

STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

TUESDAY, JUNE 5, 2018

GERALD GOLDBERG AUDITORIUM
9646 BUTTERFIELD WAY
SACRAMENTO, CALIFORNIA

REPORTED BY:

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APPEARANCES

BOARD MEMBERS:

BETTY YEE, CHAIRPERSON

YVETTE STOWERS

JACQUELINE WONG-HERNANDEZ

SEAN WALLENTINE

STAFF:

SELVI STANISLAUS, EXECUTIVE OFFICER

PATTI PRICE, BOARD LIAISON

ALICIA ACOSTA

MICHAEL BANUELOS

TOM BIELAWSKI

DIANE DEATHERAGE

JAMIE GILLETTE

LESLIE LeDOUX

JASON MONTIEL

KEM MUSGROVE

PAM PAULSON

DOUG POWERS

NOORIA SAMIMI

TIPHANIE WEISS

COUNSEL:

BILL HILSON

BRUCE LANGSTON

APPEARANCES CONTINUED

ALSO PRESENT:

DENNIS L. LOPER, Capitol Strategies Group

SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 5, 2018, 1:31 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. PRICE: Sean Wallentine, representing Member George Runner?

MEMBER WALLENTINE: Here.

MS. PRICE: Member Jacqueline Wong-Hernandez?

MEMBER WONG-HERNANDEZ: Here.

MS. PRICE: Chair/Controller Betty T. Yee?

CHAIRPERSON YEE: Here.

Thank you.

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

Will you all please rise and join me in the Pledge of Allegiance.

(Pledge of Allegiance recited in unison.)

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

The first item, Members, is the approval of the minutes. And we have before us the minutes of the April 12th, 2018, board meeting.

Any questions or questions or comments? Concerns?

MEMBER WONG-HERNANDEZ: Move approval.

CHAIRPERSON YEE: Okay.

MEMBER WALLENTINE: Second.

CHAIRPERSON YEE: Resolution by Member Wong-Hernandez to approve the minutes; second by Member Wallentine.

Without objection, the minutes are approved.

Item 2 is a presentation on customer service and the Management Development Program project. And we have Pam Paulson and Alicia Acosta to present. This is an informational item, Members, so we will direct our attention to the screen.

Good afternoon.

MS. PAULSON: Good afternoon. My name is Pam Paulson, and with me today is Alicia Acosta. And we're excited to be here today to talk about Customer Experience and how we learned to apply these principles through our participation in this year's Management Development Program.

Today we plan to quickly define Customer Experience, or "CX," and why we believe these principles produce huge benefits to both the customers and to California.

We'll talk about how we learned to apply CX principles and co-creation processes as part of our MDP project to improve the onboarding experience of FTB new hire employees. We'll share with you just a couple of our findings and recommendations. And then, finally, we'll take a look at the future of CX here at FTB.

So what is CX? CX is really just a modern way of looking at customer service. It's defined as how customers perceive their interactions with a company or an organization, an interaction happening whenever there's a touch point between the customer and the organization.

Those interactions are measured by what we call the three E's: Was it effective? Did it meet their need? Was it easy, simple, fast, and intuitive? And finally, did it evoke a positive emotion? And by that, we mean, would the customer say, "I feel confident that FTB gave me the right information"? Or maybe, "I may not be happy about this tax bill, but I understand why it was assessed," or even, "I feel respected and heard."

The key to CX is that we measure the success by what the customer thinks and not by what FTB thinks.

Probably the easiest way to understand this is to think about an organization that has very high Customer Experience scores, like Amazon. Who doesn't love to shop with Amazon? And it's not just one thing that we love. It's everything that Amazon has to offer: Great products at competitive prices that are delivered right to your door in just days; and a return process that makes life very easy. It isn't just one thing. It's about all of the interactions with an organization.

So just like Amazon, FTB needs to consider everything we do that touches or interacts with the customer. Many of those interactions or touch points are here on the slide.

FTB is moving towards weighing each of these touch points against the three E's of effective, easy and emotion. Those bullets are almost like the steps a taxpayer goes through to file a return. And if FTB improves those touch points, like easy-to-understand instructions, timely refunds, and awesome self-serve options, then we can give many of our customers what they need before they decide to call. But if they do need to call, we want those interactions to be excellent as well.

The benefits of CX are well worth the effort. For our taxpayers, when we value their opinions by listening to them, and improve our interactions based on their feedback, the changes we make have a powerful and positive impact. It's not helpful, for example, if FTB gives a new self-service application an A-plus grade; if the customer tries it and, based on their perception, gives it a D minus. That's why CX is so powerful, because interactions are specifically built based on their perceptions and not ours.

And when we begin to build that way, we increase the levels of confidence customers feel while interacting with our organization. We begin to grow the use of self-service applications because the

customer finds them efficient and easy to use. And, in fact, they find the whole journey of filing their tax return easier because, if they need help, they get it, exactly when they need it. And when we begin to build and improve our interactions, using CX principles, FTB also wins, because as the customer service with FTB improves, so does the trust in our self-service options, which increases savings and efficiencies.

This ability to self-serve also drives compliance. And the more taxpayers trust FTB, the more willing they are to try our other self-service options, which drives even further savings.

And one last interesting facet, that we don't have listed here, is the fact that studies have shown that as more departments improve the experience of their customers, the overall attitudes towards government also improves.

And now we would like to move from the general principles and benefits of CX to look at the project we were assigned as part of our participation in this year's Management Development Program.

Alicia and I were first introduced to Customer Experience through MDP, which is an annual leadership program where 20 to 30 managers and supervisors can elect to participate in a nine-month program to develop and expand leadership skills. While you continue with your normal duties, you also attend classes and are assigned a project that helps FTB further its goals.

Our team was assigned to the Customer Experience Project. Our project objective was to test one of the CX principles referred to as "co-creation." Co-creation is the practice of involving customers and employees in the experience design process by collaborating with them to gather deep insights into their wants and needs.

We were to validate whether co-creation produced anything more valuable than other tools that we use here at FTB, such as surveys, interested party meetings, or focus groups.

After some training from a consultant with a specialized background in CX, our project team engaged in a co-creation exercise with new FTB employees. The goal was to use co-creation to identify action items that would improve the new hire onboarding experience, learning curve, and increased job satisfaction.

Co-creation uses a series of structured exercises in facilitated full-day workshops with customers which, in this case, were three groups of new employees from our primary program areas. These workshops with the employees helped to draw out employee experiences, beginning with the day they received the conditional job offer through the first 30 days on the job.

And now, I will turn it over to Alicia to share some of what we discovered through using the co-creation process, including some of our project deliverables.

MS. ACOSTA: Thank you, Pam. Good afternoon, Board Members.

One of the key exercises we facilitated with the new employees was to map out all the interactions that took place during the current onboarding process. We call this a journey map. This is just like it sounds. It breaks down each interaction or touch point that happens within the onboarding experience.

Each touch point is shown in either the green, yellow, or red swim lane on the map, depending on the employee's emotions associated with each interaction. Emotions are very important because they drive behavior.

Here is a list of the seven touch points from the journey map. By facilitating structured exercises in the co-creation workshops, like letting employees build a perfect experience, we were able to identify some findings and opportunities that would greatly improve what is already a well-established onboarding process.

We would like to share three of those touch points and the findings with you.

We're going to start with touch point 2, the dreaded background check. Meet Sam. He's here just for this presentation and represents the sum total of the new employees from our co-creation process. The total of their feelings or insights are graded as red, yellow, and green to the left; and our team's findings and opportunities for improvements are noted to the right.

Sam's positive feelings from the conditional offer are starting to sour a bit as we move into the background check phase.

We were initially surprised that many new employees were apprehensive and nervous about this stage. They were concerned with the length of time it took to receive the results and started to make up their own stories that may need further review. They were worried about the things like the unpaid parking ticket or the epic party that was College Spring Break 2015. They wondered if things like that could make them fail their background check.

After working through these and other emotions, we realized that an easy way to alleviate these pain points was to give employees status updates and a timeline with more information on the process.

Next, let's review touch point 3. As you can see, Sam is super excited to receive the official job offer. He's grateful and relieved that he has passed the background check. But the happy feelings soon turn to anxiety when he considers what's ahead. He appreciated the personal phone call he received with the job offer and the verbal "welcome aboard," but he was so excited during the phone call, he forgot to ask some important questions: What exactly will I be doing? What will my salary be? And what does my benefits package really include?

We were actually surprised to learn that Sam didn't know what his salary would be until he received his first paycheck.

Here is where we found a huge opportunity: Among other things, we are recommending that FTB create an official job offer package. While some areas have instituted ideas like this, these best practices should be consistently applied and should include things like the job description, the duty statement, salary range requirements, and benefit options.

