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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HR Disciplines</td>
<td>$3.3 M</td>
<td>19</td>
<td>18</td>
<td>GF</td>
<td>Request permanent resources to bring HR staffing levels in alignment with the departmental growth, specifically in Personnel Resources Section, Personnel Services Section, and OEDS.</td>
</tr>
<tr>
<td>2</td>
<td>Customer Service - PI to Perm Tax Practitioner Hotline</td>
<td>$4.7 M</td>
<td>15</td>
<td>61</td>
<td>GF</td>
<td>Request permanent resources to address customer service workloads and to improve level of access for tax practitioners.</td>
</tr>
<tr>
<td>3</td>
<td>LAN Infrastructure Refresh Project</td>
<td>$6 M</td>
<td></td>
<td></td>
<td>GF</td>
<td>Request funding to refresh existing LAN infrastructure equipment due to end of life and end of support.</td>
</tr>
<tr>
<td>4</td>
<td>Mainframe Enterprise Tape Library Refresh</td>
<td>$7.2 M</td>
<td></td>
<td></td>
<td>GF</td>
<td>Request funding to replace the Enterprise Tape Library to guarantee storage capacity for FTB's data and to move away from technology that is no longer adequate to meet the ongoing needs of the department.</td>
</tr>
<tr>
<td>5</td>
<td>Withholding Services &amp; Compliance Permanent Staffing Increase</td>
<td>$1.8 M</td>
<td>20</td>
<td></td>
<td>GF</td>
<td>Request permanent resources to resume compliance and education activities, as well as maintain acceptable levels of access in the contact center and maintain priority workloads.</td>
</tr>
<tr>
<td>6</td>
<td>Technical Adjustment - TAAP</td>
<td>$378</td>
<td>2</td>
<td></td>
<td>GF</td>
<td>Request to transfer the Tax Appeal Assistance Program from the California Department of Tax and Fee Administration to the FTB.</td>
</tr>
<tr>
<td>7</td>
<td>EITC Age and Income Expansion</td>
<td>$570</td>
<td>7.5</td>
<td></td>
<td>GF</td>
<td>Request funding and positions to implement the EITC Age and Income Expansion that was included in the Governor's May Revise.</td>
</tr>
</tbody>
</table>

Total: $23.9 M, 63.5 Positions, 79 Positions Convert PI to Perm
Fiscal Year: 2019-20  
Business Unit: 7730  
Department: Franchise Tax Board  
Priority No.: 1

Budget Request Name: 7730-001-BCP-2019-GB  
Program: 9900100 – ADMINISTRATION  
Subprogram: 9900200 – DISTRIBUTED ADMINISTRATION

Budget Request Description: HR Disciplines

Budget Request Summary:
The Franchise Tax Board (FTB) requests $3.3 million from various funds for 19.0 permanent positions and the conversion of 18.0 permanent intermittent (PI) resources to permanent positions in 2019-20 and $2.85 million from various funds in 2020-21 and ongoing for these positions. These resources conduct human resource functions and serve as FTB’s foundation to allowing FTB to hire, train, and retain staff, FTB most precious resource. These resources play a key strategic role in managing FTB staff and workplace culture and environment and will allow FTB to ensure hiring is timely, personnel actions are completed, performance management goals are attained, legal mandates regarding employment laws are met, employee development is championed and sustained, and FTB’s management team is supported and able to ensure staff are productive and empowered to do their best. In addition, it will allow FTB to be agile in adapting to legislative and other external changes.

Requires Legislation:  
☐ Yes  ☒ No  

Does this BCP contain information technology (IT) components?  
☐ Yes  ☒ No  
Department CIO:  
Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.  
Project Approval Document:  
Approval Date:

If proposal affects another department, does other department concur with proposal?  
☐ Yes  ☐ No  
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By:  
Date:  
Reviewed By:  
Date:

Pending Board Approval

Department of Finance Use Only

Additional Review:  
☐ Capital Outlay  ☐ ITCU  ☐ FSCU  ☐ OSAE  ☐ CALSTARS  ☐ D of Technology  
☐ PPBA

Date submitted to the Legislature
A. Budget Request Summary

The Franchise Tax Board (FTB) requests $3.3 million from various funds for 19.0 permanent positions and the conversion of 18.0 permanent intermittent (PI) resources to permanent positions in 2019-20 and $2.85 million from various funds in 2020-21 and ongoing for these positions. These resources conduct human resource functions and serve as FTB’s foundation to allowing FTB to hire, train, and retain staff, FTB most precious resource. These resources play a key strategic role in managing FTB staff and workplace culture and environment and will allow FTB to ensure hiring is timely, personnel actions are completed, performance management goals are attained, legal mandates regarding employment laws are met, employee development is championed and sustained, and FTB’s management team is supported and able to ensure staff are productive and empowered to do their best. In addition, it will allow FTB to be agile in adapting to legislative and other external changes.

B. Background/History

FTB is responsible for administering the income and franchise tax laws for the State of California. Staff process tax returns and payments, issue refunds to Californian’s, conduct audits and filing enforcement actions, collect debts owed the state and support numerous service functions allowing for each of these compliance activities to occur. As a result of FTB’s efforts, FTB programs oversee the administration and collection of over $103 billion in General Fund revenues – over 78% of the General Fund account. The General Fund is utilized to fund necessary services for all Californians across the state including but not limited to education, safety and welfare programs, and law enforcement.

FTB has over 6,500 permanent and temporary staff positions to perform FTB administrative functions. In recent years, FTB staff has grown and workloads administered by Human Resources (HR) have increased in both number and duration of tasks as well as increased complexity of tasks, processes, and procedures. HR staffing levels are insufficient to maintain necessary and mandated processes on a timely basis to ensure that FTB can hire staff when needed, timely address staff issues, and that FTB conforms to the extensive body of laws and processes governing HR processes. Over the last five years, FTB has increased temporary help in this business area and while that has reduced some impact, this is not a temporary need and trained PI employee retention is causing detrimental impacts to the program. When HR functions are inadequately staffed, negative business impacts will follow whether impact is related to depressed operations, untimely actions jeopardizing due process, inadequate meeting of mandated actions, or increased litigation hazards for the state.

The HR role is critical in relation to hiring and retaining the right staff at the right time so FTB can be effective at what FTB does. HR professionals do the following:

- **Manage Hiring Processes** - work closely with hiring managers to effect good hiring decisions according to the organization's workforce needs. They assist in determining strategies for hiring the right people based on workforce needs and utilizing California’s position classification system.
- **Support Recruitment** - assist business managers relating to the hiring process by processing applications, ensuring candidates are eligible, assisting in establishing a fair hiring process, and ensuring the recruitment efforts are conducted in compliance with various state laws and rules.
- **Mitigate Liability Issues** - ensure that FTB complies with federal and state employment laws thereby managing and minimizing FTB’s exposure and liability related to allegations of unfair employment practices. They identify, investigate and resolve workplace issues that, left unattended, could spiral out of control and embroil the organization in legal matters pertaining to federal and state anti-discrimination and harassment laws.
- **Engage in Onboarding/Training and Development** - coordinate new employee orientation and facilitate a successful integration for new team members, an essential step in forging a strong employer-employee relationship. The training and development area of HR also provides training.
that supports the company's fair employment practices and employee development to prepare aspiring leaders for supervisory and management roles.

- **Promote Employee Satisfaction** - help the organization achieve high performance, morale and satisfaction levels throughout the workforce, by creating ways to strengthen the employer-employee relationship. They administer employee opinion surveys, conduct focus groups and seek employee input regarding job satisfaction and ways the employer can sustain good working relationships. This is a key initiative for the State of California to build a strong workforce.

- **Promote Employee Retention, Workforce and Succession Planning** – work with business managers to ensure they are ready to engage in key retention activities for staff, ensure staff have a career development and advancement pathway before them and that they are planning for key retirements of select staff or a large number of staff.

- **Manage Performance Management and Appraisals Processes** – assist business managers to encourage staff working in an organization to work according to their potential and provides performance improvement and development that can help them bring about improvement as necessary.

- **Manage Disputes** – assist in managing employee actions or disputes between the employees and the employers. HR professionals listen to employee grievances and come up with suitable solutions to sort them out. Generally, timely action prevents issues from escalating out of control.

- **Promote Safety and Risk Management** - Employers have an obligation to provide safe working conditions. Workplace safety and risk management specialists from the HR area manage compliance with Cal/OSHA Administration regulations through maintaining accurate work logs and records, and developing programs that reduce the number of workplace injuries and fatalities. Workplace safety specialists also engage employees in promoting awareness and safe handling of dangerous equipment and hazardous chemicals.

As FTB’s staff and HR work has increased, HR staffing levels have not kept pace. Below is a 25 year history of FTB growth in staff and outputs compared to growth in HR staffing levels.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Returns Processed</th>
<th>Total Revenue (PIT &amp; BE)</th>
<th>Compliance Revenue</th>
<th>Permanent Staff</th>
<th>HR Staff Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>18.7M</td>
<td>$103B</td>
<td>$8.94B</td>
<td>5,752.5</td>
<td>2.0</td>
</tr>
<tr>
<td>2012-13</td>
<td>18.9M</td>
<td>$74.8B</td>
<td>$6.25B</td>
<td>5,183.0</td>
<td>-5.0</td>
</tr>
<tr>
<td>2007-08</td>
<td>18.9M</td>
<td>$64.2B</td>
<td>$5.7B</td>
<td>5,181.5</td>
<td>5.0</td>
</tr>
<tr>
<td>2002-03</td>
<td>16.4M</td>
<td>$38.9B</td>
<td>$3.7B</td>
<td>5,497.5</td>
<td>-2.0</td>
</tr>
<tr>
<td>1997-98</td>
<td>14.4M</td>
<td>$33.4B</td>
<td>$2.9B</td>
<td>4,865.0</td>
<td>4.0</td>
</tr>
<tr>
<td>1992-93</td>
<td>14.9M</td>
<td>$21.6B</td>
<td>$2.9B</td>
<td>3,920.0</td>
<td>-</td>
</tr>
</tbody>
</table>

Over the last 10 years, FTB has streamlined HR operations, automated various functions and continue to pursue additional automation of select HR functions. FTB is utilizing temporary help for a permanent workload and is not sustaining viable levels of service with existing permanent or temporary help staff. FTB operations and staffing levels have far outpaced HR staff growth, and FTB efforts to manage this workload without asking for additional resources have not been successful.

**C. State Level Considerations**

This proposal supports FTB’s mission to fairly and effectively administer the State’s tax system. The FTB mission is “to provide the services and information to help taxpayers file accurate and timely tax returns and pay the proper amount owed. In order to accomplish this mission, FTB develops knowledgeable and engaged employees, administers and enforces law with fairness and integrity, and
responsibly manages the allocated resources.” In addition, this proposal also supports the following FTB’s Strategic Plan Goals:

**#3 - Strong Organization – “Invest in our employees, challenge and empower them to be experts in their field, and help them achieve their full potential.”**

**Strategy 3.1:** Prioritize and implement the Talent Management Program services to help recruit, train, and retain employees.

**Strategy 3.2:** Increase employee engagement and job satisfaction by assessing and enhancing culture, workplace environment, and employee recognition.

**#4 - Operational Excellence - “Optimize processes, products, services and resources to better serve our customers.”**

**Strategy 4.1:** Manage budgeted resources at the enterprise level and use performance metrics to meet short-term and long-term business needs.

Processing and accomplishment of personnel workloads requires an adequate ratio of HR professional staff to the total level of staff at FTB to provide reasonable assurance on the reliability and integrity of information and strict compliance with CalHR’s policies, procedures, laws, and regulations. In addition, FTB must have an adequate number of HR staff to support all FTB program areas in recruiting, hiring, training, performance management, and other HR disciplines to ensure the program areas can fulfill mission critical responsibilities.

**D. Justification**

HR efforts oversee the most important component of a successful business — a productive, thriving workforce. The role of HR management in organizations is to organize people so that they can effectively perform work activities. At all levels of the organization, managers and HR professionals work together to develop employees’ skills.

The HR function support the following:

- Work closely with hiring managers to effect good hiring decisions, according to the organization’s workforce needs.
- Develop and coordinate training for new employee orientation, an essential step in forging a strong employer-employee relationship.
- Suggest and implement strategies for increasing employee engagement and commitment to the organization.
- HR employee relations specialists minimize the organization’s exposure and liability related to allegations of unfair employment practices. Staff identify, investigate and resolve workplace issues that, left unattended, could spiral out of control and embroil the organization in legal matters pertaining to federal and state anti-discrimination and harassment laws.
- Partner with the program areas to provide solutions for workforce concerns.

Over the last 25 years, FTB’s business operations and staffing levels have increased significantly as discussed in the Background section of this BCP. FTB’s growth in HR staff has not. In the most recent years with new or expanded mandates related to HR functions, FTB’s prior strategy of streamlining, automating, and using temporary help is no longer a viable strategy. Additional staff are needed to support FTB’s business operations and the work FTB does for Californians studying this staffing shortfall, FTB would note that there is not one primary driver behind the workload growth FTB is no longer able to accommodate. Process changes, changes in statewide HR rules and efforts, and new or expanded legal mandates have all steadily increased the need for an increased staffing level.
Due to staffing shortages, FTB has seen:

- Lengthier hiring processes impacting the ability to timely fill vacancies.
- Inability to timely complete existing or expected future increases in personnel actions.
- Inability to timely complete performance reviews and address employee performance issues which leads to substandard performance in business areas.
- Inability to timely complete mandated reviews of allegations of misconduct as required under federal and state mandates.
- Inability to develop robust employee training programs leading to empowered employees and which support CalHR’s statewide competency initiatives.
- Inability to align CalHR competencies to classifications used at FTB and appropriately train staff on these competencies.
- Inability to adequately engage in succession planning when up to 70% of FTB’s most senior staff is eligible to retire in the next five years.

FTB is requesting resources for the following functions:

**Hiring the Right Employees**

**Class & Pay** *(Request conversion of 2.0 PI to Perm positions and 3.0 additional Perm positions)*

Staff within this business area are the front end process for all hiring, as well as ongoing evaluation of positions and workload needs to ensure that hiring of employees occurs timely and the correct classifications are utilized to complete FTB’s work.

