e-file, that equates to a lot of happy customers.

We know that customer service is very important to you, as it's to us. Let me talk to you about our contact center and our self-service options.

So if taxpayers have questions about notices from FTB, we want to make sure our contact center is sufficiently staffed to prepare for them. We have taken a number of steps over the last two years to

better balance the number of notices we issue with our staffing resources. This has a direct effect on our level of access, which is vastly improved this year to 77 percent. So I'm very happy about this change as well.

So to help taxpayers even further, we launched a customer service dashboard on our website last year. This is a transparent tool that gives taxpayers processing time frame information for all returns, refunds, and payments. And most importantly, for this year, the dashboard provides real-time information on phone and chat and wait times, and even lets them know when wait times are expected to be at their lowest.

We also offer more self-service options, so let me mention to you: Check your refund status. That's a Web application which has been accessed over 3 million times just this filing season; and our free FTB refund mobile app, available on Apple and Android devices. So these services have been checked 54,000 times this filing season.

So my last update, as you know, is the California EITC. We have expanded this year to eligible self-employed individuals and also raised the income eligibility. So as of April 7th, FTB has allowed over 1 million claims for 251 million in refunds to working families that need it most.

So from an operational standpoint, Board Members, the season has been moving forward smoothly. So we look forward to sharing more details with you at our June meeting.

Thank you for my time.

CHAIRPERSON YEE: Thank you Selvi, very much. And congratulations to the entire FTB team for what is looking like a very, very successful filing season.

Thank you. Thank you.

Questions from Members on anything for Ms. Stanislaus? Okay.

We'll now move into Board Members' Time. And let me just first start by welcoming my two colleagues. I consider myself the luckiest chair of any board, to have two very, very thoughtful members on this board joining me: Member Runner, to be reunited with you, in terms of just always looking at operations to see how we can always improve and do better. Just very, very happy that we have the opportunity to have your insights here at the Franchise Tax Board. Welcome.

MEMBER RUNNER: Thank you. Thank you.

CHAIRPERSON YEE: And to Member Wong-Hernandez, who we share seats on other boards as well. But always happy to have the finance perspective on the board, which is a good way to guide us through some of the more difficult issues.

Welcome to both of you.

MEMBER WONG-HERNANDEZ: Thank you.

CHAIRPERSON YEE: As -- Mr. Runner, you will be familiar with, obviously, what makes this organization really a topnotch organization, is the human talent and the abundance of it throughout the organization. And one of the great joys that we have here is to celebrate those who are departing state service. And as I used to do over at the Board of Equalization, particularly if we have more than one retirement, I

would add up the years collectively of experience, and it takes your breath away. Takes your breath away. But today, we do have a retirement resolution, which I will present in a moment.

But let me just ask Member Runner, Member Wong-Hernandez, if you have board member comments at this time.

MEMBER RUNNER: Again, thank you for the kind welcome. And I just want to thank the executive officer and also the -- many of the staff for the great welcome and tutorials that they have been able to provide us in this -- in the last few weeks. So appreciate it very much. I look forward to serving on the board this year.

CHAIRPERSON YEE: Thank you.

MEMBER WONG-HERNANDEZ: I would echo all of Senator Runner's comments. Thank you for all of your time and your tutorials.

CHAIRPERSON YEE: Thank you.

And I would be remiss if I didn't say, I could not do this without my Deputy for Tax Policy, Yvette Stowers, who represents me on all fronts here. So thank you, Yvette, for your continued service and leadership.

We have today a wonderful opportunity to acknowledge Ms. Laurie Rhea, who is retiring and who is our Privacy and Disclosure Officer.

(Applause)

CHAIRPERSON YEE: And this is always a little bittersweet. But I also want to welcome her husband, Nathan, who is in the audience today. Nathan, if you could stand.

(Applause)

CHAIRPERSON YEE: So as I said, Laurie is our Privacy and Disclosure Officer with the Privacy, Security, and Disclosure Bureau, here at the Franchise Tax Board. And she has faithfully served the people of the state of California for 31 years; and was the first agency privacy officer for both the Gov-Ops Agency as well as the Business Consumer Services and Housing Agency.

Laurie began her FTB career in 1987 as the purple pencil person in the processing pipeline, making corrections on green bar paper reports; and who has undoubtedly -- those paper-intensive days that prompted her career shift to technology, during which, she became a Certified Information Privacy Professional, and help launch, really, a lot of the systems that the Franchise Tax Board relies on today.

But I think if you were to ask anyone around this campus, Laurie would be -- will be forever remembered for her "we can fix this" attitude; her handy roll of Duct Tape; and her place in IRS lore for work which led to unprecedented positive scores during the IRS safeguard reviews, and thus allowing FTB uninterrupted access to important federal tax information.

And the deceptively stoic Laurie, who was constantly telling staff "no" in her role as the Privacy and Disclosure Officer, has always said "yes" when it comes to helping her fellow employees and her community.

And this is something that is, I think, a hallmark of this organization, that the professionalism that is exhibited here, during the work hours, just extends into the community, when many of you return to your communities.

That Laurie is serving as a mentor, a volunteer in the school's partnership program, or a Gifts from the Heart committee member and repeat donor; and will be spending her retirement in the great outdoors, traveling and cruising with her husband, Nathan. And all the while, shamelessly spoiling her adorable grandchildren.

So we wish you -- wish you tremendous happiness in your retirement, the best of health, but, more importantly, with tremendous gratitude for all of your contributions for all of the people of the great state of California.

Thank you very much, Laurie.

(Applause)

MS. RHEA: If I could just say thank you, Chairwoman Yee and Board Members. Thank you, Selvi.

I never, in my wildest dreams, imagined I would be working at Franchise Tax Board for 31 years; that I would spend my entire career with FTB. And I am very honored and humbled by the fact that this type of public recognition is a part of that. So thank you for that. Thank you for this honor.

This organization promotes practices, policies, just our general sense of being, that is about family and is about providing opportunities for everyone who works here. And I have truly, truly, benefited from that. And I wanted to say thank you to the leaders of this organization, who promote those values and those practices.

I never imagined -- and, again, I can just say, I am so thankful to have been a part of this organization for so long. I was so happy and grateful to have served the State of California, and I am so happy and grateful not to have to make those tough decisions anymore.

(Laughter)

MS. RHEA: So thank you very much for this honor.

CHAIRPERSON YEE: Thank you, Laurie.

(Applause)

CHAIRPERSON YEE: Let me ask my colleagues to join me in presenting you officially with your resolution.

(Applause)

CHAIRPERSON YEE: All right. Any other comments under board member item before we recess into closed session?

Okay. Very well. Then our next item is closed session. The board will be going into closed session, remaining here in the auditorium to discuss pending litigation.

Audience, at this time, I'm going to ask you to exit the auditorium.

(Board recessed into closed session from 3:03 p.m. to 3:11 p.m.)

CHAIRPERSON YEE: The board met in closed session and discussed pending litigation.

And seeing no other business coming before the board, we are adjourned. Thank you very much.

(Proceedings concluded at 3:11 p.m.)

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CERTIFICATE OF REPORTER

I, KATHRYN S. SWANK, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing proceedings was reported in shorthand by me, Kathryn S. Swank, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said proceedings nor in any way interested in the outcome of said proceedings.

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of April 2017.

/s/ Kathryn S. Swank

KATHRYN S. SWANK, CSR

Certified Shorthand Reporter

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