This package should be followed with a pre-arrival letter to give the new employee key details such as the start date and time, map of the parking lot and main lobby, name of the person who will greet them, a schedule for their first day, proper attire, and contact information in case something happens before their first day.

Based on our findings, these opportunities would greatly calm the new hires.

Touch point 4, the big day.

When Sam arrives at FTB, he feels excited when he sees a smiling face greeting him at the welcome center. However, he is overwhelmed and a bit intimidated by the size of the building. The campus feels like a city and he feels a little lost.

Sam was very encouraged when Selvi and other executive managers greet the new hire class on their first day. FTB leaders share their personal journeys and successes, making employees feel welcomed and valued.

To illustrate how important our executive staff's involvement is to the new hires, I want to share a quick story that was mentioned in one of our workshops. A new hire became visibly overwhelmed during one of the group exercises on her first day. Selvi happened to be in class that day and went to speak to this new hire. With a few encouraging words and a gentle hug, Selvi turned this low point into a moment that really mattered to that new employee.

These kind of findings brought home the need to examine emotions and how they drive behavior, and, in this case, engagement and retention were the behaviors we were targeting.

From this touch point, we identified some opportunities that would be easy to implement and help them more quickly integrate into FTB's culture. For example, a tour of the campus would be helpful to highlight walking paths, locker rooms, food locations, outdoor meeting spaces, and, most importantly, the coffee bars.

A casual welcome from their supervisor they will be working for allows them time to get to know one another. And how about a business card from their HR representative, so that they can ask any questions regarding their benefits?

As you can see from these few slides, we found some easy adjustments that would greatly improve this onboarding experience for Sam and others just like him.

The more important thing to note is the value and benefit of these findings. These are things you can't discover with the focus group or a survey. It takes a combination of exercises and interactions that make up the co-creation process to pull out the emotions that need to be addressed, in order to improve the onboarding journey.

Everyone on our team is fully sold on the values of CX and co-creation. This process is superior to customer engagement because it focuses on emotions. If we want to retain staff, we need to pay attention to how interactions like the onboarding process makes them feel.

Co-creation is journey-oriented. It's not concentrated on any one interaction, like training. This means, you catch the problems that happen during the transition, between interactions.

Finally, there is great value in an outside-in perspective. At FTB, we should not just be building processes and interactions with the customers in mind. We should be engaging the customer first and asking them what they need, and then go back and build according to that need. This is a huge paradigm shift, but it's one worth the effort.

We would like to conclude our presentation today by letting you know that FTB is still working to normalize co-creation as a tool wherever it makes sense. FTB has an enterprise-wide team that focuses

on Customer Experience initiatives. Part of their role is education and outreach so other areas of the department can take advantage of this process.

The project we presented today is just one of our co-creation efforts. For the past six months, the team has been assisting in various stages of three other co-creation efforts. FTB is also building CX principles into EDR2. You will hear more about that in a moment from Kem Musgrove.

And, finally, we would like to thank you for allowing us the opportunity to provide this presentation today. It is especially meaningful to us, since we know how much each of you also champion excellence and services provided to California citizens.

And with that being said, we would be happy to answer any questions that you may have.

CHAIRPERSON YEE: Thank you very much, Alicia and Pam.

Before we get into questions, comments, let me welcome Sean Wallentine, who is here, representing Member George Runner, who, I have to say, both have been very focused on the customer service throughout not just the work here, at Franchise Tax Board, but, certainly, over the Board of Equalization and now the new departments.

Sean, welcome.

MEMBER WALLENTINE: Thank you.

CHAIRPERSON YEE: Questions or comments, Members?

Yes, please, Member Wong-Hernandez.

MEMBER WONG-HERNANDEZ: Thank you for your presentation.

I really liked learning about some of the onboarding insights that you have.

Is there an opportunity for you to share that with some other departments? It seems like some of the challenges may be unique to FTB, but that many of them would also be challenges and, certainly, emotions felt by employees going into other departments. So have you had that opportunity, or will you be able to share with other departments or with your agency?

MS. PAULSON: Yes. Actually, we have shared some of the additional findings or the more comprehensive findings. In addition to that, we will be providing, as one of our deliverables from our project, a comprehensive readout deck, which are the insights and findings from the entire onboarding process, with all of the divisions that we interviewed.

MEMBER WONG-HERNANDEZ: Thank you.

CHAIRPERSON YEE: Great question.

Thank you.

MEMBER WALLENTINE: Excellent work.

MS. PAULSON: Thank you.

MS. ACOSTA: Thank you.

CHAIRPERSON YEE: Thank you very much for the presentation.

All right. Members, we're now on Item 3, which is the Enterprise Data to Revenue 2, EDR2, our annual update. Another informational item, video, and a PowerPoint. And we have Kem Musgrove who will make the presentation.

Good afternoon, Kem.

MR. MUSGROVE: Good afternoon.

So my name is Kem Musgrove. I'm the new CIO for the Franchise Tax Board, and I will be presenting an informational update on our second EDR project today, otherwise known as EDR2.

To start, since we do have a couple of new board members, I would like to go over some background for the project. So, first, I will provide you some background on how we actually started the EDR projects and their purpose.

In 2007, the Department developed a long-term strategy called the Tax Systems Modernization Vision. The vision called for three very large scale projects over a 30-year period, focused on three main areas: Modernizing our aging IT systems; focusing on our key business opportunities and objectives; and furthering our strategic plan and vision, where we will primarily focus on three of the four areas shown on our strategic plan: Taxpayer-centric service, effective compliance and, operational excellence.

This slide represents the timelines for the three projects that make up our 30-year vision, which is comprised of our Enterprise Data to Revenue, Enterprise Data to Revenue 2, and the Enterprise Data to Revenue 3 projects.

Now, I do understand, we weren't very creative in our naming conventions, but this will make -- this will make more sense in a second, as I explain this.

So each project represents about ten years from project planning and implementation through final completion. Overall, the project series is designed so each project builds upon the previous project, hence, EDR1, 2, and 3.

For example, our first project, EDR, established the foundation on which the other two projects will now be built. And now that EDR is complete, I would like to talk about our final two revenue goals we had targeted to achieve by the end of this month.

Our first goal was achieving \$4.7 billion in total revenue, overall, with the project. I'm very happy to report, although we still have the month of June to go, we've already achieved this goal and are currently over \$4.9 billion and well on our way to making \$5 billion in revenue.

Our second goal was to achieve an additional 1 billion a year, ongoing, after the project is complete. I'm also happy to report, we've already achieved this yearly goal as well.

The second focus of our tax system's modernization vision is on modernizing and replacing our IT systems. To show you why, if you look at the left side of the screen at the EDR marker on the timeline, it shows the average age of our major systems to be around 17 years old during our first year of the project. Without replacing these systems, in the middle of the screen, it shows the average age to be 27 years old when EDR2 is planned to start in 2021.

And, finally, at the right side of the screen, it shows the average age to be 37 years old, when the third project is planned to start in 2031. These are very old ages for IT systems, so I think you can see why we're focusing on the need to replace and refresh these systems.

And finally, as I stated earlier, the third focus of our tax system modernization vision is on solving our key business opportunities and objectives. This slide represents the six key business opportunities we identified and how they will be solved over the course of the three projects.

As you can see, our first EDR project made great progress towards getting us about 30 percent towards full implementation. This was mainly accomplished by building our foundational systems, like our new case management, our modeling, and our MyFTB applications.

Looking forward to the next project, EDR2, we get to 80 percent implementation by replacing three of our core legacy systems for our auditing, filing enforcement, and collections programs.

And, finally, our third project, EDR3, will take us to a hundred percent implementation for these key business opportunities.

Since EDR2 is our primary focus today, let's look at some of its key components for each of these six business opportunities:

At the very highest level, EDR2's primary focus will be to build upon enterprise process improvements, serve more taxpayers, and continue to address the tax gap, which generates revenue for the state. At a more detailed view, the key components we plan to advance with the project are:

For expanded data availability, we will continue to centralize our data into a single enterprise platform. This will help us manage our data better, improve our data quality, and better utilize our use of taxpayer and third party data.

For business process improvements, with EDR2, we will continue to improve our case selection, workload management, and knowledge management. We will also continue to automate our manual processes and increase our efficiency.

For redundancy and reuse, by moving three of our core processing systems onto the new enterprise platform, we will eliminate redundancy, making us more efficient, and saving costs by allowing us to reuse some of the common features and components that we built with the first EDR project.

For increased self-services and customer experience: We plan to provide new communication options and new education services for taxpayers to self-correct. We'll implement customer analytics and, as you heard earlier, integrated customer experience, as well as improve our marketing and communication capabilities.