With recent changes in statewide classifications used, the technology infrastructure FTB uses, the continued complexity of tax laws, new federal and state tax employment laws, and the successful Enterprise to Data Revenue Technology project, HR staff must be expert advisors for the work and the position classifications used to conduct that work. HR staff in this business area have full workloads with the following:

- FTB business area needs change requiring an evaluation of a new organization structure.
- Work can increase in complexity requiring an evaluation (desk audit) of the work and classifications historically used with a possible reclassification of resources resulting from such a review.
- New HR rules allow for consideration of salary level at hire (deep class/hiring above minimum) or annually to determine if a salary adjustment is appropriate.
- Nepotism rules also continue to be a key area to address, evaluate and monitor to ensure solutions meet department standards and internal audit expectations.
- FTB continues to facilitate hiring via large hiring pools to accommodate seasonal workflows or college graduation dates.
- While FTB enjoys an overall low turnover rate for staff leaving the department, staff do move extensively within the organization. One vacancy can actually trigger multiple hiring processes as existing staff promote into higher classifications creating vacancies that need to be filled at journey level positions.

FTB began using temporary staff and overtime regularly in the workload as early as 2015-16 and has not seen a subsequent decline in workload to suggest that FTB will be able to accomplish this workload without these hours. FTB also reclassified two positions historically classified for ‘lead review’ work into working analyst positions and added production work responsibilities to supervisors, all in an attempt to manage workflow. These efforts have been somewhat successful but have not eliminated backlogs or the need to throttle workflows, which slows down the hiring process unnecessarily. This work is of an ongoing nature with no expectations of a reduced workload which might justify the ongoing use of temporary help resources. This BCP requests to reclassify two PI positions to permanent to allow for appropriate staffing levels and workflows. Additionally, this BCP requests three new positions to allow...
Analysis of Problem

for reestablishment of lead reviewers and a reduction of supervisor's inventory levels consisting of work that should appropriately be performed by analysts or support staff.

Allowing for the appropriate level of staff will allow the following:

- Fewer mistakes made on work, eliminating rework.
- Reduction in backlogs that occur throughout the year on evaluation of classifications and organizational structures.
- Resumption of timely desk audits to validate classifications used and thus avoiding risk of being charged with staff working in out of class assignments/workloads.
- Reestablish training for HR staff.
- Create and maintain existing hiring tools to be used by the department to streamline the hiring process tasks.
- Provide consulting services earlier for business areas struggling with recruitment or retention issues and/or classification issues.
- Ensure audit trails for hiring actions are robust and properly maintained to facilitate recently introduced audits by CalHR beginning in 2013 pursuant to Government Code section 18661.
- NEW: Ensure FTB actions are consistent with the increased requirements associated with determining salary levels at hire that are above the minimum range as required under AB 168 (2017) and Labor Code 432.3.
- Be of assistance in multiple and ongoing Civil Service Initiative projects and re-classification efforts during the study or implementation phases without causing a significant backlog of work which results in slowing down the hiring process.

Exams (Request 2.0 PI to Perm positions) #3

Staff members within this unit are critical to ensuring that hiring exams are timely and conducted within the parameters of all controlling bodies of statutes, regulations, and procedures.

FTB utilizes a combination of statewide classifications and FTB classifications for the workforce.
- Number of Statewide Classifications used - 77
- Number of FTB Classifications used – 28
- Average number of exams administered annually by FTB - 45

For FTB classifications, exam staff must conduct job analyses prior to issuing an exam (done every five years at a minimum for each classification), administer the exam, validate the exam candidate meets the minimum qualifications for the exam, determine hiring eligibility of candidates, administer a review process if the candidate does not concur with their qualification or eligibility assessment results, prepare a list ranking candidates and notify candidates of their scores, and ensure documentation protocol is followed. Staff is also responsible for determining the appropriate salary range for new hires based on experience and education.

Due to the Statewide Civil Service Initiative (CSI), FTB’s reliance on FTB classifications is decreasing but is unlikely to ever be eliminated entirely. For statewide classifications utilized to hire FTB staff, exams staff may need to do job analysis if CalHR does not have one on file (done every five years for each classification) prior to the posting of a job opportunity notice, validate minimum qualifications and hiring eligibility for candidates selected for interviews, notify candidates of any issues, administer a review process if the candidate does not concur with their qualification assessment results and ensure documentation protocol is followed. Staff is also responsible for determining the appropriate salary range for new hires based on experience and education.

With the success of the CSI initiatives and FTB’s continued reliance on both FTB and statewide classifications, FTB continues to see a steady level of work that is currently supported by both permanent staff and two temporary help staff that FTB has redirected to Exams in the last five years. FTB began using temporary help in 2014-15 for this workload and has not seen a subsequent decline in workload to suggest the department will be able to accomplish this workload without these hours.
This work is of an ongoing nature with no expectations of a reduced workload which might justify the ongoing use of temporary help resources. This BCP requests to reclassify two PI positions to permanent to allow for appropriate staffing levels.

**Certification & Hire (Request 2.0 PI to Perm positions and 2.0 additional Perm positions) #4**

Staff members within this unit work with the business areas of FTB to ensure employees are hired timely so FTB can perform the business functions without interruption. FTB currently enjoys a high retention rate for the organization. While employees are choosing to stay with FTB, they do move extensively within the organization. One vacancy frequently results in multiple job opportunities, as filling one vacancy with an FTB staff member creates a vacancy elsewhere. FTB would also note that in recent years there have been a number of increased manual workloads associated with several new statewide processes and mandates. As a result of all of these factors, FTB does not have sufficient staff to accommodate these critical workloads without using temporary help funds (staff costs and overtime) or within existing staff levels. Inadequate staffing levels are resulting in ineffective and delayed hiring practices which are increasingly impacting FTB’s business operations negatively and could prevent FTB from effectively and timely meeting statewide guidelines or mandates. FTB began using temporary help funding in this area in 2013-14 and has not seen a subsequent decline in workload to suggest the department will be able to accomplish this workload without these hours ongoing.

FTB recognizes that within this workload, there is not one single factor that is contributing to the need for ongoing and additional resources. Rather it is a combination of multiple items that when aggregated together result in insufficient resources.

- **Introduction of Examination and Certification Online System (ECOS) in January 2016.** The ECOS system has introduced many benefits to users of the system, eased the path of finding a state job and streamlined the applicant’s application process. However, for the back end function, it has created various manual workloads –some sizable in nature - that has resulted in increased and ongoing work that cannot be absorbed or addressed by temporary help funds. Paper applications received are scanned and uploaded by HR staff into the ECOS system. Under the provisions of California Code of Regulations 249.6, issued July 2017, hiring managers can no longer receive applications containing salary or Equal Employment Opportunity data. HR staff must redact this information prior to scanning and uploading the paper application into the ECOS system. For electronic applications containing confidential information, HR staff must print those applications, redact relevant information, create a new account for the applicant, and scan and upload the redacted application into the new account created in the ECOS system. This must be done for all job applications containing confidential information, for each unique job (even if filed by the same person) and must be done before providing any applications to the hiring managers. Failure to complete this work timely delays the hiring process unnecessarily.

- **Use of Statewide or Open Exam Lists – validation of minimum qualifications and hiring eligibility are reviewed for candidates selected for interviews.** Historically, this was done only for top candidates selected for the job but as more exams are administered online, the verification process is done for all applicants selected for interviews. Additionally, the applicants have 10 days to dispute any finding that they did not meet the minimum qualifications or hiring eligibility criteria. Failure to complete this work timely delays the hiring process unnecessarily. While this function is usually performed by Exams staff, with the increase in workload, Cert and Hire staff have been crossed training to assist in the timely completion of this function.

- **Deep Class/Statewide Consolidation of Classifications – Significant benefits inure to staff members and the department as a result of adopting deep class classifications.** However, staff migration through the deep class levels now requires analysis on an annual basis during the review of the merit salary adjustment process. A review of staff experience and education must now be undertaken annually (versus previously when they applied for a promotion) as staff migrate through the deep class levels. This is a new workload that cannot be absorbed. Currently this work applies to over 25% of FTB’s positions with the expectation over the next 12 – 18 months that this figure will grow substantially as more Civil Service Initiatives are pursued and adopted.
Analysis of Problem

With the increase in support duties associated with the new processes discussed above, FTB has had to spread this work amongst various analysts that should instead be focused on beginning and administering the hiring efforts with the business area. As a result of these analysts needing to perform support functions, hiring processes are being negatively impacted as they are being throttled based on available resources needed to timely complete any single hiring effort and avoid unlawful appointments. FTB is requesting the conversion of two PI support staff to conduct support functions and requesting two additional analyst positions to evaluate minimum qualifications and eligibility criteria and annual reviews of staff in deep class positions.

Timely Completing Personnel Actions

Payroll and Benefits (Request 2.0 PI to Perm positions and 2.0 additional Perm positions) #7
Staff members in this business area ensure payroll processes are managed appropriately and staff are paid the correct amount monthly and timely. Duties consistent with this include:

- Perform monthly payroll functions including keying and reconciling pay amounts including deductions that could change monthly, reconciling monthly time reported such as paid absences, establishing and maintaining employee account receivable items, and tracking salary advances.
- Determine appropriate salary adjustments are timely made for staff.
- Ensure MOU salary or benefit changes are timely recorded.
- Maintain staff Official Personnel Folder (OPF) (update and available for inspection as requested).
- Key new hire or promoted staff information into various payroll systems.
- Track range changes resulting in increased pay.
- Manage key life events through the payroll process such as a retirement, leave event, or death.
- Track PI staff to ensure they are working appropriate hours.
- Validate and key overtime and dock.
- Manage retired annuitant listings.
- Manage Open Enrollment process.

FTB began using temporary help funding in this area in 2014-15 with annual increases each year and has not seen a subsequent decline in workload to suggest FTB will be able to accomplish this workload without these hours ongoing. Additionally, FTB added production work responsibilities to supervisors all in an attempt to manage workflow. This BCP requests the conversion of two PI staff to permanent positions and additionally requests two new positions to allow for reestablishment of full supervisory tasks and functions with the reduction of supervisor’s work assignments consisting of work that should appropriately be performed by analysts or support staff.

Allowing for the appropriate level of staff will allow FTB to process longstanding work referenced above as well as engage in the following new workloads:

- NEW: Government Code Sections 22843.1 and 22959 require dependent verification on medical, dental, and vision plan insurance plans. In 2013, laws were enacted requiring a triennial review of all dependents claimed on various insurance policies. FTB staff must manually review each employee’s OPF to identify dependents claimed on dental and vision plans, work with staff to respond to CalHR’s letter validating dependents on health plans and FTB’s letter validating dependents on dental and vision policies if different. Verifications are manually tracked and results are updated on MyCalPers system. If staff do not verify information timely, insurance premiums will be modified on their monthly check resulting in the need to collect overdue premium payments once dependents have been verified.
- NEW: In 2017, SEIU BU #1 MOU allowed for the establishment of an out of state health care stipend for FTB staff in the New York, Chicago, and Houston District Offices. This stipend is monthly (requires manual monthly review of all staff to ensure no changes in health insurance has occurred and manual keying of benefit into SCO system). Additionally, the program allows out of state staff to be reimbursed for expenses above the maximum out of pocket costs for CA plans and
Analysis of Problem

Staff must manually update and maintain the Health Reimbursement Account Portal and validate the accuracy of the information maintained in it prior to keying the payment into SCO’s system. FTB has approximately 200 out of state employees on a monthly basis.

- NEW: In 2013, the Affordable Care Act required all departments to review health care coverage options for all newly hired staff, semi-annual review of PI staff, and when any staff changes health plans to ensure staff has access to health insurance. These reviews must be done manually, FTB’s and CalHR’s systems must be manually updated and formal notice provided to employees of their options.

- NEW: In 2015, Secretary Batjer of the California Government Operations Agency spearheaded a historic effort at the behest of Governor Brown. The Civil Service Improvement efforts have been successful to date and are moving statewide classifications into a more manageable system so new hires to the state can better understand how to seek a state job with the ultimate goal of enhancing hiring pools and retention of employees. These efforts have moved the state in the desired direction but have resulted in new workloads within departments. Due to the frequency and number of hires FTB does, the workload is sizeable. With the adoption of generalist positions, HR staff must understand FTB’s unique skills needed for these generalist positions to hire employees who will be successful. With deep classes and movements within the ranges without needing to test, staff in this business area must also track positions annually to ensure that employee files are appropriately reviewed by the manager at the time employees should be moving up within the deep class ladder.

Oversight of Federal and State Leave Programs (Request 2.0 PI to Perm positions) #8

Staff in this business area are responsible for the oversight of the various leave programs employees can utilize such as Family Medical Leave Act, California Family Rights Act, State Disability Insurance Program, Non-Industrial Disability Insurance Program, Paid Family Leave program and the Parental Disability Leave Program. These programs present complex legal bases for protected leave of absences from work and must be managed carefully and diligently to ensure that employees are allowed time off as appropriate under these programs, the necessary documentation is submitted to and retained by FTB supporting staff eligibility and once leave is no longer warranted that staff return to work accordingly. Failure to manage these programs can present legal risk for FTB and California if leave is inappropriately denied or managed. Negative consequences could also present for employees if FTB erroneously grants leave under these programs.

With continued adoption and changes of various leave programs, as well as the short timeframes to document and certify eligibility, FTB began using temporary help resources to accomplish this workload beginning in 2016-17. At this time, existing staffing levels were not able to timely process requests, monitor those on leave, and ensure that all the various provisions of any unique program were met. To avoid incurring risks, FTB hired PI staff to manage this workload. Statistics supporting this program do not show any reduction or likely reduction in workload and FTB is requesting conversion of two PI staff to permanent positions.

Employee Services (Request 2.0 PI to Perm positions) #9

Staff in this business area are responsible for various functions including performing monthly payroll clerical work that requires the manual sorting of on average 6,500 paper timesheets which serve as the legal document for time worked and attendance. Additionally they copy, sort, and distribute the Request for Personnel Actions to the correct location, and manage FTB’s paper and electronic OPF requests for all staff and coordinate with hiring managers within FTB and the State when the hiring manager must have access to the OPF, assist in FTB’s fingerprinting and background check function for new hires, serve as the face of Personnel at the employee counter to assist staff with questions and accept documents which must be routed to the correct location, manage the Regional Transit ticket sales, and assist the general public who have a need to verify the employee’s work status at FTB.

FTB began using temporary help funding in 2015-16 to manage workloads and backlogs and do not see any indication that work will decrease eliminating the need for additional staff. This workload is permanent and ongoing and FTB is requesting the conversion of two PI positions to permanent positions.
Performance Management Function

Performance Management/Discipline (Request 5.0 additional Perm positions) #2

Staff within the business area are primarily responsible for addressing staff performance. FTB employees are monitored to support strong efforts to excel (annual performance evaluations), receive appropriate training and training hours, and ensure employees are working at the appropriate pay level on an annual basis. However, like all organizations, FTB has staff that need extra assistance and encouragement to reach their performance capabilities, especially as work becomes more complex or staff are being identified as engaging in inappropriate actions (intentionally or unintentionally) as FTB continues to enhance FTB system monitoring tools to detect security threats. Insufficient HR staffing levels are leading to delays in completing analysis of poor performance or reviews of inappropriate behavior which sends a negative message throughout the enterprise, as staff engaging in inappropriate activities or not meeting performance standards are not appropriately addressed and business areas continue to deal with substandard performance. FTB sends a specific message that performance issues will be managed timely to eliminate business disruptions; however, staffing levels in the Personnel Management Unit do not allow HR staff to meet this guideline.

Common work performed in this area includes:

- Manage department wide performance evaluation process and consultations, conduct training to ensure FTB’s management team is aware of proper procedures, and documentation retention.
- Review, evaluate and determine consequences associated with performance issues, adverse action cases, or inappropriate actions.
- Manage existing staff on ongoing performance evaluations (averages about 5% of FTB staff) ensuring that these staff members continue to follow the corrective action plans established to improve performance.
- Manage Skelley functions including scheduling and conducting training to ensure FTB’s management team is aware of proper procedures, and documentation retention.
- Review of medical notes impacting work duties etc. (calling doctors to validate issuance).

FTB has not adopted the use of PI staff in this business area but has reclassified two positions historically classified for ‘lead review’ work into working analyst positions and added production work responsibilities to supervisors all in an attempt to manage workflow within existing resources. These efforts have been somewhat successful but have not eliminated backlogs or the need to throttle workflows which slows down the performance management process unnecessarily, and impacts the program area’s performance. This BCP requests five new positions to allow for reestablishment of lead reviewers and reduction of supervisor’s inventory levels consisting of work that should appropriately be performed by analysts or support staff as well as new staff positions to conduct work that tends to become backlogged or new mandated workloads.

Allowing for the appropriate level of staff will allow the following:

- Ensure consistency with performance expectations and actions across the enterprise.
- Reduce level of backlogs for existing performance issue cases at all stages of the process.
- Reduce the lapse time of investigations of performance issues or improper actions reducing overall time to complete an investigation.
- NEW: address newly identified employee investigations triggered by enhanced system monitoring tools; whereas, employees access FTB systems in an inappropriate manner whether intentionally or not.
- Continue to support statewide efforts on Civil Service Initiatives as the state continues to support the key goal of reducing classifications and the complex hiring process.
- Reestablish training for performance management staff.
Analysis of Problem

- Create and maintain existing tools and training modules to be used by the department to streamline the performance management process supporting consistency and alignment with enterprise performance expectations.
- Provide advisory and mentoring for supervisors’ development across the enterprise for enhancing management skills.

Meeting Federal and State Employment Laws and Standards

Equal Employment Office (EEO) (Request 1.0 PI to Perm position and 4.0 additional Perm positions) #11

Staff in this business area are responsible for various functions including:

- Implementing policies and procedures related to Fair Employment Practices under Government Code Sections 12940, 19795, 19233(b), 19402, and 19797.
- Ensuring FTB has programs in place to prevent discrimination and harassment and/or addresses allegation of discrimination and harassment under 2 CCR 11024 and 11034(f) and Government Code Sections 12940(k), 12950.1 and 12950.1(g)(2), Title VII, US Civil Rights Act and other related federal and California statutes.
- Managing FTB ‘reasonable accommodation’ and ‘accessibility’ programs under various statutes including the Americans with Disabilities Act of 1990, Sections 503, 504 and 508 of the Rehabilitation Act of 1973, and various other accommodation programs under Government Code Sections 12926, 12940, 19675, 19230 – 19237, 19701-19702, and various supporting California regulations and policies. Mandated activities managed include but are not limited to the:
  - Limited Examination Appointment Program
  - Disability Advisory Committee
  - Bilingual Services Program
  - Upward Mobility Program

These programs present complex legal bases and are critical functions that must be performed and addressed in a timely manner. Failure to manage these programs will present legal risk for FTB and California if requests for a reasonable accommodation or an investigation of an allegation of harassment is not undertaken in a timely manner and appropriately resolved.

FTB began using temporary help funding in this area in 2013-14 and has not seen a subsequent decline in workload to suggest the department will be able to accomplish this workload without these hours ongoing. Additionally, FTB continues to struggle with new workloads due to new laws, mandates, and policy decisions made at the State level, as well as decreased timelines for addressing various investigations etc. FTB recognizes that within this workload, there is not one single factor that is contributing to the need for ongoing and additional resources. Rather it is a combination of multiple items that when aggregated together result in insufficient resources. Allowing for the appropriate level of staff will allow FTB to process longstanding work referenced above as well as more effectively engage in the following ongoing and growing workloads:

- **Reasonable Accommodation Workloads** – 2.0 new permanent staff requested. A reasonable accommodation is needed when staff have a job related limitation due to a medical condition and cannot currently perform their current assignments. This accommodation may present as a temporary or permanent situation. Staff are responsible for training department employees and supervisors and managers on the various legal mandates and options. The majority of work relates to case resolution and identifying and placing employees in new opportunities that allows for an accommodation to their ongoing health issue. FTB’s goal for this program continues to focus on finding a ‘good fit’ for employees so that employees and FTB both benefit. Increasing staff will allow FTB to assign inventory sooner, resolve more quickly, and reduce monthly inventories as well as follow up on prior accommodations made to ensure they are still effective and necessary.
Analysis of Problem

- **Accessibility Requests** - Additionally, these 2.0 new staff will be responsible for responding to requests from California’s taxpayers with disabilities to ensure they receive accessible services to properly assist them in fulfilling their tax filing obligation. FTB has seen an increase of over 500% in requests for an accommodation since 2013-14 and anticipate this workload to continue to grow over the next few years as more employees become aware of their options and the various programs. Insufficient staff levels will result in an inability to timely resolve accommodation cases and accessibility requests, which will subject FTB to an increase in disability discrimination cases and accessibility grievances as well as subject FTB and the State to unwarranted legal risks.

- **Prevention Training and Investigation of Allegations of Discrimination and Harassment** – 2.0 new permanent staff requested. FTB deploys a zero tolerance strategy regarding discrimination and harassment in the workplace and takes each complaint received seriously. FTB approaches this workload from two angles. First, preventive (but also mandated) training is provided to employees to ensure they are aware of FTB’s zero tolerance, what discrimination and harassment is, and how to seek help if needed. Investigations on allegations are to be completed within 90 days under various statutes but this could be reduced to 30 days in certain situations. FTB has seen almost a 300% increase in allegations made that need to be investigated and FTB anticipates that number will continue to increase over the next several years as harassment continues to be an issue of significance in the media. FTB is not sufficiently staffed to manage the increased and increasing workload within mandated timeframes. Additionally, FTB has had to redirect staff to investigations instead of training which is mandated as well as a necessary and successful preventative for staff to understand FTB’s zero tolerance policy and to avoid engaging in any questionable behavior. Insufficient staff levels will result in an inability to timely resolve cases and will subject FTB and the State to unwarranted legal risks.

- **Support Functions** – 1.0 PI to Perm. Existing staff manages the following workloads which are growing or stable and FTB is no longer able to redirect this work back to permanent staff which would eliminate a need for a temporary help position.
  - Reviews and logs personnel documents including a request for reasonable accommodation.
  - Manages the sign language and bi-lingual accessibility programs, upward mobility program, and conducts mandated annual or bi-annual surveys related to workforce composition and language surveys.
  - Is point of first contact for all EEO contacts and engages in triage work.
  - Manages logistics and prepares training materials for mandated classes.
  - Manages request for temporary mobility impairment accommodations.

Employee Training & Empowerment

**Staff Training Services** *(Request 3.0 PI to Perm positions, 1.0 additional Perm position)* #6

Staff development is essential to ensure staff can succeed in their jobs and that FTB can perform the functions the department is entrusted to perform. HR staff in this area works with business areas throughout the department to facilitate the acquisition of training services to ensure business staff have the most up to date and relevant information to succeed in their jobs. Historically, the effort was fairly simple and straightforward. Permanent staff in conjunction with periodic temp help staff was used to process the work. In October of 2013, AB 906 was enacted, and this changed these types of services to personal service contracts. This change added complexity to each requested training service and required FTB to deploy an enhanced documentation standard sufficient to meet the State’s stringent procurement rules. As a result, efforts associated with processing the workload increased, and FTB allocated additional work to the unit supervisor and utilized further temp funds with the expectation that this workload would mature and stabilize and efficiencies would present so that work could be resumed by existing permanent staff. However, this has not occurred even with streamlining the workload primarily due to workload compaction issues in other business areas. This work is of an ongoing nature with no expectation of a reduced workload which would justify the ongoing use of temporary help resources. This BCP requests to reclassify three PI positions to permanent to allow for appropriate staffing levels and workflows. Additionally, this BCP requests one new position to allow for the unit supervisor to resume their standard tasks and functions and reduce or eliminate the supervisor’s ongoing inventory levels consisting of work that should appropriately be performed by analysts.
**Talent Management (Request 1.0 PI to Perm position and 1.0 additional Perm position) #12**

FTB’s Talent Management Program is a collaborative, enterprise-wide effort focused on the most valuable resource: FTB Employees. This effort promotes programs and processes that recruit, develop and retain the right employees to meet FTB's business and strategic objectives.

This program is multi-dimensional and focuses on the following critical areas – recruiting, hiring, and onboarding, focusing on the two CalHR competency models for staff and leaders, department job specific competencies, workforce planning, and FTB’s culture and physical environment that allows an employee to reach their maximum potential. FTB has also recently implemented a Talent Management software program and staff are responsible to integrate the use of this software suite into FTB normal business operations and pursue potential expansions of this software to better support FTB efforts.

In 2017, CalHR adopted and began working with departments to implement best practices in aligning training and development opportunities with the statewide competency models. Training and development opportunities aligned with the state competency models help employees understand the knowledge, skills, and behaviors needed to succeed in their jobs. Competencies help employees know the key behaviors they must demonstrate on their jobs and develop plans to address developmental areas and to enhance their strengths. Examples of core competencies under the CalHR program include the employee’s ability to adapt, communicate, and have ethics and integrity to name a few. Examples of leadership competencies for leaders are result driven leaders, inspirational leaders, and vision and strategic planning to name a few. FTB Talent Management staff champion employee efforts to mature through these competency ladders from novice to expert by assisting in identifying various training classes supporting these competencies and creating mini discussion/training events often held during lunch time. CalHR recognizes there are also occupation and job specific competencies vital to the success of all staff and have tasked departments with creating comprehensive development plans to address these competencies which is new and ongoing work.

CalHR’s model is suited to aligning foundational competencies to FTB’s classifications so that the ‘right’ staff for the job are hired to optimize their chance at success. CalHR has also developed general training programs that FTB utilizes to train staff. However, FTB needs to create and maintain training programs that supplement the statewide programs that meet internal needs and ensure staff are successful in their jobs at FTB and have viable career ladders within FTB. Accordingly, FTB will create and maintain a job specific competency model that outlines job specific and occupational competencies and provides development plans that maximize training opportunities on these competencies and then finally, an employee would be evaluated annually on how they are moving up the applicable competency ladders. FTB has made attempts at defining and developing FTB’s job specific competency model but staff limitations have prevented FTB from fully accomplishing this effort. This effort is critical and crucial as the Civil Service Improvement process continues to succeed with the adoption of generalist and statewide classifications that ease hiring and maximize hiring pools but these generalist classifications need to be mapped to each state department to ensure unique skills sets within the generalist classification are accounted for. For example, a Tax Technician could engage in audit, collection, or call center work at FTB. The core competency of communication displays differently in each of these business areas. It is important that FTB be able to map core, leadership and job specific competencies to our positions and then maintain mapping and provide training to move through all applicable competency ladders. FTB is requesting one new position to assist with this important and ongoing work.

Other programs supported by these ongoing and new resources include:
- Career Counseling Appointments allow FTB to assist staff in their development and efforts to promote to the next level. This allows FTB to retain employees within our own organization and not continually be losing our valuable investment in staff when they separate from FTB. Common counseling appointments focus on mock interviews, interview tips, resume reviews, and
understanding career opportunities within FTB. These discussions are also available to staff groups.
• Support Upward Mobility Program mandated under the Office of Civil Rights.

FTB began using temporary help in this business areas to stand up these crucial programs in the last three years. FTB does not see any change to business need or CalHR directives that would eliminate the need for this work. FTB is requesting ongoing resources to accomplish these programs.

Supporting FTB & Management

Health & Safety (Request 1.0 Pl to Perm position) #10
Under California Code of Regulations, Title 8, Section 3203, as well as multiple bargaining unit MOUs, California employers are required to establish, implement, and maintain an effective Injury and Illness Prevention Program (IIPP) and maintain a safe work environment. FTB’s Health and Safety Program has many elements to it and the overall goal of the program is that an employee’s work environment is safe and effective so that the employee can perform efficiently in a work environment that reduces or eliminates the chance or risk of injuries related to the work environment. This allows employees to avoid injuries in the first place or avoid worsening existing injuries with the hope of allowing the employee to perform their duties pain free.

FTB’s program is devoted to not only assisting employees when they are injured but also focuses on injury prevention tools and training so staff can avoid injuries. In prior years, specialized equipment was provided to staff once an injury had occurred or was beginning and generally required a doctor’s note. Over the last decade, FTB has fully embraced a preventative type program and focuses on training staff to prevent injuries, identifying needs for specialized equipment as a standard option due to the nature of the work (specialized mice for key data operators or sit/stand telescoping work platforms for call center agents), and performing workstation evaluations to ensure working areas are adequately equipped to allow an employee to work safely.