For increased data analytics, we will now utilize new data and dynamic modeling strategies to proactively approach noncompliance behavior to further address the tax gap.

And, finally, for replacing our legacy systems and outdated technology, as stated, we'll continue to replace and decommission our older systems by bringing them on to our new enterprise systems and technologies, such as our new case management system.

So in summary, we're very excited about the opportunities EDR2 brings to the State. And shown here again are the high level timelines for the project. As you can see, we're well on our way to procurement cycle and making good progress towards our 2021 project start date. We're currently estimating the project duration to be 48 to 60 months in length, depending on the final scope and complexity.

And to close my presentation today, I would like to show you a short three-minute video that we put together for our staff. It recaps some of the EDR2 highlights that I presented today.

(Video presentation.)

MR. MUSGROVE: And that concludes my presentation.

Any questions I can answer?

CHAIRPERSON YEE: Thank you, Kem.

Questions or comments, Members?

Thank you very much for the terrific update.

MR. MUSGROVE: Thank you.

CHAIRPERSON YEE: Appreciate it.

All right. Members, we're moving on to Item Number 4, which is the 2018 Filing Season Update. And this is another informational item and PowerPoint that will be presented by Jamie Gillette and Tom Bielawski.

Good afternoon.

MS. GILLETTE: Good afternoon. My name is Jamie Gillette and to my right is Tom Bielawski.

We're from the Filing and Accounts Receivable Management Division here at the Franchise Tax Board. We are pleased to inform you that we have had a very successful filing season and are excited to share with you some of our processing statistics, efforts, and successes this season.

Now, we would like to invite you to join us as we present this short video. It highlights our 2018 filing season numbers. And, after, we will provide you with some additional information and an in-depth look behind the scenes.

(Video presentation.)

MS. GILLETTE: Thank you for watching. We hope you found the video slightly more enjoyable than just listening to us reading off the data.

Some additional topics we would like to share with you today regarding our 2018 filing season are pertaining to the extended final filing date, our customer service efforts, and refund processing.

As you are aware, on April 17th, the busiest day of the tax season, the IRS experienced a system glitch that hampered the agency's ability to process many tax returns that were being filed electronically. It wasn't immediately clear how many people were affected, but that many filers, who use online tax

preparation software, such as TurboTax or H&R Block, or who pay their taxes directly to the IRS online, were affected.

To address this unexpected issue, the IRS announced that individuals and businesses with a filing or payment due date of April 17th would be granted additional time, providing them until midnight on Monday, April 18th, to submit their tax returns and payments.

Since our California taxpayers generally need to complete their federal return before their state return can be filed, FTB responded as readily as possible to make sure our California customers would also have the time needed to file their state returns by making the necessary adjustments to extend the final filing date.

This was no small task. We made sure our contact centers and field offices were prepared to service customers through the extended filing date, and we did our best to get information to our customers, to help diminish any of their filing concerns.

We may be a large agency, but we work very hard to be agile when it comes to doing the right thing for our customers.

On April 18th, we processed 480,000 additional e-file personal income tax returns, which may have been attempted and failed to process the previous day, due to the IRS system glitch.

And now Tom will present a little bit about our customer service efforts.

MR. BIELAWSKI: Thank you, Jamie.

One other way we have tried to keep our customers' best interests in mind is through our new Customer Service dashboard, which was initially deployed in February of 2017. This was the brainchild of a six-member team from our Management Development Program and was designed for our customers to take some control of their ability to contact Franchise Tax Board.

This easily accessible and customer-centric resource allows individuals to access accurate processing time frames for payments, for refunds, returns, and correspondence.

Customers can also determine wait times for our general service lines, our live chat, and the practitioner hotline.

For this filing season, we had 205,000 visits from our customers. And we are proud to report that, yes, the customer service dashboard is an award winning product. In September of 2017, the Center for Digital Government recognized the dashboard as the best application serving the public.

Another area we focused our efforts, which has significantly paid off, was our call center access levels. As you can see from the screen, we answered 390,000 calls this year. That is 46,000 more calls than last year. And our phone access rates increased to 77 percent. That's a 12 percent increase.

In addition, our average wait time was three minutes compared to seven minutes for last year.

Enhancing our self-service options was also a priority this year. Filing season can be a stressful time for our customers. Add financial decisions to the mix, and many customers simply feel overwhelmed.

FTB has three self-service options to help our customers who have a balance due. These options are available all year but become indispensable during our filing season. These options include self-service installment agreements, installment agreement skip payments, and our bill delay options. These options are available during normal business hours; they are available evenings and weekends. Customers can access these self-service options by using FTB's public website and logging into their MyFTB account, or by calling the FTB Interactive Voice Response system and following the prompts.

During filing season, when wait times are longer, taxpayers can utilize these self-service options to address their tax-related financial matters and achieve faster resolutions.

Jamie?

MS. GILLETTE: As you just heard from Kem Musgrove, as well as in discussions and presentations at previous board meetings, we are now in the second phase of the Enterprise Data to Revenue project, known as EDR2.

But we want to go back for a minute and talk about the first phase of EDR. You may have heard about the magical third year after new project implementation, such as this, is delivered. The third year is the sweet spot, when an organization realizes the major benefits from a new system or process implementation.

It takes just about three years to dial in the product, perfect associated processes and procedures, and for staff to adjust and develop their rhythm to use the new tool. In year one, we focus on implementation, change management, training, and working through defects.

In year two, we matured and optimized our processes by analyzing feedback and including minor enhancements.

Year three is where we begin to realize the benefits as the new norm takes shape.

And this is exactly what we are seeing in year three of our new return analysis system, which was implemented in 2015, as part of the EDR project.

Our processing times have improved each year as we have grown accustomed to the EDR return analysis system. But this year, we are really excited about how quickly we have been able to get refunds into the hands of taxpayers.

In the video, you saw that 92 percent of e-filed return refunds have been received in 14 days or less. If you take a look at the table on the screen, you can see that this is an increase of 6 percent, compared to last year. That equates to a lot of refunds and happy taxpayers.

And 99 percent of refunds were received within 30 days or less.

You can see why we are so excited about these numbers. We hope to continue to refine and optimize our processes, and we are looking forward to what year four has in store for FTB.

Now we would be happy to answer any questions you may have.

CHAIRPERSON YEE: Great. Thank you very much for the update.

Questions or comments, Members?

MEMBER STOWERS: Thank you.

I just want to comment, or compliment, FTB management team, on April 17th, when I made just a casual call regarding the IRS system failure.

Selvi, your team was excellent. They responded quickly. They were on top of everything and were able to get the media release out and inform all taxpayers and stakeholders. So job well done, you guys.

MS. GILLETTE: Thank you.

CHAIRPERSON YEE: Thank you very much.

Okay. Thank you for the update.

Okay. Moving on to Item Number 5 -- relates to the Earned Income Tax Credit and the Volunteer Income Tax Assistance Program update.

And this is also an informational item. We'll have Ms. Samimi and Jason Montiel presenting.

Good afternoon.

MR. MONTIEL: Good afternoon. I'm Jason Montiel from Franchise Tax Board's Public Affairs Office.

MS. SAMIMI: And I'm Nooria Samimi, FTB's internal coordinator for Volunteer Income Tax Assistance.

MR. MONTIEL: And it's really our pleasure to provide you with an update about FTB's efforts to promote the California Earned Income Tax Credit, commonly as CalEITC.

When we talk about CalEITC, we also like to talk about Volunteer Income Tax Assistance, because, as we found in recent years, they really go hand in hand. And we'll talk a little bit more about that in a moment.

But first, let's discuss a little bit about the roots of CalEITC. This important credit grew out of a need to combat poverty in California and help those most in need. In fact, U.S. census numbers show that about one in five Californians live in poverty.

In an effort to tackle this issue, Governor Jerry Brown and the Legislature created CalEITC back in 2015. The credit is a supplement to the federal EITC, which has been around for decades. But between the state and federal EITCs, a family can get hundreds and, sometimes, even thousands of dollars back when they file their returns.

As we got CalEITC off the ground that first year, we quickly found ourselves facing a major challenge. And that is really that many of those who are eligible for CalEITC don't have a filing requirement.

So how do we reach them?

Well, when you need help in life, it's okay to ask for it. So that's what we did. Shortly after EITC was created three years ago, we teamed up with others, who have additional expertise in taxation, and also those with roots in the communities that we aimed to reach.

Namely, we teamed up with the Internal Revenue Service, Golden State Opportunity, other state departments, nonprofits, and those who run volunteer income tax assistance sites, VITA sites. You see,

CalEITC is a tax credit designed for people who don't have a filing requirement. That's why VITA is so important. VITA connects those in need with credit that can help make their lives better.

And we learned, early on, that CalEITC and VITA go together, because if taxpayers don't have to pay a fee to get their returns done, they can get more out of the CalEITC.

So what are the CalEITC results over the past three tax seasons? Well, things started out well, but they really took off for tax year 2017, when CalEITC was expanded in a big way.

The CalEITC expansion made it easier for more people to qualify. The income threshold for eligibility went way up. Plus, for the first time, self-employment income could be used to claim the credit, in addition to W-2 income.

So what are the results? Well, we're happy to report that CalEITC numbers have gone up over time. In tax year 2015, the first year of the credit, we saw about 385,000 credits issued, for a total of about \$200 million. Not bad for the first year of the credit.

In this tax year 2016, we saw 386,000 credits issued, for a total of about \$205 million.

But for tax year 2017, the year that saw the huge eligibility expansion, so far we've seen 1.3 million credits issued, for a total of \$299 million. That's \$299 million that went to help families all around the state, and we're very happy with the results.

So how did we get those results? Well, we believe that coordinated outreach played a big role. By working together with others, we blanketed California with information about the new CalEITC. At the same time, we sought to build trust among those we aimed to reach, hence the partnerships with the nonprofits, notably those involved with VITA.

At FTB, we designed and shipped thousands of brochures, posters, postcards, for our partners to use at their outreach events all around the state. FTB sent a computer-equipped bus into neighborhoods where CalEITC recipients live and to offer free tax preparation right where they live. And we've also done countless media interviews, promoting the credit wherever we can.

Our partners have also been creative in their outreach. They have hosted "Taxes and Tacos" VITA events, reached out via social media, and canvassed neighborhoods to hand out brochures.

We've also supported the CalEITC4Me.org website, which offers info on not only how to qualify for CalEITC, but it also has an interactive map with the free VITA sites listed.

And Board Members, you yourselves have played big roles, and we're very, very grateful. You can see yourself at one of our sites here, in Sacramento.

We appreciate how Controller Yee and her office have attended VITA events to help spread the word. This has made a positive impact on CalEITC recipients.

We're also grateful to Member Runner's office for posting VITA videos on the Web and directing callers to free tax preparation events. Thank you so much for doing this.

Now I would like to turn things over to Nooria to share a little bit about how volunteer income tax assistance provides key support for CalEITC outreach.

MS. SAMIMI: Thank you, Jason.

Good afternoon.

As CalEITC rolled out three years ago, we quickly found that the Volunteer Income Tax Assistance program, or VITA, is a great way to help people connect with the credit. VITA offers free tax return preparations to those earning 54,000 or less. It is also an important support system that helps people claim and receive the state and federal EITCs.

The one-on-one help people receive through VITA makes taxes feel a little less scary, but it also provides huge benefits that make filing returns worthwhile.

At a VITA site, members of the public get help from friendly and trusted VITA volunteers, who often have roots in the community. These preparers are well-versed in both state and federal EITCs. They are also highly trained and IRS-certified. In short, they are great ambassadors.

Many of the FTB's wonderful VITA volunteers are here today. They are the ones in the audience, wearing bright blue shirts.

FTB's VITA team has also been busy in many other ways. This past season, we helped coordinate VITA recruiting.

We are grateful to Controller Yee and her staff for putting paystub inserts into state paychecks. We got more than a thousand volunteer contacts through this effort. This past year, we shipped VITA materials to hundreds of sites around the state. We also provided VITA training throughout California, including at military bases.

Our team also supported VITA volunteers through FTB's VITA hotline. We took hundreds of calls just this past season to help resolve technical questions. Our volunteers also assisted taxpayers in multiple languages, including American Sign Language.

We are proud of our VITA results this season. At FTB alone, we completed more than 3,900 returns. But we would also like to thank the Greater Sacramento VITA Coalition, which includes United Way, FTB's VITA team, and others. All together, we prepared more than 18,000 returns just in the Sacramento area this season.

Of those 18,000 returns, about 9,000 were state returns. And of those 9,000 returns, nearly 20 percent claim EITC, for a total of more than \$450,000. That is money that went right back in the community.

While the numbers and the statistics are important, the bigger story is the positive impact that CalEITC has on real people.

So let's conclude with a story from a VITA site operated by one of our partners in Sonoma County earlier this year. A 22-year-old single mom went to a VITA site in Santa Rosa. She has a two-year-old daughter and was expecting a baby boy in two weeks. She works part-time at a bank and also was working on her degree at Sonoma State University. She got her return done and received about \$2600 in federal EITC and about \$800 in state EITC. She was so happy and relieved to receive that money to help her pay bills, buy food, and provide clothing for her family. She even planned to save some of the money.

So this is one of the many, many such stories that we saw throughout the season.

So we can see that federal EITC and the state EITCs are working. We are looking to reach even more eligible families next season.

We thank you for your time and support, both with VITA and CalEITC.

We would be happy to take questions now.

CHAIRPERSON YEE: Thank you very much.

Before the questions, it's really beautiful to see a sea of blue right in the middle of the auditorium. And I would like to just ask all of our VITA volunteers who are here to please stand, so we may recognize you for your terrific work.

(Applause)

CHAIRPERSON YEE: Thank you for the presentation. It's always one of my favorite highlights of the year. But, obviously, with the program growth and -- just very, very moved by the impact that it's having on people's lives and, certainly, the growth of the volunteers that were helping with the program as well.

Questions or comments, Members?

MEMBER WALLENTINE: Just thank you to all the volunteers. You have helped taxpayers, who are very confused by taxes, and you unraveled the mystery for them. So thanks to all of you who are here and those of you who aren't present but listening. And Selvi and your team, thanks to your leadership team for doing such a great job.

CHAIRPERSON YEE: Absolutely.

And I think, certainly, to the outreach team here as well. This is a particularly difficult area, where we're trying to find people to come forward so that we can actually put money in their pockets. But for many who have not had a relationship previously with a tax agency. So this work will continue. But as you have seen, with the growth that we've had in this last tax year, I think it's all just going to be very positive. So thank you very much.

MS. SAMIMI: Thank you.

CHAIRPERSON YEE: We appreciate the update.

Okay. Members, we're going to move on to Item 6, and this is the federal conformity report, another informational item. We'll have Diane Deatherage speak to us about this item.

MS. DEATHERAGE: Good afternoon.

CHAIRPERSON YEE: Good afternoon.

MS. DEATHERAGE: I'm Diane Deatherage. I work in the Legislative Services Bureau, and my presentation today will cover an update on our conformity report and a few high level items from our review of the federal tax reform language.

The Tax Cuts and Jobs Act, also known as HR 1, was signed into law on December 22nd, 2017, and contains the most significant modifications to the federal tax code in over 30 years.

First, I would like to start with three overall observations for HR 1:

Number 1. Generally, the provisions in the federal language are effective for taxable years beginning after December 31st, 2017, meaning that they will impact 2018 federal tax returns that will be filed in 2019. There are a few exceptions -- a few provisions that are retroactive.

Number 2. Generally, the personal income tax provision changes in the new federal law are temporary with most expiring in 2025, whereas, the corporate provisions are generally permanent.

And then number 3. Generally, the changes in HR 1 will not automatically change California's tax laws. The California legislature created the concept of specified date, so we all could easily identify which version of the Internal Revenue Code based on a specified date to apply to a specific taxable year for California purposes. The legislature decides what the specified date should be by codifying the date and in the California Revenue and Taxation Code.

California's current specified date is January 1st, 2015. This means that the provisions that are enacted for federal purposes in 2016, 2017, and now 2018, California would not conform to those provisions but would, instead, conform, with limited exceptions, to the Internal Revenue Code as it read on January 1st, 2015, unless the legislature passes a bill to conform to a specific provision.

Speaking of conformity, California statute requires FTB to prepare a Summary of Federal Income Tax Changes Report for any federal legislation enacted in the prior year. This report is commonly referred to as the Conformity Report.

In the report, we analyzed each act of federal legislation, describe if California conforms or not to each provision, and provide a revenue estimate based on California conformity in the revenue tables that are found in the back of the report.

This year, because the federal act was so large, in the interim of preparing our final conformity report, we issued a preliminary report, on February 12th, with three specific provisions:

The first two provisions in the preliminary report are retroactive, so we'll see these changes starting in the 2017 tax returns. So the first provision is medical and dental expenses. So for those expenses, federal law lowered the adjusted gross income threshold for 2017 and 2018 to 7.5 percent, potentially increasing a taxpayer's allowable deduction for medical and dental expenses. But the threshold goes back to 10 percent the following year.

California currently uses the 7.5 percent threshold, which means, the federal deductible amounts in 2017 and 2018 will be the same for California.