As a result of FTB’s program, FTB has the lowest worker’s compensation claims rates in the State considering FTB organization size.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Workers compensation costs as a percent of payroll</th>
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<tbody>
<tr>
<td>2012-13</td>
<td>.54%</td>
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<tr>
<td>2013-14</td>
<td>.43%</td>
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<tr>
<td>2014-15</td>
<td>.44%</td>
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<tr>
<td>2015-16</td>
<td>.43%</td>
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<tr>
<td>2016-17</td>
<td>.41%</td>
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This business area also has absorbed work related to numerous legislative bills passing in the last three years related to heat illness prevention, lead paint exposure program, hearing conservation program, and water provisions for field staff in addition to their standard operations related to the department’s first aid program.

FTB currently has two permanent staff assigned to this program and FTB began using temporary help funding in this area in 2015-16 and has not seen a subsequent decline in workload to suggest FTB will be able to accomplish this workload without these hours ongoing.

Workforce Planning (Request 1.0 additional Perm position) #5
This business area is responsible for assisting the department with Workforce Planning. FTB has over 6,500 staff and 20% of those staff are eligible to retire today and 43% in the next five years. Within FTB most senior staff with significant institutional knowledge of FTB work and processes, as
well as FTB management team, over 70% are eligible to retire in the next five years. Succession planning is more important than ever and appropriately, CalHR mandated all departments to have workforce planning efforts and succession plans in 2017. Staff supporting this program will be responsible for fully implementing and maintaining existing tools, developing new tools, and working with departmental business areas to identify key positions that could be vacated in the next five years so FTB can ensure adequate succession plans are in place. FTB is to annually report to CalHR on the status of FTB’s workforce and succession planning efforts as well as report on FTB’s ability to reduce the risks associated with the loss of key personnel. Loss of key personnel is identified as a top risk facing FTB on the State Leadership Accountability Act report.

E. Outcomes and Accountability

This proposal will ensure HR staffing levels are commensurate with the degree of care, oversight, timeliness, and attention to detail required by HR’s complex workload to ensure compliance with CalHR’s policies, procedures, laws, and regulations. It will also allow FTB to keep pace with Civil Service Improvement efforts and allow HR to meet demands for improved processing time and increased transparency, while maintaining integrity and providing excellence in customer service to internal and external stakeholders. In addition, approval of this proposal will allow FTB to ensure mission critical staffing needs are met and maintain strong employee retention rates by providing for timely HR activities.

The management of resources received from this proposal will be the responsibility of the Chief of the Administrative Services Division or a delegate. The fiscal oversight of the resources is the responsibility of the Chief Financial Officer.

F. Analysis of All Feasible Alternatives

Alternative #1: Approve FTB’s request for $3.3 million from various funds for 19 permanent positions and the conversion of 18 PI resources to permanent positions in 2019-20 and $2.85 million from various funds in 2020-21 to support the following:

These resources conduct human resource functions and serve as FTB’s foundation to allowing FTB to hire, train, and retain staff, the most precious resource. These resources play a key strategic role in managing FTB staff and workplace culture and environment and will allow FTB to ensure hiring is timely, personnel actions are completed, performance management goals are attained, legal mandates regarding employment laws are met, employee development is championed and sustained, and FTB’s management team is supported and able to ensure staff are productive and empowered to do their best.

Alternative #2: Approve FTB’s requests for $2.53 million General Fund for 19 permanent positions in 2019-20 and $2.1 million in General Fund in 2020-21 and ongoing for these positions to support the following:

These resources conduct human resource functions and serve as FTB’s foundation to allowing FTB to hire, train, and retain staff, the most precious resource. These resources play a key strategic role in managing FTB staff and workplace culture and environment and will allow FTB to ensure hiring is timely, personnel actions are completed, performance management goals are attained, legal mandates regarding employment laws are met, employee development is championed and sustained, and FTB’s management team is supported and able to ensure staff are productive and empowered to do their best.
FTB will continue to utilize PI staff to conduct the same level of work they do today.

**Alternative #3: Do not approve the request.**

Denial of this proposal means FTB will continue to utilize PI staff to conduct the same level of work they do today however, FTB will continue to see the following impacts:

- Lengthier hiring processes impacting the ability to timely fill vacancies.
- Inability to timely complete existing or expected future increases in personnel actions.
- Inability to timely complete performance reviews and address employee performance issues which leads to substandard performance in business areas.
- Inability to timely complete mandated reviews of allegations of misconduct as required under federal and state mandates.
- Inability to develop robust employee training programs leading to empowered employees and which support CalHR’s statewide competency initiatives.
- Inability to align CalHR competencies to classifications used at FTB and appropriately train staff on these competencies.
- Inability to adequately engage in succession planning when up to 70% of FTB’s most senior staff is eligible to retire in the next five years.

**G. Implementation Plan**

- June 2019 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.
- July 2019 – Department of Finance notifies FTB of position approval.
- July 2019 – CBO prepares documents to show decrease in temporary help resources and increase in permanent resources.

**H. Supplemental Information**

None

**I. Recommendation**

FTB recommends approval of Alternative 1 to ensure hiring is timely, personnel actions are completed, performance management goals are attained, legal mandates regarding employment laws are met, employee development is championed and sustained, and FTB’s management team is supported and able to ensure staff are productive and empowered to do their best.
Customer Service (Permanent Intermittent to Permanent) – Tax Practitioner Hotline

**Budget Request Summary**

The Franchise Tax Board (FTB) requests $4.7 million for 2019-20 and ongoing to support the following:

**Tax Practitioner Hotline**

- Approve $2.5 million General Fund
- 16 permanent positions
- Provisional language for $674,000 to fund 10 three-year PI positions from January to June, if necessary

**Taxpayer Services Center Section (TSCS) and Correspondence Analysis, Support and Education Section (CASES)**

- Approve $2.2 million General Fund
- Authority to convert 61 permanent intermittent (PI) positions to permanent positions

**Requires Legislation**

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<th>Yes</th>
<th>No</th>
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**Code Section(s) to be Added/Amended/Repealed**

**Department CIO Date**

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

**If proposal affects another department, does other department concur with proposal?**

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<th>Yes</th>
<th>No</th>
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*Attach comments of affected department, signed and dated by the department director or designee.*

**Pending Board Approval**

**Department of Finance Use Only**

<table>
<thead>
<tr>
<th>Capital Outlay</th>
<th>ITCU</th>
<th>FSCU</th>
<th>OSAE</th>
<th>CALSTARS</th>
<th>Dept. of Technology</th>
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**PPBA Date submitted to the Legislature**
**A. Proposal Summary**

The Franchise Tax Board (FTB) requests $4.7 million for 2019-20 and ongoing to support the following:

**Tax Practitioner Hotline**

- Approve $2.5 million General Fund
- 16 permanent positions
- Provisional language for $674,000 to fund 10 three-year PI positions from January to June, if necessary

**Taxpayer Services Center Section (TSCS) and Correspondence Analysis, Support and Education Section (CASES)**

- Approve $2.2 million General Fund
- Authority to convert 61 permanent intermittent (PI) positions to permanent positions

This proposal seeks resources to enhance service levels on various self-service web and personal service channels, such as phone, electronic mail, live chat, and correspondence. The converted PI positions will align appropriate resource types with the workloads providing permanent use for year round work, contributing to the goal of providing greater stability in the workforce. Improved employee retention reduces the need to hire and train new agents. As new tax laws and processes make resolving taxpayer accounts more complex, retaining these experienced agents is increasingly more imperative.

**B. Background/History**

FTB provides taxpayer assistance by providing direct service and guidance to millions of Californians annually to enable them to meet their obligation to file and pay the correct amount of tax voluntarily. Providing quality assistance in a timely manner helps guarantee taxpayers:

- Will voluntarily file their tax returns timely and accurately.
- Can pay their bills timely without additional cost or interaction with FTB.
- Can pay delinquent amounts and address other collection actions by setting up installment agreements and managing their account effectively.
- Can get immediate answers to their tax questions at the first point of contact.

FTB also assists tax practitioners that serve Californians and file over 68 percent of returns filed (almost 14 million returns annually.) Providing quality assistance in a timely manner helps guarantee these practitioners:

- Can file client tax returns timely and accurately.
- Can assist their clients in resolving the outstanding tax liabilities or disputes.
- Can get immediate answers to their tax questions at the first point of contact.

FTB’s goal is to provide customer service at the first point of contact to provide taxpayers and practitioners the help they need to resolve their tax questions timely as well as minimize departmental costs. If taxpayers or practitioners cannot reach FTB for assistance, they make multiple contacts through different customer service channels and accounts move to the more costly involuntary non-compliant collection cycle. FTB provides customer service through five primary channels:

1. 24/7 website based and electronic self-service applications and programs.
2. A taxpayer service contact center available via telephone 7:00 AM to 5:00 PM, Monday through Friday.
3. Interactive live chat via the Internet.
Analysis of Problem

4. Personalized written correspondence, including Power of Attorney forms and correspondence on account issues, via the Internet, the U.S. Postal Service or email.

5. Tax Practitioner Hotline (TPH) dedicated solely to tax practitioners

The primary basis for California’s tax system is voluntary compliance. FTB is responsible for income tax administration for the State of California and on an annual basis ensures the proper and timely collection and credit to the State’s fiscal accounts of over $103 billion\(^1\). Additionally, FTB’s compliance activities annually collect over $8 billion of this amount. The customer service received through these channels are critical to ensuring that taxpayers and tax practitioners get answers to their questions and obtain the assistance needed to allow Californians to timely and accurately file and pay their tax balances. FTB strongly believes that the service levels and response times in its customer service channels must remain at acceptable levels to protect voluntary compliance.

A view of the top reasons why customers use FTB’s customer service channels is included below. A majority of contacts received and addressed relate to activities where the taxpayer is trying to pay or file a tax return. If FTB is unable to serve these taxpayers, then revenue collected is impacted.

**Top Reasons Why Customers use FTB’s Customer Service Channels**

**Reasons for Incoming Calls to the TSCS**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>PIT Acct. Resolution</td>
<td>43%</td>
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<tr>
<td>PIT General</td>
<td>38%</td>
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<tr>
<td>BE Acct. Resolution</td>
<td>12%</td>
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<tr>
<td>BE General</td>
<td>7%</td>
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**Reasons for Authenticated and Non-authenticated Chats**

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<tr>
<th>Reason</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>PIT Acct. Resolution</td>
<td>35%</td>
</tr>
<tr>
<td>PIT General</td>
<td>35%</td>
</tr>
<tr>
<td>BE Acct. Resolution</td>
<td>14%</td>
</tr>
<tr>
<td>BE General</td>
<td>9%</td>
</tr>
<tr>
<td>Internal Referrals</td>
<td>7%</td>
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</tbody>
</table>

\(^1\) Revenue figure is from the DOF 2018-19 May Revise for Fiscal Year 2017-18.
Analysis of Problem

Reasons for Personal Income Tax Correspondence

Reasons for Business Entity Correspondence

Reasons for Tax Practitioner Hotline Calls
A question that FTB frequently receives is who uses the customer service channels. While FTB does not track this information on an ongoing basis, FTB has over the years informally conducted customer satisfaction surveys to understand how to improve processes. Additionally, during 2015 FTB worked with California State University, Sacramento, to conduct a satisfaction survey regarding the TSCS as well as other taxpayers calling a FTB agent to address a specific tax issue. The statistically significant sample provided the below demographic information:

**Age of Individuals Who Called FTB for Assistance**

- 18 to 30: 8%
- 31 to 54: 22%
- 55 to 64: 59%
- 65 or older: 11%

**Education of Individuals Who Called FTB for Assistance**

- Professional or Graduate Degree: 1%
- Four-Year College: 32%
- Community College: 26%
- High School: 20%
- Junior High School: 21%
To enhance customer service levels without focusing solely on resources, FTB actively pursues enhancements to its customer service channels to address taxpayers’ and tax practitioners’ needs. FTB has successfully deployed numerous web applications and tools to manage customer service channels that have been of great service to California taxpayers and tax practitioners. To gain beneficial tax information, taxpayers and practitioners heavily utilize these well-received tools.

Since 2011, the visits to FTB’s website have increased by almost 54 percent. The vast majority of taxpayers want to self-comply and tax practitioners want to do the right thing for their clients. FTB provides self-service options and customer service channels to provide these taxpayers and tax practitioners with the assistance they need to stay on the voluntary compliance path. However, in certain situations, taxpayers and tax practitioners need assistance to comply and in certain situations, FTB finds that taxpayers and tax practitioners still desire a high level of personal service for the following reasons:

Taxpayers:

- The taxpayer’s tax issue is complex and they need assistance from an agent so they know they are addressing it correctly.
- Taxpayers are not always willing to self-manage their complex financial issues without talking with an agent to ensure they are addressing them correctly and minimizing future penalties and interest.
- In a recent 2015 study by the Pew Research Group, almost 16 percent of adults do not use the Internet (Pew Research Center, *The Demographics of Social Media Users*, August 2015).

Tax Practitioners:

- Their client has not provided them or does not have key information they need to file the tax return such as estimate payment amounts or other credits.
- Their client’s issue is complex and they need to receive assistance from an agent to address it correctly.

Providing customer service makes it easier for taxpayers to file and pay timely and tax practitioners to assist their clients. The cost to support compliant taxpayers is very low, about a quarter of FTB’s budget supports the voluntary compliance path. In contrast, the non-compliant path revenue is hard won and much more costly to collect. To collect delinquent taxes, FTB spends 75 percent of its budget working with non-compliant taxpayers. These non-compliant taxpayers significantly delay the revenue from flowing to the General Fund. The self-service and customer service channels providing taxpayer assistance are more than just “nice to have” services; they are foundational to the success of California’s voluntary compliance tax system.
During fiscal year 2017-18, FTB’s relevant customer service channels and staff supported the following accomplishments:

- 18.4 million FTB website visits
- 1.7 million taxpayers assisted via the Interactive Voice Response (IVR) System
- 1.0 million out of 1.4 million (71 percent), contact center calls answered
- 269,000, out of 350,000 (77 percent) Tax Practitioner Hotline calls answered
- 117,000, out of 139,000 (84 percent) live chats processed
- 188,000 pieces of correspondences processed

The majority of these contacts relate directly to the following:

- 7.5 million notices and letters mailed to taxpayers.
- 1.4 million Notice of Tax Return Change correcting amounts reported on a return and/or reducing the taxpayer’s refund amount. (Notices include TSCS phone number.)
- 1.5 million Statement of Tax Due correcting amounts reported on a return and requesting payment of additional tax. (Notices include TSCS phone number.)
- 940,000 Request/Demand for Tax Return from potential non-filers based on information available to FTB and over 750,000 notices of proposed assessments subsequently issued to these non-filers. (Notices include TSCS phone number.)