The second retroactive provision is repatriation. HR 1 changes the current U.S. international tax system to a territorial system, where, generally, only earnings in the U.S. are taxed in the U.S. HR 1 requires a deemed repatriation of untaxed foreign earnings and profits on the final 2017 federal tax return. California does not conform to the deemed repatriation provision, so only actual paid dividends will be taken into account for California purposes. Now, that's a really short, high level overview over that, because we could be here for hours talking about that provision.

The third provision included in the preliminary report is not retroactive, but due to the volume of taxpayer and media inquiries, we include it in the preliminary report. This provision is a State and Local Tax deduction limitation, commonly known as SALT.

Under the old federal law, taxpayers could deduct 100 percent of their state and local taxes including income and property taxes as an itemized deduction on their federal return.

In general, under new federal law, taxpayers are limited to a total deduction of \$10,000 in state and local taxes combined.

California does not allow an itemized deduction for state income tax but does allow a deduction for property tax, and that deduction is not subject to a cap.

In the interest of time, I've selected a few other interesting provisions out of the hundreds provisions that are in the final conformity report that I would like to mention.

The first three involve individually related provisions. Let's start with increased federal standard deduction. Due to higher standard deduction at the federal level, which basically doubled in an amount under HR 1, many California taxpayers may end up using the standard deduction for federal, but still itemize for California.

Next is the mortgage interest deduction. The mortgage interest deduction is an itemized deduction that many taxpayers report. Under the new federal law, HR 1 suspends the home equity loan interest deduction for taxable years after December 31st, 2017.

Also, HR 1 adds a limitation of \$750,000 debt incurred, for which a mortgage interest deduction is allowed for taxable years after December 31st, 2017, for married filing joint taxpayers.

Taxpayers with mortgages made prior to December 2017 would not be affected by the lower cap. They would still be subject to the million-dollar limitation that we have now. California retains the million-dollar limitation because we don't conform to the federal change.

The last of the individual provisions that I will address is related to alimony. Under the new federal provision for divorce decrees executed after 2018, alimony and separate maintenance payments are neither deductible by the payor nor are they included as income for the recipient. California conforms to the prior federal alimony provisions as of the specified date of January 1st, 2015, and, therefore, will allow a deduction by the alimony payor and will require the recipient to include alimony as income.

The final two provisions that I would like to share are business and related provisions. First of all, there's a new federal tax rate for C corporations. Under the new federal provisions, the tax rate for C corporations is a flat tax rate of 21 percent instead of using a progressive tax rate that was as high as 39 percent.

The next and final provision is the deduction for qualified business income of pass-through entities. To make it more equitable for businesses that don't operate as a C corporation, to get that benefit of the 21 percent tax rate, the new federal law offers a deduction to individuals of 20 percent of their qualified business income from pass-through entities. California doesn't allow this deduction, as we don't conform to this federal provision.

So those are the various provisions that I wanted to cover, but I would like to state, again, that generally the changes in HR 1 will not automatically change California's tax laws unless California specifically enacts legislation to conform to the federal act.

Currently, there are no conformity bills that have been introduced by the legislature. As a result of nonconformity, taxpayers will need to make adjustments from their federal return to create their California return. FTB has expanded our Schedule CA to make it easier for taxpayers when filing -- when they will file with their California tax returns, starting in 2018, which will be filed in 2019.

To help the legislature determine if California should conform to a specific or general federal provision, they have some tools that may help. As I mentioned, there's the conformity report. The 2017 conformity report was released to the legislature and posted online on April 19th, 2018, just days after our last board meeting here.

It's over 460 pages, and here it is. Pretty long. And it may be used as an effective sleeping aid, at least that's what I've been told.

(Laughter)

MS. DEATHERAGE: Another tool that the legislature may use is the Federal Joint Committee on Taxation blue book. And the blue book has a description of present federal law, explanations of each provision of the federal legislation, as well as the effective dates of those provisions.

To date, the blue book on HR 1 has not been issued, and there is no potential release date for that report.

The last tool that may be used is information from FTB's interested parties meeting on conformity. The meeting is scheduled for November 15th, 2018. We have not sent out the invitation yet, but that's the date. The objective for this meeting is to discuss important California conformity matters that are of interest to stakeholders, including taxpayers, tax representatives, people from downtown, and so on.

So that concludes my conformity update and discussion of just a few of the new federal provisions. At this time, I'm willing to take any questions you have.

CHAIRPERSON YEE: All right. Thank you, Diane, for the comprehensive report.

Questions, Members?

Hearing none. Okay. So I think it's fair to say that we will stay tuned to see if the legislature acts on any of these?

MS. DEATHERAGE: You're welcome.

CHAIRPERSON YEE: Thank you very much for the highlight.

All right, Members. We will now move to Item Number 7. This will be a discussion on legal ruling 2017-01. We're going to have Bruce Langston and Doug Powers to speak on this item. Let me just, maybe, provide some context on this, and I know we may have some speakers on this item.

In February of this last year, the Franchise Tax Board issued Legal Ruling 2017-01 that addressed various legal issues relating to taxes paid to other states. We did receive some inquiries about one of the taxes

addressing that ruling, and that's the Texas revised franchise tax. And the ruling held that the Texas taxes deductible by corporate taxpayers and -- so not eligible for the California other state tax credit, by taxpayers subject to the personal income tax.

What I think I would like to do -- let me have both Bruce and Doug present, and I have asked staff to be prepared to discuss the ruling. And I know we have, I think, let's see, one speaker signed up, so far. Mr. Loper, just stay on deck. We'll call you up after the presentation.

MR. LANGSTON: Thank you. Good afternoon. I'm Bruce Langston, Assistant Chief Counsel, Franchise Tax Board. Next to me is Doug Powers, an attorney in our Technical Resources Bureau.

The Texas revised franchise tax, considered as a whole, is not a tax on, or according to, or measured by income or profits under California law, and so is not eligible for the credit for taxes paid to another state. But as explained in the legal ruling, this means that it's deductible by business taxpayers.

CHAIRPERSON YEE: So could you, maybe, briefly explain why, then, the FTB issued the legal ruling on the other state tax credit?

MR. LANGSTON: FTB issues legal rulings, which correspond to IRS revenue rulings, to provide quick guidance on the application of law to a specific set of facts.

Legal rulings themselves are not binding authority on taxpayers. Taxpayers can and do take positions contrary to legal rulings during the administrative protest appeal or litigation process.

Legal rulings are exempt from the Administrative Procedure Act. And so, in this way, FTB can give timely guidance on issues like this.

CHAIRPERSON YEE: Okay. So it really is just a response -- a response that is a quick application of the law to facts that are presented.

MR. LANGSTON: Yes.

CHAIRPERSON YEE: Okay. All right. Let me maybe have the speaker come forward and hear from the speaker and we'll continue our discussion.

Mr. Loper, do you want to come forward?

Good afternoon.

MR. LOPER: Good afternoon, Chair Yee, Board Members.

My name is Dennis Loper, and I'm speaking on behalf of Bechtel Company, a closely held corporation.

Because the staff has inexplicably changed their position on the other state's tax credit, without any change to California statute or any of the case law, we ask that the board begin an IP process on part of the regulatory effort to allow public comment on the issue.

California residents pay California tax on all of their income. California law provides that a credit is provided for other states taxes on California taxpayers. This credit is provided to avoid double taxation of the same income.

Consistent with this goal, California law allows S corporations' shareholders to claim other state tax credit for taxes paid to other states on net or gross income. Corporations do not have this issue because corporations apportion their income between states.

Legal ruling 2017-1 addresses, in part, whether an S corporation shareholder may take other state tax credit for Texas.

In 2008, Texas revised its tax scheme to a method using total revenue less cost of goods compensation or 30 percent total revenue. The difference of computations for the state tax have remained substantially unchanged since 2008, which brings us to California's guidance on the subject.

In 2009, FTB released notice 2009-6, stating that the other state tax credit for taxes paid to Texas was to be determined on a case-by-case basis, depending on each taxpayer's facts and circumstances. In 2011-3, the FTB further clarified their provision and provided the taxpayers paying the Texas franchise tax based on the COGS method, were entitled to an other state tax credit, because the tax was a tax on gross income.

For the reasons which remain unclear, the FTB has now changed its position in 2016-01, the FTB concluded that the same Texas margin tax was now a tax on gross receipts, a provision which prevents California sub S corporations' shareholders from claiming another state credit. The FTB affirmed this in their 2017-1 legal ruling.

We suspect that FTB may have made this change for administrative ease so they can now simply deny the credit to everyone. But this simply ignores the well-established laws and supporting facts and circumstances. We believe that the FTB's earlier position, stated in 2006, supporting facts and circumstances analysis had the correct interpretation of law.

MS. PRICE: Three minutes.

MR. LOPER: I'm sorry?

CHAIRPERSON YEE: You have three minutes. I'm sorry. Finish your thought there.

MR. LOPER: I'm within 30 seconds. I'm sorry.

-- had the correct interpretation of law. Nothing has changed about the relevant Texas tax law, the relevant code sections under California tax law, or the relevant case law since FTB released its earlier guidance. The 2017 relies on the same court cases discussed in the 2009 notice, and they were all decided before 2009. Yet, the legal ruling "arrived" at a different conclusion. I guess we would ask, what is different and why?

The result of this change allows corporations who have recently received a tax break, at the federal level; an additional break, at the state level; and a deduction for taxes paid on the other hand. The revised interpretation hurts individual California residents who are now being double taxed.

California already has a regulation under CRTC section 18001, which is poorly drafted and, in its current form, needs to be cleaned up. Since the FTB has reversed its position on this, we ask that this regulation be opened up for amendment and to allow for public comment on this issue.

We have been told that FTB doesn't promulgate regulations on substantive issues, which is definitely not the case.

The FTB has promulgated regulations addressing substantive issues such as CCR 25106.5, the combined reporting and "Finnigan" case; CCR 25136, market-based sourcing; CCR 25137, special industry regulations, allocation apportionment for income for trucking companies, motion picture, air transportation, space transportation companies; CCR 25038, check-the-box regulations; CCR 25120, defining business and nonbusiness; and CCR 18662 on withholding.

We ask that the FTB begin an interested parties process meeting as part of regulatory effort on the other state's tax credit to provide substantive guidance and examples similar to what has been done in these other regulations.

Glad to answer any questions.

CHAIRPERSON YEE: Thank you, Mr. Loper.

Let me pose a couple questions that you've raised to Bruce and Doug.

So does the legal ruling represent a reversal of position on earlier guidance?

MR. POWERS: I'm sorry. I didn't quite hear.

CHAIRPERSON YEE: Does the legal ruling, 2017-01, represent a reversal of an earlier FTB position on....

MR. LANGSTON: Yes. I would say it does.

And, if you read the legal ruling, it's all laid out on, basically, pages 6 and 7 of the ruling, which is attached in your materials. That explains why, upon further review, FTB made this determination.

CHAIRPERSON YEE: Okay. Got it.

Mr. Wallentine?

MEMBER WALLENTINE: Madam Chair, since there remains some confusion related to this item, do you believe that there's a benefit to considering the taxpayer's request of an interested parties process?

I know that this legal ruling went into effect beginning January 1, 2016, and forward. So I don't know how that would work, procedurally, with an IP process.

CHAIRPERSON YEE: Yeah.

MEMBER WALLENTINE: But, you know, certainly a lot of the discussion in the previous part of this hearing related to the customer experience, taxpayer concerns, and there are other interested parties processes going on for other issues; this seems to be one that the board might at least give some consideration to.

CHAIRPERSON YEE: Um-hmm. Um-hmm.

I mean, we're not in a rulemaking process, and I think there are avenues for, certainly, challenging this, which include some filing and then filing a claim for refund, or just going through the appeals process.

So -- and let me just remind you. This is more of an informational item. I wanted to really have this be public so that we can kind of see where we stand, with respect to the points of disagreement.

But I guess, let me -- let me turn to Mr. Langston to see what would be appropriate here.

I think the guidance that's now contained in 2017-01 really lays out the entire consideration of the Texas law, certainly, as well as you know, as you cited the previous position that -- I'm a little hesitant, just because I don't want to upset the purpose of what legal rulings are about.

And so I understand, trying to get to some understanding about how this ought to be applied. So maybe Bruce or Doug, any thought?

MR. POWERS: To address Member Wallentine's question about the date issues, the statutes we're dealing with here are older statutes. And so they are not subject to the 24-month rule that applies to newer enacted statutes in terms of retroactivity, other potential regulation.

So you know, there's that. I just wanted to clarify that --

MEMBER WALLENTINE: Sure.

MR. POWERS: -- for you.

MR. LANGSTON: I was just going to say, typically we have interested parties meetings as part of the regulation process. But normally, where the law is already clear -- and what we are doing is looking at specific industries; how are they going to apply that law.

The Office of Administrative Law generally will challenge a regulation if the underlying law isn't clear. That is, if you can't, in a regulation, can't overturn a court case, for example, or even a published Board of Equalization decision, which is explained in the legal ruling as to where this interpretation comes from.

So the other point I would also make is, an interested parties meeting -- I am just envisioning what it would be like, and we're going to have people from the corporations, who want to deduct the tax, on one side; we'll have the people from the S corporations and the individuals, who want the credit. And they are just going to make legal arguments, back and forth. And I'm not sure how productive it would be.

Nevertheless, we always can have a regulation on any subject. And normally, at the December meeting, we have our rulemaking calendar. And, at that point, we prioritize.

You know, as Diane pointed out, we have a lot of new laws coming up right now. Staff has to decide, where do we put our efforts.

But, I don't think it's fair to say we couldn't have made a regulation process on this. It's just one of those things that staff generally prefers to have clarity in the law first. I believe we have some cases that are pending before the Office of Tax Appeals. It would be somewhat inappropriate to get ahead of those.

But, again, that's something that we could always consider in the future.

MR. POWERS: If I could just add a little bit more also.

These regs would be interpretive regs. They would be issued in reliance on our general rulemaking authority under the particular code section we have.

A lot of the regs that the speaker cited to are actually regs where they are quasi-legislative grant of authority under the particular code section, so they are combined apportionment regs; the 25137, special industry apportionment regs. Those are all quasi-legislative regs. And, in essence, if we don't regulate, there's no real authority.

So the precedential value of an interpretive reg, vis-a-vis a legal ruling, is not a significantly different ruling, at the end of the day.

But as Bruce said, we can certainly go through that process.

CHAIRPERSON YEE: Maybe what I will ask you to do -- would you, maybe, just explore the possibility of pursuing that process and, perhaps, given that we have the legal ruling, think about what the practice of that process might be, that at least tries to get to some clarity.

MR. LANGSTON: Certainly. Thank you.

CHAIRPERSON YEE: All right. Other --

MEMBER WALLENTINE: Thank you very much.

CHAIRPERSON YEE: Okay. Mr. Loper, stay tuned.

MR. LOPER: Okay.

CHAIRPERSON YEE: Appreciate you coming before us.

MR. LOPER: Thank you, Chair, Board Members.

We feel that the statutes have not changed and so it's important to us to get better clarity.

Thank you very much.

CHAIRPERSON YEE: Okay. Thank you.

Thank you. Members, we're on Item Number 8.

These are administrative matters and there are several before us. And we have Tiphonie Weiss present the conceptual budget change proposals for 2019/20 as an informational item.

Good afternoon.

MS. WEISS: Good afternoon. Thank you. I'm Tiphonie Weiss. I'm the director of the Financial Management Bureau. And I will be sharing the budget change proposal concepts that we have identified for the 2019/20 fiscal year.

We will return to the September board meeting with fully developed proposals to present to you for your approval.

For the 2019/20 fiscal year, we've identified eight budget change proposal concepts. The first is the customer service tax practitioner hotline concept, and it deals with resources to support levels of service in various customer service channels, such as phone, electronic mail, live chat, and correspondence.

One component of this concept looks at converting permanent intermittent positions to permanent full-time positions, aligning the appropriate resource type with permanent year-round workloads.

The second concept reviews our Withholding Services and Compliance Section service and inventory levels. The Withholding Services and Compliance Section administers our non-wage withholding programs. We've begun to understand the increasing complexities of the non-wage withholding workloads. This concept examines ongoing efforts and associated resource needs to provide assistance and guidance to California's taxpayers, representatives, withholding agents, and sustained priority workloads that collect non-wage withholding payments for the state.

The next concept is the human resource disciplines concept, and it looks at the human resource staffing levels and evaluates FTB staff growth. As staff increases, workloads administered by our human resources department also increases in both number and duration. The concept examines HR staff if HR staffing levels are sufficient to maintain necessary and mandated processes on a timely basis, to ensure that FTB can hire staff when needed, timely address staff issues, and ensure we conform to laws and policies governing the HR process.

The next three concepts are our information technology concepts, and they deal with the refresh of three critical components of our IT infrastructure. These are the mainframe server, mainframe storage, and our Local Area Network components.

The mainframe workload growth concept deals with the replacement of the mainframe server, additional memory, and software to meet workload growth projections. FTB's mainframe is essential to the mission critical legacy applications. The mainframe supports application systems associated with filing, collections, audit, nonfiler, refund processes, and our website and phone lines. All of these systems have substantial dependency on the data that resides within the mainframe and, therefore, rely on the mainframe environment having sufficient processing capacity to support efficient, effective, and secure operations of those applications.