FTB continuously seeks to improve on customer service level and response times throughout its customer service channels. Over the last few decades, in recognition of reduced staffing levels, FTB implemented many new tools and processes that allow for increased and enhanced customer service levels. These tools have been very effective in providing taxpayers and tax practitioners options to obtain assistance and have substantially reduced many of the contacts FTB previously received for general questions such as “can you provide me this form?” or “where is my refund?” However, in many situations, taxpayer and tax practitioner questions are complex and they want to deal directly with FTB. The new tools and processes have provided FTB and the State tremendous opportunity and value, but many taxpayers and tax practitioners still wish to speak with or receive a written response from FTB.

FTB implemented the following enhancements to staff assisted customer service channels:

- Changed existing parameters for when calls are deflected (when a taxpayer receives a busy signal) allowing for some easing of deflections (February 2016).
- Various correspondence process-reengineering recommendations to be more agile, such as Smart routing for correspondence, improved correspondence association and streamline correspondence procedures (January 2016).
- Authenticated Live Chat – allows taxpayers to securely live chat regarding their specific account information (January 2016).
- Developed enterprise procedures for one touch processing for correspondence which requires one program area to resolve all issues relating to a single piece of correspondence (January 2016).
Analysis of Problem

• Scanning of all correspondence to allow for electronic routing (June 2015-June 2016).
• “Get Most Urgent” for correspondence processing – a mechanism staff use to get the most urgent assignment from workbaskets and/or worklists that they access (June 2015).
• Live Chat for general information questions (March 2011).
• Virtual Hold – allows FTB to call taxpayers back instead of having them wait on hold (May 2010).

Additionally, to address certain cyclical events, such as increased call volumes during peak filing season, FTB implemented continuous enhancements that contributes to increased efficiencies within its customer service processes. Some of these improvements include:

• Enhancements to FTB notices and bills, which make them easier to understand and resolve.
• A tool that throttles enterprise bills and notices to equally distribute or manage taxpayer contacts.
• Cross training of staff to work on multiple channels.
• Temporary redirection of staff from other workloads to increase level of access (LOA) or temporarily reduce backlog levels.

The following graph shows how the primary service channels have reacted with the significant enhancements FTB made during recent years.

FTB provides taxpayer and tax practitioner assistance and guidance that enable millions of Californians to meet their obligation to voluntarily file and pay the correct amount of tax. Providing quality assistance in a timely manner helps guarantee taxpayers:

• Voluntarily file their tax returns now and in the future.
• Pay their bills timely without additional cost or interaction with FTB.
• Pay delinquent amounts and avoid further collection actions by setting up installment agreements and managing their account effectively.
• Obtain immediate answers to their tax questions at the first point of contact.
In 2016-17, FTB received three-year limited term resources to enhance its customer service channels:

<table>
<thead>
<tr>
<th>Workload</th>
<th>New Staff</th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSCS</td>
<td>23</td>
<td>41.7% LOA</td>
<td>58.2% LOA</td>
<td>70.8% LOA</td>
</tr>
<tr>
<td>Live Chat</td>
<td>23</td>
<td>78.8% LOA</td>
<td>82.5% LOA</td>
<td>84.1% LOA</td>
</tr>
<tr>
<td>CASES</td>
<td>15</td>
<td>156,221 processed</td>
<td>270,785 processed</td>
<td>187,995 processed</td>
</tr>
<tr>
<td>TPH</td>
<td>0</td>
<td>180,316 calls answered 73.4% LOA</td>
<td>249,357 calls answered 73.8% LOA</td>
<td>268,759 calls answered 76.8% LOA</td>
</tr>
</tbody>
</table>

1Includes authenticated and non-authenticated chat lines
2 Also received overtime equivalent to 10 full-time positions for 2016-17
3 21,005 hours were redirected to the Hotline in 2016-17

### Conversion of PI Staff to Permanent

### Telephone & Chat Assistance through FTB’s Contact Center

Customer service agents are responsible for the following tasks on telephone calls and chats:

- Facilitating payments for balances due, analyzing and correcting individual account errors and providing information regarding taxpayer liabilities, filing enforcement assessments and collection notices.
- Resolving post-filing return corrections and balance due issues prior to formal involuntary collection actions.
- Facilitating the filing of timely, complete, and accurate tax returns.
- Promoting voluntary compliance through taxpayer education and pre-filing assistance by providing general tax information, processing form requests, and explaining filing requirements, tax laws, policies and procedures.
- Handling approximately 1.0 million incoming calls annually in English and Spanish from taxpayers and tax practitioners.
- Handling approximately 120,000 chats annually from taxpayers and tax practitioners.
- Assisting taxpayers who are having trouble registering or logging onto MyFTB – a primary web based self-service channel.

### Correspondence

FTB staff manage correspondence received from taxpayers or tax practitioners through the mail or FTB’s online message channel.

The reasons taxpayers send FTB written or electronic correspondence are:

- Balance due issues, such as penalties, payments, and withholding issues.
- Refund issues – questions about where their refund is and why they have not received it yet.
- Pre-filing assistance – estimate payment verification, forms and tax law questions.
- Requests for payment options – questions on how to pay in full, set up and/or request an installment arrangement, and how much time they have to pay (top personal income tax reason).

FTB has historically used PI staff to manage cyclical workloads. FTB recently completed an analysis of PI staff used in our customer service processes handling calls, chats and correspondence. The analysis noted the following:

- Over the last three fiscal years, the lowest hours of PI staff in any one month was approximately 10,000 hours. Minor and significant increases in hours were noted in other months.
Analysis of Problem

- Retention of PI staff is difficult as they are seeking permanent positions. FTB has documented annual turnover rates between 32% and 40% for PI staff.
- FTB frequently increases the hours of many PI staff above the allocated 1,500 hours.

FTB’s level of service in these channels have shown significant improvements in the last year due to FTB’s continued effort to seek efficiencies and due to the 2016-17 staff augmentations. These PI staff are critical and crucial to maintaining those enhanced service levels. FTB does not see any evidence that the need for these hours will decrease in future years. As such, FTB requests converting these staff from PI to permanent staff positions.

Tax Practitioner Hotline

The Tax Practitioner Hotline, established in 1987 provides exclusive services to tax practitioners, such as attorneys, enrolled agents, and Certified Public Accountants (CPAs), via telephone on a variety of tax related issues. This contact center is California’s primary contact for tax practitioners seeking information regarding their clients’ FTB Personal Income Tax (PIT) and/or Business Entity (BE) accounts, as well as income tax laws and policies.

Tax Practitioner Hotline agents are responsible for analyzing and correcting individual account errors and information regarding taxpayer liabilities, collection notices, filing enforcement assessments, and audit assessments. With the continuing implementation of new programs and tax laws, each contact to the Tax Practitioner Hotline becomes more complex to resolve. The following information is noted:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Calls Offered</th>
<th>Calls Answered</th>
<th>Calls Deflected</th>
<th>LOA</th>
<th>Average Wait Time to Talk with an Agent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>228,182</td>
<td>189,846</td>
<td>5,968</td>
<td>83%</td>
<td>8:40</td>
</tr>
<tr>
<td>2013-14</td>
<td>217,838</td>
<td>180,026</td>
<td>4,509</td>
<td>83%</td>
<td>10:40</td>
</tr>
<tr>
<td>2014-15</td>
<td>222,992</td>
<td>165,160</td>
<td>14,651</td>
<td>74%</td>
<td>16:52</td>
</tr>
<tr>
<td>2015-16</td>
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<td>180,316</td>
<td>22,217</td>
<td>74%</td>
<td>17:33</td>
</tr>
<tr>
<td>2016-17</td>
<td>337,795</td>
<td>249,357</td>
<td>47,648</td>
<td>74%</td>
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<tr>
<td>2017-18</td>
<td>350,209</td>
<td>268,795</td>
<td>45,465</td>
<td>77%</td>
<td>11:05</td>
</tr>
</tbody>
</table>

See Attachment 1 for the Resource History and Attachment 2 for Program Workload Measures.

C. State Level Considerations

FTB considers customer service a high priority and strives to “deliver excellent products and services,” where collaborations are done to meet customer’s needs. One way of accomplishing this is via FTB’s goal of providing Taxpayer Centric Service, which is to “enhance our services to help taxpayers fulfill their tax obligations.” Providing timely and accurate taxpayer assistance is crucial to this achievement and maintenance of a healthy voluntary compliance system. Each interaction between taxpayers and the FTB, whether it is through web and electronic self-service applications, forms and instructions, or verbal and written correspondence, represents an opportunity to influence current and future taxpayer behavior.

Additionally, FTB’s strategic goal of Operational Excellence leads to building an operational infrastructure that “optimizes processes, products, services and resources to better serve our customers.” Continuously providing excellent and cost effective products and services to FTB customers, such as addressing taxpayer questions via the contact center, correspondence or live chat, is crucial to FTB’s success as a primary tax collection agency.
D. Justification

In the private sector, customer service is a top priority because unhappy customers tend to purchase less – resulting in significant revenue loss. In government, bad customer service results in frustration when trying to obtain information, and for FTB this results in a revenue delay or loss or the failure to file a timely and accurate return. When taxpayers are frustrated, they sometimes give up on accomplishing important tasks, such as filing their taxes or paying their outstanding tax obligations, simply because it is too difficult to obtain the necessary information. The government then utilizes resources by having to single out these individuals. The requested resources will help prevent the above problems by providing citizens and tax practitioners with information they need, when they need it. FTB experiences increased productivity and enhanced compliance when processes are simple and help is readily available.

Conversion of PI Staff to Permanent

Below are the permanent staffing levels of the customer service channel over the last 15 years. The reduction in resources directly relates to prior budget cuts versus a reduction in a need for staff.

<table>
<thead>
<tr>
<th>Year</th>
<th>TSCS Resource Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>361.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>361</td>
</tr>
<tr>
<td>2004-05</td>
<td>285</td>
</tr>
<tr>
<td>2005-06</td>
<td>281</td>
</tr>
<tr>
<td>2006-07</td>
<td>260</td>
</tr>
<tr>
<td>2007-08</td>
<td>246</td>
</tr>
<tr>
<td>2008-09</td>
<td>253</td>
</tr>
<tr>
<td>2009-10</td>
<td>225</td>
</tr>
<tr>
<td>2010-11</td>
<td>208.5</td>
</tr>
<tr>
<td>2011-12</td>
<td>201.5</td>
</tr>
<tr>
<td>2012-13</td>
<td>221</td>
</tr>
<tr>
<td>2013-14</td>
<td>222.5</td>
</tr>
<tr>
<td>2014-15</td>
<td>236</td>
</tr>
<tr>
<td>2015-16</td>
<td>258.5</td>
</tr>
<tr>
<td>2016-17</td>
<td>283.5</td>
</tr>
<tr>
<td>2017-18</td>
<td>267.5</td>
</tr>
</tbody>
</table>

PI to Permanent Positions
TSCS (50 positions)
CASES (11 positions)

FTB utilizes a large number of PI staff to meet operational needs within the TSCS call center and CASES correspondence processing section. This strategy addresses workload fluctuations and needs in consideration of existing permanent positions allocated. FTB recently completed an analysis of PI staff used in our customer service processes handling calls, chats and correspondence. The analysis noted the following:

- Over the last three fiscal years, the lowest hours of PI staff in any one month was approximately 10,000 hours. Minor and significant increases in hours were noted in other months.
- Retention of PI staff is difficult as they are seeking permanent positions.
- FTB frequently increases the hours of many PI staff above the allocated 1,500 hours.

FTB’s level of service in these channels have shown significant improvements in the last year due to FTB’s continued effort to seek efficiencies and due to the 2016-17 staff augmentations. These PI staff are critical and crucial to maintaining those enhanced service levels. FTB does not see any evidence that the need for these hours will decrease in future years and the use of PI authority is no longer warranted as this is a permanent workload. As such, FTB requests converting these PI staff to permanent staff positions.
Factors supporting ongoing needs:

- Increasing complexity of changing tax laws continues to see taxpayers needing assistance to understand how to file their returns and pay their tax obligations.
- FTB has historically extended PI staff from 1,500 hours annually to a full 1,850 hours (1 PY) in order to meet the operational demand within FTB’s main contact center. In recent months, CalHR informed FTB that the department needs to ensure they are meeting state policy of limiting PI staff to only 1,500 hours annually. As a result, FTB will need to work trained staff 1,500 hours and hire additional staff to work the delta hours needed. This increases the hiring load where candidates may not be the best candidates, training room capacity will limit hiring pools, and PI staff will continue to seek permanent positions increasing the attrition rate of staff. This workload no longer presents as a temporary workload to the extent of these 61 staff. To avoid unnecessary operational issues, FTB seeks to convert these PI staff to permanent positions.

Providing a sufficient level of staffing allows taxpayers to obtain the assistance they seek in a timely manner so they can:

- Get their questions answered and pay their balance due.
- Receive information on notices FTB sends so they can resolve outstanding issues and debts.
- Avoid filing returns with questionable legal positions or based on inaccurate advice, as they are able to obtain answers to pre-filing questions.

Staff members performing work on calls, chats or correspondence, must engage in the following tasks:

- Analyze information regarding taxpayer obligations under the PIT and BE laws.
- Resolve questions related to bills and notices received from FTB related to their Audit, Collections and Filing Program activities.
- Understand and explain the reason(s) for tax liabilities assessed by FTB.
- Abate tax and issue refunds as appropriate.
- Assess tax and adjust accounts as appropriate.
- Complete account resolution transactions.
- Explain application of laws related to penalties and interest.
- Assist taxpayers in establishing payment arrangements.
- Release or modify wage-withholding orders.
- Assist in determining filing requirements and identifying appropriate forms for filing.