These upgrades will ensure FTB's ability to efficiently and effectively conduct our administrative duties related to income and franchise tax functions.

The enterprise tape library refresh concept addresses the replacement of FTB's mainframe enterprise tape library and direct access storage device, or DASD. The mainframe enterprise tape library and DASD provide the storage infrastructure that is essential to FTB's multiple mission critical tax and non-tax applications.

Manufacturers for FTB's current mainframe enterprise tape library and DASD systems have announced an end-of-market status and end-of-support date. Purchasing the above systems allows FTB to meet current and future mainframe storage, back-up recovery needs, and mitigate risks associated with running a system past an impending end-of-market and end-of-support dates.

The third IT concept is the Local Area Network, or LAN infrastructure refresh. The LAN infrastructure is the heart of FTB's enterprise network, supporting FTB's mission critical operations. This concept

addresses the refresh of the aging equipment and software that is reaching end of life and approaching end of support.

The overall result of this refresh will reduce the risk that the LAN infrastructure components will fail or be compromised and also assure the necessary bandwidth to conduct successful operations and protect FTB's return and refund processing functions and compliance activities.

The next concept looks at the envisioned transfer of the Tax Appeal and Assistance Program from the California Department of Tax and Fee Administration, CDTFA, to the Franchise Tax Board. The Board of Equalization established the Tax Appeals Assistance Program, where participating law schools and law students assisted taxpayers with state tax appeals, under the supervision of Board of Equalization attorneys reporting to the Taxpayer Rights Advocate.

With the restructure of the Board of Equalization and the transfer of the appeals process to the new California Office of Tax Appeals, this workload moved to CDTFA. There's no longer a good fit for the franchise and income tax appeal cases that are to be handled with CDTFA. So this concept looks to transfer that component of the program from CDTFA to the Franchise Tax Board.

And our final concept is a cap outlay concept that looks to address necessary improvements to FTB's central office campus parking area, which includes some repairs and also paving some areas.

Those are the concepts that we've identified.

I would be happy to answer any questions for you.

CHAIRPERSON YEE: Great. Thank you, Tiphonie.

Questions or comments?

MEMBER STOWERS: One comment.

I understand, as far as the tax program, it's with CDTFA right now. Do you know if they are doing that workload, or is it just sitting dormant?

MS. WEISS: We are currently in a transition phase. We're currently working through the transition phase of that.

MEMBER STOWERS: So they are prepared to transition it over to FTB?

EXECUTIVE OFFICER STANISLAUS: Yes. That's correct.

MS. WEISS: Yes.

CHAIRPERSON YEE: So I guess that just begs some questions in my mind, if there are other items or issues with the transition of the Board of Equalization into the new department and to the Office of Tax Appeals, whether there are other gaps that need to be addressed that may be pertinent to our jurisdiction here, of the Franchise Tax Board. So just keeping an eye on those things, as we go forward.

MS. WEISS: Definitely.

We can certainly watch for that.

CHAIRPERSON YEE: Okay. Great. Thank you. And we look forward to these being more fully flushed out and coming back.

MS. WEISS: Thank you.

CHAIRPERSON YEE: Thank you, Tiphonie.

Okay. And then we have two more items that require board action. And let me welcome Mr. Banuelos. Good afternoon.

MR. BANUELOS: All right. Good afternoon, Board Members. It's nice to see you all.

My name is Michael Banuelos, and I am with the Finance and Executive Services Division.

I am here today to present two items for your approval. I have one facilities item, as well as one contract over a million dollars.

With your consent, I will first present the facilities item.

The first item I am presenting is a facilities item related to our Houston Field Office. I am requesting approval to submit a request to DGS for a new lease space in Houston and any tenant improvements that are required.

The current Houston Field Office houses Audit Division staff, and the lease expires in April of 2019. The current space is not sufficient to support Audit's existing staff. Audit has managed thus far, by a lot of workaround, such as tele-working, sharing space, meeting with taxpayers at their offices, and things of that nature. But I think we're just all out of workaround at this point, so there's just not enough space there.

Audit needs the capacity to house 45 staff. And the current facility they have, I believe, was intended to house around 37 staff.

So some of the impacts are lack of space to conduct confidential discussions. I'm sure that you are aware, we deal with a lot of confidential information, so we don't want to be talking out in public, unless there's a need to know about those things; a lack of training and learning space for the employees in that facility; a lack of space for computer systems and security equipment; and safety concerns and overcrowding of the Houston conference room.

So at this time, I am requesting your approval to submit this request to DGS, and we would be happy to answer any questions that you may have.

CHAIRPERSON YEE: Okay. Great. Thank you, Michael.

Questions or comments, Members?

MEMBER WALLENTINE: Yeah. A question regarding this.

With the restructuring of the Board of Equalization, the creation of CDTFA, CDTFA currently has an office, I believe, on the same floor, in the same building, with FTB right now.

MR. BANUELOS: Correct.

MEMBER WALLENTINE: Now that CDTFA -- handling the sales and use tax and special taxes, and you all, with the income taxes, has there been any collaboration or attempts to work together with DGS on economies of scale? Is there any benefit to working with CDTFA to try to co-locate? Is there a benefit to that?

I mean, the State of California's footprint is in Houston, of course. I'm raising also a larger, a more global question. With the State of California's presence not only in Houston, but in Chicago and New York. Now that CDTFA and FTB are under GovOps, one agency, you might be able to get a better deal, get a better space.

I just don't know if you have been working or communicating with them or collaborating. I know, CDTFA is new and they are feeling their way through things. Just a suggestion. It's just, actually, a question too, if you've been interacting with them. I don't know when the lease is up for the CDTFA office in Houston.

MR. BANUELOS: Right.

So my answer to that would be, generally speaking, we're finding opportunities of things that we may do in common with CDTFA, not specific to the lease of this facility. But I can see that that could fall under this bucket as well, especially since the two offices are in the same building, and, I'm assuming, we're leasing from the same company, which you would think would give leverage to the state, as we do our planning.

I do think that now we're under the same agency that provides a little bit of impetus and a little bit more momentum for us to look at doing those things together with them.

My understanding is, for this lease space, we've been there, I believe, since the mid '80s; and I think CDTFA has been there for about five years. And when they moved in -- I can't speak too knowledgeably about what happened five years ago. But I do think there was a little bit of this conversation going on.

MEMBER WALLENTINE: Sure.

MR. BANUELOS: But I don't know what happened and how much came to fruition.

My understanding is that, in Houston, there are a few things that are shared between the two offices. But I think it's a good idea that, when we go to DGS, we have that conversation. And DGS may be doing that and I just don't know about it.

MEMBER WALLENTINE: Sure.

MR. BANUELOS: But I think it's a good point to raise to DGS.

CHAIRPERSON YEE: Great. Thank you, Mr. Wallentine.

Other questions?

Okay. Hearing none, this item does require approval. Is there a motion?

MEMBER WALLENTINE: Yeah. A motion.

MEMBER WONG-HERNANDEZ: Move approval.

MEMBER WALLENTINE: Second.

CHAIRPERSON YEE: Motion by Mr. Wallentine. Second by Member Wong-Hernandez.

Without objection, this item is approved.

Okay. Next item.

MR. BANUELOS: Okay. So the next item I am presenting to you is a contract over \$1 million. This contract is a software maintenance renewal for our suite of Genesys Software products. Genesys Software is a major component of our contact center platform, and the software supports FTB's phone communications, as well as our live chat functionalities.

For background, the Genesys products were brought in to FTB around 2006 via a competitive bid, and we have continued to successfully build upon that platform since that time.

Without this contract, FTB runs the risk of having our contact centers down, and this could result in a loss or delayed revenue to the state.

The new maintenance contract that we are looking at will include all of Genesys's products. The term we're looking at right now is about two years, at a total estimated cost of \$2.2 million, and that would be using one of DGS's already established software licensing program contracts.

So at this time, I am requesting your approval and would be happy to answer any questions that you may have about this.

CHAIRPERSON YEE: Thank you very much.

Questions, Members?

MEMBER WALLENTINE: Is there a social media component? Because FTB has a footprint across various social media platforms.

And, you know, throughout the hearing, we've heard a lot about the customer experience. For a lot of people, we wish they would go to MyFTB or the FTB's main Web page, but they often interact on other social media platforms and ask questions.

I was on FTB's -- some of your social media just this week, looking at people who are either complaining or they are asking a question.

And I am curious about this solution. I am certainly supportive of renewing the contract.

But is there a social media component, or is that handled differently by the Franchise Tax Board?

MR. BANUELOS: So a social media component of this particular --

MEMBER WALLENTINE: Sure.

MR. BANUELOS: -- contract?

I would say no, as far as I know. But I'm really lucky to have my CIO sitting right here, next to me.