Approving the proposal to convert 61 PI positions to permanent positions allows permanent staff to perform permanent work instead of engaging in the practice of using temporary staff for workload that has and will continue to present as ongoing work. Permanent staff positions will also reduce the turnover rate and provide a stable level of trained and experienced staff onboard, maximizing workload efficiencies and productivity.

**Tax Practitioner Hotline**

*16 permanent positions, $835,000 postage and Provisional Language for 10 three-year permanent intermittent positions*

FTB processes approximately 21 million returns annually and tax practitioners file over 68 percent of these returns (almost 14 million returns.) The Tax Practitioner Hotline provides service to these practitioners so they can ensure their clients file timely and accurate returns.
Analysis of Problem

The following information is noted:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Calls Offered</th>
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<td>11:05</td>
</tr>
</tbody>
</table>

The calls offered to the Tax Practitioner Hotline continue to increase slightly year over year. Many reasons likely contribute to this but the following two reasons are driving the majority of the increased calls.

**Increased Notices to Taxpayers Result in Higher Contacts from Tax Professionals**

Expansion of compliance workloads under the most recently implemented Enterprise Data to Revenue project and other general enhancements FTB implements has steadily increased the volume of tax notices FTB issues each year to taxpayers. While not all of the increases shown below are attributed to a taxpayer utilizing a tax professional, with 68 percent of the returns filed by a tax professional there is a strong likelihood that additional notices indicated below are being received by a taxpayer represented by a tax professional.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Filing BE</td>
<td>1,903,312</td>
<td>2,180,580</td>
<td>2,703,506</td>
<td>2,481,288</td>
<td>2,276,418</td>
<td>2,282,393</td>
<td>2,685,237</td>
</tr>
<tr>
<td>Filing Total</td>
<td>6,198,353</td>
<td>6,050,425</td>
<td>6,442,076</td>
<td>6,385,058</td>
<td>6,514,699</td>
<td>6,232,016</td>
<td>7,249,590</td>
</tr>
</tbody>
</table>

The Filing BE notices above can be further broken down as follows:

<table>
<thead>
<tr>
<th>BETS Notices</th>
<th>Pre-3 year Avg</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 17/18</td>
<td>2,296,422</td>
<td>1,891,439</td>
</tr>
<tr>
<td>LLC Notice of Balance Due</td>
<td>352,115</td>
<td>219,903</td>
</tr>
<tr>
<td>Notice of Balance Due</td>
<td>537,282</td>
<td>362,223</td>
</tr>
<tr>
<td>Total Balance Due Notices</td>
<td>889,397</td>
<td>582,126</td>
</tr>
</tbody>
</table>

To address tax professionals’ questions upfront on notices of tax due, FTB is requesting these additional resources. Failure to address these calls when the notice is issued subjects the taxpayers to additional interest and penalties, requires costlier actions on behalf of FTB as the notice journeys through our collection process, and delays revenue into the General Fund.

**Tax Professionals Need Verification of the Estimate Payments Made By Their Clients**

In the last several years, with the significant data breaches of personally identifiable information (PII), FTB has had to impose tighter restrictions on access to taxpayer specific data via our electronic tools. Additionally, with the recent passage of the General Data Protection Regulation (GDPR) in the European Union and the possible adoption in the United States, and the enactment of Assembly Bill 375 (2018), the department has needed to implement further security measures to ensure FTB provides taxpayer data to only authorized individuals. For tax practitioners representing a client to resolve a tax dispute or liability, this has generally not imposed significant limitations. However, for practitioners attempting to file a return by a certain date and they do not otherwise need ongoing access to a taxpayer’s account, these additional security levels have posed limitations on the
practitioners’ ability to access their clients’ information timely or at all. FTB notes the following supporting information:

- Practitioners frequently validate estimate payments with FTB for their clients prior to filing the returns. The enhanced security restrictions have eliminated the ability for timely and limited access to taxpayer information needed to file a tax return (an annual activity) or address a one-time question. FTB fully supports this as it allows practitioners to correctly file accurate returns and avoid falling into FTB’s non-compliance activities.

The below chart shows that FTB experienced a 55 percent decrease from 2016 to 2018 in MyFTB estimate payment lookups for personal income taxes and 46 percent decrease for business entities.

<table>
<thead>
<tr>
<th>MyFTB Estimate Payment Lookups</th>
<th>2015*</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>N/A</td>
<td>498,331</td>
<td>411,484</td>
<td>225,009</td>
</tr>
<tr>
<td>Business Entities</td>
<td>N/A</td>
<td>415,421</td>
<td>363,843</td>
<td>224,425</td>
</tr>
</tbody>
</table>

* 2015 Stats were maintained in the old MyFTB and were not transferred when the new MyFTB went live 1/1/16.

The tax practitioner community has been very vocal about the value of the Tax Practitioner Hotline and has expressed concerns about declining service levels. Outreach efforts by the department has solicited input from the tax practitioner community and many say that even with the implementation of the MyFTB and new Power of Attorney processes, they would like to continue to see FTB dedicate sufficient resources to the Tax Practitioner Hotline.

FTB has addressed or will be addressing workload demands in the following ways:

1. Shifting of resources from other work areas to handle tax practitioner calls during peak periods of September, March, April, and June. Historically, TSCS redirected quality assurance staff and leads. In 2017-18, we had to redirect additional staffing beyond our normal business practices of shifting resources during peak periods. For example, in 2016-17 and 2017-18, up to 14 Tax Technicians were placed on Out of Class assignments for a limited term during the periods
   - August 2016 – November 2016
   - February 2017 – April 2017
   - June 2017 – July 2017

   This solution, while addressing the need in the Tax Practitioner Hotline, has hindered business operations in the taxpayer call center. The degree of skills and knowledge needed requires FTB to redirect the most senior staff typically responsible for quality assurance work in the taxpayer call center to the Tax Practitioner Hotline. This results in insufficient support for newer staff in the taxpayer call center resulting in errors and providing inconsistent information that needs to be corrected so the taxpayer is not harmed. This solution is not feasible ongoing.

2. FTB is pursuing implementation of the process of mailing letters, stating estimate payments and other tax credit balances, to taxpayers so they can provide this information to their tax practitioners. Once implemented and mature, this will reduce the number of calls received today from tax practitioners to verify their clients estimate payments. To date, the potential universe identified that would receive this information is approaching 1.7 million. Postage costs requested in this proposal will be fully utilized to fund this mailing.

The 16 resources requested presume a successful implementation of this pilot accompanied by a decrease in call volumes. The additional 10 resources requested through provisional language provide an opportunity to obtain additional resources as the letter pilot matures and if immediate results are not seen.

These resources will allow FTB to avoid redirecting staff from the taxpayer service call center and will reduce calls received today to inform tax practitioners of the estimated payment amounts and other tax credits on the account. FTB’s goal is to sustain a 75 percent level of access. If FTB does not receive
the additional resources requested in this proposal, it will affect tax practitioners trying to help their clients self-comply, which is more than 68 percent of the California tax filing population. FTB minimized the impacts to the tax practitioners with short-term redirections but the department experiences impacts to its quality of customer service and staff development and can no longer sustain this movement. Ultimately, this could result in taxpayer non-compliance, jeopardizing the voluntary nature of California’s tax system, potentially leading to tax revenue loss for the state, and moving taxpayers toward collection actions that are more costly for the department to administer.

FTB is not able to redirect positions to address these workloads. FTB positions, including vacancies, have a body of work associated to it. Redirecting a position would leave FTB without the needed resources to perform mission critical work.

This proposal addresses and includes appropriate facility needs in the total funding request.

E. Outcomes and Accountability

To address customer service as an enterprise issue, FTB’s Executive Management established the Customer Service Action Committee (CSAC). Committee membership includes enterprise-wide Division Chiefs and Bureau Directors managing programs impacted by customer service. The CSAC reports directly to executive sponsors and ultimately to the Executive Officer. The CSAC will monitor the implementation and on-going progress of the initiatives addressed in this proposal and will regularly report the challenges and successes of the initiatives to FTB’s Executive Management. While the responsibility for monitoring the use of resources associated with this proposal lies with the CSAC, the ultimate fiscal responsibility remains with the department’s Chief Financial Officer.

F. Analysis of All Feasible Alternatives

Alternative 1: Approve $4.7 million for 2019-20 and ongoing to support the following:

Tax Practitioner Hotline

- Approve $2.5 million General Fund for increased staffing costs and postage
- 16 permanent positions
- Provisional language for $674,000 to fund 10 three-year PI positions from January to June, if necessary

TSCS and CASES

- Approved $2.2 million General Fund
- Authority to convert 61 PI positions to permanent positions

Approval of this proposal will assist the department in maintaining a suitable service level. Furthermore, the positions will contribute to the overall goal of transacting business with taxpayers and practitioners more quickly, interacting in ways that are more convenient for them, and providing more information to meet taxpayers’ and practitioners needs and resolve their questions. The request for converting permanent positions will provide employee stability and lessen employee turnover allowing staff to sharpen their skills and gain valuable experience. Overall, these positions will improve efficiencies in the Tax Practitioner Hotline, TSCS and CASES, which in turn will greatly enhance FTB’s efforts to sustain appropriate levels of access on our customer service channels.

These remedies involve looking at additional ways to communicate with and educate taxpayers and tax practitioners on their tax issues. These resources are critical to accomplishing this task and to the Tax Practitioner Hotline’s continued efforts to enhance customer service and provide a 75 percent LOA. In the event the letter pilot does not sufficiently reduce phone calls to the Tax Practitioner Hotline, FTB is requesting provisional language, noted below, for $674,000 to fund an additional 10 three-year PI
Analysis of Problem

positions for January to June of 2019-20 through 2021-22 or a lesser period as determined necessary by Department of Finance.

Of the funds appropriated from this Customer Service BCP, an additional $674,000 shall be available to fund the equivalent of 10 positions through the 2021-22 fiscal year for staffing the Tax Practitioner Hotline. The Franchise Tax Board may treat this funding as temporary funding with corresponding position authority for 10 permanent intermittent positions, subject to approval of the Department of Finance, no sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.

Using this provisional language and via a JLBC letter, FTB will provide validating data that further substantiates the Hotline’s Tax Practitioner Hotline ongoing need for additional staff.

**Alternative 2: Approve $4.2 million for 2019-20 and ongoing to support the following:**

**Tax Practitioner Hotline**

- Approve $2.5 million General Fund for increased staffing costs and postage
- 16 permanent positions
- Provisional language for $674,000 to fund 10 three-year PI positions from January to June, if necessary

**TSCS and CASES**

- $1.7 million General Fund
- Authority to convert 46 PI positions to permanent positions

The request for the Tax Practitioner Hotline remains the same. This request reduces the conversion of PI to permanent positions. FTB would continue to utilize temporary staff in a workload that is presenting as a permanent workload. FTB will also continue to deal with a PI staff turnover rate that is higher than the permanent employee turnover continually reducing our staffing levels as PI staff are selected for permanent positions. As there is a significant amount of training invested in staff and decreased staffing levels lead to higher unanswered call volumes, turnover is a negative outcome FTB seeks to avoid.

**Alternative 3: Approve $3.6 million for 2019-20 and ongoing to support the following:**

**Tax Practitioner Hotline**

- Approve $2.5 million General Fund for increased staffing costs and postage
- 16 permanent positions
- Provisional language for $674,000 to fund 10 three-year PI positions from January to June, if necessary

**TSCS and CASES**

- Approve $1.1 million General Fund
- Authority to convert 31 PI positions to permanent positions

The request for the Tax Practitioner Hotline remains the same. This request reduces the conversion of PI to permanent positions. FTB would continue to utilize temporary staff in a workload that is presenting as a permanent workload. FTB will also continue to deal with a PI staff turnover rate that is higher than the permanent employee turnover continually reducing our staffing levels as PI staff are selected for permanent positions. As there is a significant amount of training invested in staff and
increased staffing levels lead to higher unanswered call volumes, turnover is a negative outcome FTB seeks to avoid.

**Alternative 4: Do not approve the proposal**

Denial of this proposal means FTB may continue working at its current levels.

For the TSCS and CASES workloads, FTB would continue to utilize temporary staff in a workload that is presenting as a permanent workload. FTB will also continue to deal with a PI staff turnover rate that is higher than the permanent employee turnover continually reducing our staffing levels as PI staff are selected for permanent positions. As there is a significant amount of training invested in staff and decreased staffing levels lead to higher unanswered call volumes, turnover is a negative outcome FTB seeks to avoid.

For the Tax Practitioner Hotline, FTB may no longer be able to transfer resources to this business area on an ongoing basis which will result in significant negative impacts to the level of access and tax practitioners will not be able to get the answers they need to file tax returns timely and correctly or assist taxpayers in resolving their liabilities. Failure to be able to maintain staffing levels with these additional 15 staff will result in a level of access of approximately 46 percent. This will cause continued dissatisfaction among taxpayers, tax practitioners, and various organizations, such as the California Society of Enrolled Agents and Cal CPA. This leaves California’s taxpayers struggling to find answers to tax questions needed for filing requirement compliance and tax liability payments.

**G. Implementation Plan**

- June 2019 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.
- July 2019 – Department of Finance notifies FTB of position approval.
- July 2019 – CBO prepares documents to show decrease in temporary help resources and increase in permanent resources.

**H. Supplemental Information**

None

**I. Recommendation**

FTB recommends approving Alternative #1: $4.7 million for 2019-20 and ongoing to support the following:

**Tax Practitioner Hotline**

- Approve $2.5 million General Fund
- 16 permanent positions
  Provisional language for $674,000 to fund 10 three-year PI positions from January to June, if necessary

**TSCS and CASES**

- Approve $2.2 million General Fund
- Authority to convert 61 PI positions to permanent positions

This alternative will contribute to the overall goal for the department to transact business with taxpayers and tax practitioners more quickly, interacting in ways that are more convenient for them, and providing more information about a variety of services.
## Budget Request Summary

The Franchise Tax Board (FTB) is requesting $5.7 million General Fund and $253,000 Special Funds in 2019-20 and $12,000 General Fund in 2020-21 and ongoing to refresh the aging equipment and software that is reaching End-of-Life (EOL) and approaching End-of-Service (EOS) within the LAN infrastructure. FTB will also upgrade throughput (speed) to and from the network core from 10Gbps to at least 40Gbps. The overall result of this refresh will reduce the risk that 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.

### Requires Legislation

- Yes  
- No

### Code Section(s) to be Added/Amended/Repealed

**Department CIO Date**

- **Yes**  
- **No**

*If yes, departmental Chief Information Officer must sign.*

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

- **Project No.**
- **Project Approval Document:** FTB FSR 7730-210
- **Approval Date:** 03-23-2018

If proposal affects another department, does other department concur with proposal?

- Yes  
- No

*Attach comments of affected department, signed and dated by the department director or designee.*

### Prepared By Date Reviewed By Date

- **Department Director Date**
- **Agency Secretary Date**

### PPBA Date submitted to the Legislature
Analysis of Problem

A. Budget Request Summary
The Franchise Tax Board (FTB) is requesting $5.7 million General Fund and $253,000 Special Funds in 2019-20 and $12,000 General Fund in 2020-21 and ongoing to refresh the aging equipment and software that is reaching End-of-Life (EOL) and approaching End-of-Service (EOS) within the LAN infrastructure. FTB will also upgrade throughput (speed) to and from the network core from 10Gbps to at least 40Gbps. The overall result of this refresh will reduce the risk that 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.

B. Background/History
Each year, FTB processes more than 19.2 million Personal Income Tax (PIT) returns and 1.9 million Business Entity (BE) returns, responds to more than 3.8 million telephone calls, handles over 18 million Internet contacts, and administers the income tax programs that fund approximately $103 billion of the General Fund – contributing to over 78% of the state’s general fund revenue each year. To a large extent, FTB’s LAN supports many of these transactions and services.

The LAN infrastructure is the heart of the enterprise network supporting FTB’s mission critical operations. The LAN infrastructure provides reliability, network security, and scalability throughout FTB. There are approximately 6,000 FTB staff supported on this network. FTB’s LAN supports on average 48 million online transactions conducted by taxpayers and 219,000 batch processes per month which uploads taxpayer specific transactional data to FTB’s accounting and compliance systems. Batch processes are large numbers of data transactions that run in “batches” without human interaction.

This project seeks funding to replace aging equipment and software that is EOL and approaching EOS and/or hampered by old, inadequate technologies, to reduce the risk that these items will fail and impact FTB’s operations. The programs administered by FTB rely heavily on network, and automated systems. In particular, these activities rely on the LAN infrastructure, which supports:

1. FTB’s critical business functions and applications including FTB’s return and payment-processing, accounts receivable and audit applications, including Integrated Non-filer Compliance System (INC), Accounts Receivable Collections System (ARCS), Professional Audit Support System (PASS), and Personal Income Tax and Business Entity Tax System. Additional supported systems and activities include hiring, payroll, procurement, budget, security and external reporting functions, as well as, the public self-service applications including CalFile, WebPay, and MyFTB.

2. Reliable and secure network availability for accurate, up-to-date information and systems.

3. Increased throughput (speed) to meet the increased network demands for 2019 and future planned innovations including implementation of Voice over Internet Protocol (VOIP) communication system and Video, and Virtual Desktop Interface (VDI) workforce solution.

C. State Level Considerations
This proposal supports the following FTB strategic plans and goals:

FTB Strategic Plan Goals

#2 - Effective Compliance - “Fairly administer the law to ensure taxpayers file and pay the correct amount.”

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1 Revenue figures from DOF 2018-19 May Revise for Fiscal Year 2017-18.
Analysis of Problem

**Strategy 2.3** - Improve data, information, and knowledge sharing with the tax community and government partners.

Industry trends in technology and electronic commerce continue to significantly impact the way FTB conducts its business. The ability to utilize the increasing number of FTB business applications to process returns and refunds, detect and address noncompliance, and properly calculate amounts owed and notify taxpayers of amounts owed, together with taxpayer facing applications; such as the MyFTB Web application, FTB’s web site, and the Internet Filing and Internet Refund Status application, all contend for the limited available bandwidth within the current network backbone. Increasing the bandwidth, as proposed, will ensure that the FTB can support these taxpayer-centric programs and applications assuring that FTB has sufficient operating capacity to conduct return and refund processing activities timely as well as compliance activities and that allows taxpayers to have the necessary information to file timely and pay their tax obligation timely, in the correct amount and securely.

**#4 - Operational Excellence** - “Optimize processes, products, services and resources to better serve our customers.”

It is vital to support and keep pace with FTB’s growing technologies, programs, applications, and information systems. By replacing equipment at the appropriate time, FTB avoids equipment failures and any associated security vulnerabilities that could burden California with additional outlays.

- **Strategy 4.3** – Leverage and modernize IT systems and processes to support enterprise business activities, including financial, human resources, and nontax programs.
- **Strategy 4.5** – Standardize FTB’s hardware and software to optimize operations.

The security and availability of current, state-of-the-art infrastructure assures that FTB can provide sound, stable, connectivity to mission critical administrative systems. FTB’s infrastructure has increased in size and complexity, and it is critical that the throughput of the infrastructure be scalable to meet the growing needs of FTB operations.

An upgrade of throughput to and from the network core will assure that FTB programs can depend on this infrastructure to securely, reliably, and effectively connect all systems and devices ensuring that operations are not interrupted.

**D. Justification**

FTB uses state of the art technology to process returns and refunds, provide taxpayers tools and data to self-serve, and to internally leverage the data that it collects, generates, and stores in order to more effectively administer the tax processes, which results in more efficient operations throughout FTB, better customer service, a higher level of transparency, and more revenue collected. These programs and their related applications are processed and supported on a complex and sophisticated infrastructure of local and wide area networks. The degree to which network infrastructure redundancy, efficiency, security, scalability, stability and data integrity can be assured is essential to successfully support the current and proposed mandatory workloads and objectives of FTB.

In addition to FTB’s new applications and web development for the Internet, industry trends in electronic commerce continue to significantly impact the way that FTB conducts its business. Furthermore, increased citizen expectations will continue to drive requirements for new, interactive, electronic services, such as the MyFTB Web Application. MyFTB provides tax account information and online services to individuals, business representatives, and tax preparers. These electronic services will have a one-to-many transactional impact on FTB’s enterprise network. To understand this one-to-many impact, it must be recognized that every interactive transaction initiated by FTB’s customers will generate multiple supporting transactions inside the enterprise network.

Electronic commerce applications are intended to leverage sophisticated features of FTB’s mission critical applications and tap into enterprise data warehouses, gleaning essential pieces of data and returning them to the customer. Online services, such as MyFTB, and the applications for FTB’s
internal programs all contend for network bandwidth. In addition, other contenders for the limited available bandwidth within the network include new customer driven applications such as FTB’s web site; Internet Filing and Internet Refund Status, network latency sensitive applications, such as Voice and Video Conferencing, along with office automation, workflow engines, administrative support applications and email.

It is vital to support and keep pace with FTB’s growing technologies, programs and application/information systems. By replacing equipment at the appropriate time, FTB avoids equipment failures and any associated security vulnerabilities that cost the state money, and therefore, maximize the return on investment for today and into the near future.

The LAN Infrastructure Refresh Project objective is to refresh the existing EOL and EOS network backbone hardware infrastructure, as well as, upgrade throughput. The overall result of this refresh will reduce the risk that these items will fail or be compromised and impact FTB’s processing and compliance activities.

The project seeks funding for the following:

- Replace 6 Distribution Core Layer Switches within each FTB central campus building with Cisco Nexus 7706 (or latest available).
- Replace 90 Access Layer Switches with Cisco Nexus 9400 (or latest available) series for both central campus and field offices.
- Upgrade FTB’s network backbone-throughput from 10Gbps to at least 40Gbps.

E. Outcomes and Accountability

FTB’s mission is to help taxpayers file accurate and timely tax returns and pay the proper amount owed. FTB’s LAN infrastructure is the heart of the enterprise network supporting FTB’s mission and mission critical operations. The result of this refresh will reduce the risk that LAN infrastructure components will fail or be compromised and also assure the necessary bandwidth is available to conduct successful operations.

This BCP is supported by Feasibility Study Report FTB FSR 7730-210. The management of this project will be the responsibility of FTB’s Chief Information Officer (CIO) or a delegate. The fiscal oversight of the resources will be the responsibility of both the CIO and the Chief Financial Officer.

F. Analysis of All Feasible Alternatives

**Alternative #1** - Approve $5.9 million ($5.7 million General Fund and $253,000 Special Funds) to replace existing network switches within each FTB central campus building and field offices; and increase FTB’s network backbone throughput from 10Gbps to at least 40Gbps.

This alternative will reduce the risk that LAN infrastructure components will fail or be compromised and also assure the necessary bandwidth to conduct successful operations. The refresh expands system/infrastructure performance capabilities that provide a capacity expansion path for growth over a period of eight years. By replacing equipment at the appropriate time, equipment failures, network downtime, and security vulnerabilities can be avoided. This assures that FTB can continue smooth operations and maintain its trustworthy reputation that it has earned over years of operational excellence.

Advantages:

- Allows FTB to position itself for future emerging technologies resulting in an increase in demand for bandwidth, such as voice, video, data, VDI, VOD, IOT, etc.
Analysis of Problem

- Provides flexibility and agility to add additional services and applications for taxpayers and will increase FTB’s options in the event that additional modifications are required or legislatively mandated.
- Securely increases performance and efficiencies to program operations with new network infrastructure functions and features.
- No need to change or redesign existing network architecture.

Disadvantages:

- Introduces inherent risks associated with the refresh/replacement of network Infrastructure components that FTB will need to mitigate throughout deployment.
- Replacing the chassis will extend the schedule to implement.

Alternative #2 - Finance the request over three years. BCP funding request of $2.3 million in 2019-20 ($2.2 million General Fund and $97,000 Special Funds), $2.0 million in 2020-21 and 2021-22 ($1.9 million General Fund and $84,000 Special Funds) to replace existing network switches within each FTB central campus building and field offices; and increase FTB’s network backbone throughput from 10Gbps to at least 40Gbps.

This alternative seeks to finance the costs of the hardware. This will allow for the costs to spread over three years at a lower initial amount. FTB estimates that financing the hardware would cost approximately $285,000 more compared to paying upfront, but would save the state over $3.6 million in the budget year.

Alternative #3 - Do not approve request.

If the FTB network backbone is unable to support or keep pace with network connectivity and bandwidth demands, users will begin experiencing application issues. These issues may include an application suddenly slowing down or freezing entirely when a user attempts to retrieve or process information from it, due to a failure or bottlenecks within the network backbone. If this begins to occur frequently, it will have a negative impact on a user’s ability to carry out job functions. When users are prevented from completing tasks timely and successfully, it decreases the productivity of the department significantly as FTB seeks to meet the needs of taxpayers and California residents and can impact FTB’s revenue generating capabilities negatively.

G. Implementation Plan

July 1, 2019: Award contract and prepare wiring purchase order

Central Campus – Phase 1

- September 6, 2019 – April 10, 2020: Pre-production preparation, wiring, install distribution core switches and access layer closet switches, scan and certify switches

Field Offices – Phase 2

- April 9, 2020 – June 29, 2020: Install access layer closet switches, scan and certify switches

June 30, 2020: Project complete

June 30, 2021: PIER
Analysis of Problem

H. Supplemental Information

None

I. Recommendation

Alternative #1 is recommended. By replacing equipment at the appropriate time, equipment failures, network downtime, and any associated security vulnerabilities will be avoided. This assures that FTB can continue smooth operations and maintain its trustworthy reputation that it has earned over the years of operational excellence.
**Fiscal Year** 2019-20  
**Business Unit** 7730  
**Department** Franchise Tax Board  
**Priority No.** 4

**Budget Request Name** 7730-004-BCP-2019-GB  
**Program** 6280/6290/6295  
**Subprogram** 6280010/6280019

**Budget Request Description**  
Mainframe Enterprise Tape Library Refresh

**Budget Request Summary**

The Franchise Tax Board (FTB) requests an augmentation of $7.2 million ($6.9 million General Fund and $308,000 Special Funds) in 2019-20 to purchase the following information technology components:

- Mainframe Enterprise Tape Library (MF ETL) and Direct Access Storage Device (DASD) for the central office location.
- Mainframe Business Class server (MF CPU), MF ETL and (DASD) for a secondary off-site location.

Manufacturers for FTB’s current MF ETL and DASD systems announced an End-of-Market (EOM) status and End-of-Support (EOS) date. Purchasing the above systems allows FTB to meet current and future mainframe storage, backup and recovery needs and mitigates risks associated with running a system past impending EOM and EOS dates.

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**Requires Legislation**  
☐ Yes  ☒ No

**Code Section(s) to be Added/Amended/Repealed**

**Does this BCP contain information technology (IT) Components?**  ☒ Yes  ☐ No

*If yes, departmental Chief Information Officer must sign.*

**Department CIO**

**Date**

**For IT requests, specify the date a Feasibility Study Report (FSR), Stage 1 Business Analysis (S1BA) or Special Project Report (SPR) was approved by the Department of Technology, or previously by the Department of Finance.**  
☑ FSR/S1BA  ☐ SPR  
**Project No.** N/A  
**Date:** 09-22-2017

**If proposal affects another department, does other department concur with proposal?**  ☐ Yes  ☐ No

*Attach comments of affected department, signed and dated by the department director or designee.*

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**Prepared By**

**Date**

**Reviewed By**

**Date**

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**Department Director**

**Date**

**Agency Secretary**

**Date**

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**Department of Finance Use Only**

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

- **BCP Type:**  ☐ Policy  ☐ Workload Budget per Government Code 13308.05

- **PPBA**  

**Date submitted to the Legislature**

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**Pending Board Approval**
Analysis of Problem

A. Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of $7.2 million ($6.9 million General Fund and $308,000 Special Funds) in 2019-20 to purchase the following information technology components:

- Mainframe Enterprise Tape Library (MF ETL) and Direct Access Storage Device (DASD) for the central office location.
- Mainframe Business Class server (MF CPU), MF ETL and DASD for a secondary off-site location.