I can tell you, as far as social media goes, we're looking at some other things and working with our public affairs --

MEMBER WALLENTINE: Sure.

MR. BANUELOS: -- office there, to see what can we do in the realm of social media.

You know, my son doesn't go and read things but if he sees it on social media --

MEMBER WALLENTINE: Sure.

MR. BANUELOS: -- maybe he'll learn about taxes.

But I don't believe that the Genesys platform that we're talking about -- these are call routing tools. They are things that help management figure out where the work is going to go, where our employees -- you know, where are we best suited, where we get the best bang for our buck.

MEMBER WALLENTINE: Sure.

MR. BANUELOS: Those types of things. I don't believe there's anything like that social media component like that.

MR. MUSGROVE: That's correct. Genesys is looking at future platforms to incorporate --

MR. BANUELOS: Right. It's more the technical back end --

MEMBER WALLENTINE: Sure.

MR. BANUELOS: -- systems that we use throughout the calls around the department.

MEMBER WALLENTINE: Gotcha. Thank you.

CHAIRPERSON YEE: Thank you.

Other questions, Members?

Hearing none, this requires approval. Is there a motion?

MEMBER WONG-HERNANDEZ: Move approval.

CHAIRPERSON YEE: A motion by --

MEMBER WALLENTINE: Second.

CHAIRPERSON YEE: -- Member Wong-Hernandez. Second by Member Wallentine.

Without objection, this item is approved.

Thank you very much.

MR. BANUELOS: Thank you very much.

CHAIRPERSON YEE: Move to Item Number 9. This is the Executive Officer's Time.

Selvi.

EXECUTIVE OFFICER STANISLAUS: I have a very quick thank you to Controller Yee. I would recognize and thank you for being here today. Today is Election Day. We are how busy you are, especially today. And we all appreciate and thank you for providing great leadership and to be here and to hear what our employees have been working on.

So we admire you, Controller, your work ethic, and your dedication to California taxpayers.

Thank you for being here today.

CHAIRPERSON YEE: Thank you.

Okay. Thank you, Selvi.

Next item is Board Members' Time.

And Mr. Wallentine, this is a time when board members can have an opportunity to raise matters of interest or provide comments.

Any member wish to do so? No?

Let me just weigh in and, again, congratulate all of the employees and the staff here for another successful filing season. It's always a pleasure to come out during those last days, as I know Mr. Wallentine, you had the opportunity to witness and see the teams just in high gear.

But as Ms. Stowers pointed out, very appreciative of the quick response with respect to the IRS technological challenge, that allowed us to extend the filing deadline. So appreciate that very much.

And then I just wanted to raise, with respect to the prior item that we heard, Item Number 7, related to the legal ruling, I want to thank the staff for bringing that forward.

I think, certainly, as we continue to do our work here, and in the spirit of really trying to provide the clearest guidance for taxpayers, we want to just make these items public, really to frame the context where what we're looking at and provide the greatest transparency with respect to some of the guidance that is issued and legal issues being very narrow, obviously, and the staff has some direction about what to bring back. But that, I think, is just something you will probably see, as an ongoing matter of routine, that we will see how the agendas coming up.

So with that, any other members of public who wish to address the Board?

Okay. Very well.

Then our next item is to present -- this is one of my favorite, but also bittersweet things to do, and that is to present a retirement resolution.

So let me ask Leslie LeDoux to come forward. And I also want to recognize -- Leslie, you have members of your family here. If -- when I call your name, if you will just stand for a moment. Leslie's husband, Matt, is here. Welcome.

(Applause)

CHAIRPERSON YEE: Your son and your daughter, Nick and Christina, are here.

(Applause)

CHAIRPERSON YEE: And then Leslie, your new boss, Hailey, is here.

(Laughter)

CHAIRPERSON YEE: Is she sleeping. Okay?

Okay. And Leslie's sister Kathy and brothers-in-law Steven and Joe.

(Applause)

CHAIRPERSON YEE: Sister-in-laws Molly and Margaret.

(Applause)

CHAIRPERSON YEE: Thank you so much for being here and, of course, the tremendous support that you have given Leslie, for her to be able to do what she has done so diligently and faithfully and for the past 29 years in service to the people of the State of California.

We are always just very proud of presenting these retirement resolutions, but, as I say, very bittersweet, because we take our team members here, at the Franchise Tax Board -- really, they are like family, when they do come to work every day and, certainly, when they are ready to depart in retirement.

But we have a resolution that the board will be presenting, and we will have an opportunity to have Leslie say a few words. But let me just say, this is getting to be too routine. But just the amount of time that you have devoted to doing what you do.

Let me just read some of this, because it will give you a sense of not just Leslie on the job, but, certainly, you know, kind of, off of her official duties as well, how much she has contributed.

So to Leslie LeDoux, director of Technology Planning Bureau, Franchise Tax Board:

Whereas, Ms. Leslie has faithfully served the people of the State of California for the past 29 years, most recently as the director of the Technology Planning Bureau of the Franchise Tax Board;

And whereas, Ms. LeDoux has spent more than half of her career, over 16 years, serving in one of seven different director roles, while assisting with the implementation of numerous projects, large and small, with the most notable being the Accounts Receivable Collection system, the ARCS system, which is, today, one of FTB's foundational systems;

Whereas, Ms. LeDoux is exceedingly appreciated for her investment in FTB's numerous programs that directly helped grow the skills of future leaders; most notably, her charter of the Management Rotation Program, the Enterprise Coaching and Mentoring Program, and the Supervisor and Lead Lunch Time Seminars;

And, whereas, Ms. LeDoux, who has always been quite fearless, seemed to always gravitate to the "run" phases of IT operations, versus the more sedate "crawl" and "walk" endeavors, which is oddly a metaphor for both her personal and professional accomplishments, that it speaks to her penchant for swimming across the sometimes shark-infested waters of the San Francisco Bay, as she attempts to make it from Alcatraz to the shoreline with all appendages intact.

And I'm glad to see they are;

And whereas, Ms. LeDoux will soon have abundant time to spoil her first grandchild, the very adorable Hailey Joanne, while occasionally acknowledging the presence of her husband, Matt and their two children, Nick and Christina;

Now, therefore, let it be resolved this fifth day of June 2018 by the Franchise Tax Board that we recognize and thank Ms. Leslie LeDoux on the occasion of her retirement, on her professional and personal dedication to the Franchise Tax Board, and, most importantly, to the people of the State of California.

Congratulations.

(Applause)

MS. LeDOUX: Didn't think I'd get emotional.

When you start reading it, it's like, oh, my gosh, I've spent a lot of time here. Just a couple of things I wanted to say today. First of all, I wanted to thank Selvi. She's been fabulous from day one when I met her -- the first day that she walked into FTB, I happened to be the head of our mission and values team. So Selvi and I had spent a lot of time together.

And then I want to recognize one of the best bosses I've had here at franchise, over the last decade or so. And that's Mr. Kem Musgrove. I'm glad to see he's our new CIO. He's a fabulous person professionally and personally, and you guys couldn't be in better hands in the CIO area.

And then my most recent boss is Marlene White, who's been a dear friend for 30 years, and I always wanted to work for Marlene. So for the last year, I've been quite honored to learn a lot from her. Everything they have said about Marlene is true.

And to Mr. John Sulenta, thank you for always keeping it real and making me laugh. He's a great guy.

And to the TSD, our Technology Services Division, to our directors. You guys are fabulous. I see Raymond and Steve and Moe -Moe. And I'm sure I am missing somebody. But they are a great group of folks to work with.

So thank you to all of you. And to my family for being here and for sitting through an hour and a half of to something that probably made absolutely no sense to you guys. So thank you for your patience.

And to my future boss, Hailey, she can wake up now because she will never sleep tonight.

But thank you very much, everyone.

CHAIRPERSON YEE: Thank you.

(Applause)

CHAIRPERSON YEE: So let me have you come forward and the Board Members, if you will join me.

I think, Selvi, we're keeping a cumulative tab of the years of experience of all of our departing retirees. It's quite stellar what they contribute.

Thank you.

All right, Members. We are now going to move to the next item, which is closed session. At this time, the board is going to go into closed session, remaining here, in the auditorium, to discuss pending litigation.

Let me ask the audience at this time if you will please exit the auditorium.

Thank you.

(Board recessed into closed session from 3:14 p.m. to 3:23 p.m.)

CHAIRPERSON YEE: Thank you. All right. Members, we are back in open session.

The Board met in closed session and discussed pending litigation.

Any other business to come before the board?

Hearing and seeing none, this meeting is adjourned. Thank you all very much.

(Proceedings concluded at 3:23 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 20th day of June 2018.

/s/ Kathryn S. Swank

KATHRYN S. SWANK, CSR

Certified Shorthand Reporter

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