Manufacturers for FTB’s current MF ETL and DASD systems announced an End-of-Market (EOM) status and End-of-Support (EOS) date. Purchasing the above systems allows FTB to meet current and future mainframe storage, backup and recovery needs and mitigates risks associated with running a system past impending EOM and EOS dates.

B. Background/History

Each year, FTB processes more than 19.2 million Personal Income Tax (PIT) returns and 1.9 million Business Entity (BE) returns, responds to more than 2.8 million telephone calls, handles over 18.3 million Internet contacts, and administers the income tax programs that fund approximately $103 billion of the General Fund – contributing approximately 78 percent of the state’s General Fund revenue each year.1

1 Revenue figures are from the DOF 2018-19 May Revise for Fiscal Year 2017-18.

To a large extent, FTB’s mainframe supports many of these transactions and services.

FTB’s Tier III equivalent Data Center provides mainframe and distributed systems access and the operating storage capacity for FTB to administer its programs successfully. During April 2018 (FTB’s individual tax filing deadline), FTB’s data center processed approximately 104.2 million online transactions and roughly 250,000 batch processes. Batch processes are large numbers of data transactions that run in batches without human interaction.

The MF ETL and DASD provide the storage infrastructure that is essential to FTB’s multiple mission-critical tax and non-tax applications. These applications have a substantial dependency on the data that resides within the MF ETL and DASD and, therefore, rely on the storage environment having sufficient capacity to support the efficient, effective, and secure operations of those applications.

FTB’s Central Office Data Center houses a MF ETL that combines virtual and magnetic (physical) tape systems. All applications, business programs, and processes which access mainframe batch and online data (files, catalogs and databases) utilize the MF ETL as a repository for storage, backup and recovery. The ETL tape system has an annual growth rate of approximately 23 percent – the industry standard for mainframe storage is approximately 20 percent annually.

Internally, all system and application data residing on the DASD is backed up to a Virtual Tape Library (VTL), a data storage virtualization technology which represents storage components as tape libraries or tape drives for use with existing backup software. Data in the VTL is subsequently duplicated onto magnetic (physical) tape. These physical tapes are used for long-term data retention and technology recovery purposes. The physical tapes are manually ejected, packed and shipped to a local off-site storage location. As new tapes are shipped off-site the old tapes are returned to FTB to be cleansed and reused. This cycle occurs five days per week.

FTB’s current technical recovery process can take up to a week compared to the desired recovery period of one to two days. The process is based on the out of state third-party vendor’s availability, the time it takes to transport the data via ground delivery, and the time to configure their hardware for FTB’s recovery specifications. The MF ETL is mission critical, and is therefore

2 FTB Business Impact Analysis requirement for Tier 1 function recovery
Analysis of Problem

included in the first tier of recovery processes, which are required to be restored after a disruptive event as the foundation for recovering business functions and processes listed in subsequent tiers.

The table below depicts the ETL and DASD’s historical and projected capacity use.

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</table>

C. State Level Considerations

FTB uses state of the art technology to leverage the data that it collects, generates, and stores to more effectively administer its tax and collection processes, which results in more efficient operations, better customer service, and a higher level of transparency.

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

FTB systems and applications have a substantial dependency on data that resides within the MF ETL and DASD. As such, they rely on the mainframe storage environment having sufficient storage capacity to support the efficient, effective, and secure operation of the systems and applications. This proposal supports the following FTB Strategic Plan goals:

Goal #1: Taxpayer Centric Service - Enhance our services to help taxpayers fulfill their tax obligations

Strategy 1.3 states, “Enhance our services to help taxpayers fulfill their tax obligations.” This goal aims to “promote the use of self-service tools to improve service to our customers.” FTB promotes the following self-service tools to improve customer service to California’s taxpayers:

- Interactive Voice Response System (IVR)
- External Taxpayer Folder (MyFTB)
- Public facing self-service applications (FTB.CA.GOV and Where’s my Refund?)

The operation of each of these tools is dependent on sufficient mainframe processing and storage capacity.

Goal #4: Operational Excellence - Optimize processes, products, services, and resources to better serve our customers.

Strategy 4.3 – Leverage and modernize IT systems and processes to support enterprise business activities, including financial, human resources, and nontax programs.

Strategy 4.5 – Standardize FTB’s hardware and software to optimize operations.

It is vital to support and keep pace with FTB’s growing technologies, programs, applications, and information systems. By replacing equipment at the appropriate time, FTB avoids equipment failures and any associated data loss that could burden California with additional outlays and place FTB’s
mission critical operations at risk. The security and availability of current, state-of-the-art infrastructure assures that FTB can provide sound, stable, connectivity to mission critical administrative systems. FTB’s infrastructure has increased in size and complexity, and it is critical that the storage for the infrastructure meets the growing needs of FTB operations. FTB’s MF storage system is pivotal to providing sufficient storage of information entrusted to the agency.

D. Justification

FTB’s MF ETL system consists of two components: virtual tape and magnetic (physical) tape processing. During June 2016, the manufacturer removed FTB’s virtual tape library system from the market and support services will be discontinued by December 2019.

In September 2017, an S1BA was approved identifying the need to replace FTB’s current ETL system. Since that time, the manufacturer for FTB’s DASD hardware has also announced the EOM for the type/model currently in production at FTB and support services will be discontinued in three to four years from the EOM announced date of January 2017.

MF ETL and DASD Replacement

As mentioned, the MF ETL’s storage capacity current growth rate is approximately 23 percent annually. This exceeds the storage capacity industry standard of 20 percent. The MF ETL’s EOM status has prevented FTB from purchasing additional storage capacity to meet the department’s workload growth needs. Additionally, as of December 2019, software upgrades and security patches will no longer be available.

By replacing the MF ETL, FTB’s mission critical systems and applications dependent on mainframe storage processing resources can avoid the following risks:

- Failures in systems that house vital sensitive and confidential taxpayer information, such as the Taxpayer Information System, which is FTB’s Personal Income Tax accounting system.
- Inability to recover data after a disaster
- Inability to timely process tax returns and payments and issue tax refunds, all of which are dependent on accessing system data timely.
- Failure to provide long-term data retention

Avoiding these risks relies on FTB’s ability to provide sufficient data storage. This solution will support the projected workload growth needs for the mainframe storage environment. This solution also provides maximum performance and enhanced security features for FTB’s revenue generating systems and the data that resides within FTB systems and applications. Additional enhancements provide for more efficient processes to retrieve data, the ability to expand business processes, and improved self-service application performances for our customers.

Moreover, the proposed solution meets all of the business objectives and functional requirements necessary to maintain the existing FTB systems without risking major equipment or software failure. Adhering to the IRS Publication 1075, Tax Information Security Guidelines for Federal, State and Local Agencies, the solution also ensures increased and continuous safeguards and protection of confidential Federal Tax Information. Given the current structure of the Mainframe environment, upgrading the storage capacity and backup process best utilizes system resources and effectively handles growth in existing workloads. The proposed solution for the mainframe storage infrastructure maintains customer service level agreements by providing 24x7 availability.

This planned replacement mitigates the EOM, EOS, and capacity and performance limitation risks associated with the existing storage hardware. The replacement expands storage system/infrastructure performance capabilities that provide growth over a period of three years with two additional years for potential capacity expansion. FTB must keep the mainframe equipment operating with sufficient performance and capacity to handle critical revenue-generating workloads. This action mitigates accompanying future support risks, such as physical and system failures which could be detrimental to FTB’s mission critical operations and part acquisitions.
Offsite Recovery Solution

The addition of a MF CPU, MF ETL and DASD for the secondary off-site location will enable technology recovery at the off-site location as opposed to using commercial third-party resources. This gives FTB improved access and control over the technology recovery process, improves business continuity timeframes, and aligns the system with Open Systems\(^3\) backup, storage and technology recovery process, which is essential for technology recovery.

The proposed MF ETL refresh solution will mirror the functions of the disk and virtual tape hardware located at FTB’s Central Office to the secondary off-site location, allowing replication of critical FTB data to the off-site location. With this solution, FTB will transport mainframe data to the off-site hardware, virtually, ultimately creating a “tapeless” environment. This will also eliminate the need for maintaining a mainframe physical tape library and the use of physical tapes for storing mainframe data. In addition, the manual handling and shipping of tapes by both FTB and a third-party vendor will be eliminated, reducing the risk of loss or contamination of FTB’s mission critical data.

This proposed solution will meet FTB’s mainframe storage capacity needs, and mitigate the risks associated with the EOM and anticipated EOS dates described above. Funding approval is needed for 2019-20 and will allow the following:

- Investment in newer technology providing FTB flexibility, agility and scalability to meet current and projected mainframe storage needs.
- Alignment of FTB’s mainframe storage replacement schedule more closely with the vendor’s mainframe storage release schedule.
- New mainframe storage functions and features, providing opportunities to increase performance and enhance security.
- Mitigation of risks associated with the EOM, EOS, and capacity and performance limitations of the existing Mainframe storage hardware.
- Improvement of FTB’s Mainframe Recovery Time Objective from days to minutes/hours.
- Improvement of FTB’s Mainframe Recovery Point Objective (age of data being recovered) from hours to minutes.
- Movement to a tapeless environment in line with FTB’s Open Systems.
- Elimination of the manual processing and storage of mainframe physical tapes.
- Elimination of costs associated with delivery of tapes to off-site locations.
- Elimination of lease fees associated with off-site storage of physical tapes.
- Elimination of lease costs for the MF CPU, ETL and DASD at current out of state technology recovery location.
- Flexibility for technology recovery – eliminating a third-party vendor will simplify and expedite FTB’s technology recovery process.
- A “Cloud ready” position, to utilize cloud storage for long-term retention, potentially reducing storage costs.
- Secure processing at an FTB selected and approved site located within the State of California.
- Backup systems/processes for both the Mainframe and Open Systems to be co-located at the same secondary site, which is essential for the technology recovery process.
- Reduction in the learning curve for new mainframe staff trained on FTB’s Technology Recovery Procedures.

E. Outcomes and Accountability

FTB uses the MF ETL and DASD to leverage the data that it collects, generates and stores to more effectively administer its tax and collection processes, which results in more efficient operations, better customer service, and a higher level of transparency.

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\(^3\) Open Systems refers to FTB’s non-mainframe environments (servers, storage, applications, etc.)
Analysis of Problem

The ETL and DASD storage system technologies work together to provide FTB a complete data repository used for storage, backup and recovery services. The EOS announcements scheduled for 2019-20 requires the replacement of both the existing ETL and DASD to ensure the mainframe storage system remains fully supported, and that there is sufficient capacity for future storage needs. The purchase of an ETL tape library and DASD and MF CPU for a secondary off-site location creates a “tapeless” solution and provides the following benefits:

- Minimized risks associated with the handling and storing physical tapes.
- Establishment of a technology recovery site that will simplify and expedite recovery of mission critical mainframe data in the event of a disaster.
- Alignment of the mainframe backup, storage and recovery technology with FTB’s Open Systems, which is essential for the technology recovery process.

Replacing aging, obsolete, EOS equipment and software reduces the risk that these items will fail and impact FTB’s revenue-generating capabilities. By replacing equipment at the appropriate time, FTB will avoid equipment failures that cost the state money, could result in a data loss, or inhibit recovery from an unplanned disruption.

This BCP is supported by the S1BA Reporting Exemption approved by the Department of Technology on September 22, 2017. Per SAM 4819.32, the “Mainframe Enterprise Tape Library Refresh” is excluded from IT Project submission and approval requirements. The reporting exemption gives the FTB project delegation and FTB’s Executive management determined that the project would move forward and would be documented with an internal FSR.

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

F. Analysis of All Feasible Alternatives

Alternative #1: Provide one-time BCP funding of $7.2 million ($6.9 million General Fund and $308,000 Special Funds) in 2019-20, to purchase ETL and DASD storage systems for both the primary and secondary sites and a MF CPU for a secondary site.

Due to the manufacturer’s EOM and EOS announcements for the current ETL, and EOM and the anticipated EOS announcement for the DASD, the proposed solution will replace both the ETL and DASD in 2019-20, ensuring the mainframe storage system remains fully supported, and that there is sufficient capacity available for future storage needs. The new ETL capacity will be sized to accommodate long-term data retention for data which is currently being stored on physical tapes.

In addition to refreshing and purchasing additional mainframe storage hardware, the proposed solution includes the purchase of a MF CPU for the secondary off-site location. This MF CPU will be used in conjunction with the ETL and DASD for technology recovery. Using the off-site location as a technology recovery site will eliminate the need to use commercial third-party resources, giving FTB control over the technology recovery process, and simplifying and expediting recovery of mission critical FTB data in the event of a disaster.

Alternative #2: Finance the costs of the ETL Refresh project over three years using an interest rate of approximately 3.25 percent ($2.5 million General Fund and $111,000 Special Funds in 2019-20, $2.4 million General Fund and $107,000 Special Funds in 2020-21 and 2021-22).

This will allow FTB to spread the costs for the ETL Refresh project over multiple years. The initial costs would be lower. However, the total amount paid would be more. The FTB estimates that financing the replacement over three years would cost approximately $362,000.
**Analysis of Problem**

**Alternative #3: Do not approve the request.**

By denying the request, FTB will not be able to successfully administer its programs. It will place at risk the TI, BETS, non-tax debt and all other systems dependent on mainframe storage. FTB’s ability to perform core tasks, such as processing tax returns and payments, compliance activities including audits and collections, and filing enforcement activities will be jeopardized. Also at stake will be taxpayers and their representative ability to use self-service tools and remain compliant. The FTB will no longer be able to manage workload growth needs or secure software/hardware patches from the vendor. Equipment failures and associated security vulnerabilities would burden the State with additional cost outlays and put mission critical and sensitive data at risk.

**G. Implementation Plan**

- June 2019 Department of Finance notifies FTB of approval for project resources
- July 2019: Award procurement
- November- December 2019: Install MF ETL, DASD hardware and new MF CPU
- December 2019: Test MF ETL, DASD hardware and new MF CPU
- December 2019: Implement into production
- June 2020: Project completion

**H. Supplemental Information**

None

**I. Recommendation**

FTB recommends approval of Alternative 1: Provide one-time BCP funding of $7.2 million ($6.9 million General Fund and $308,000 Special Funds) in 2019-20, to purchase ETL and DASD storage systems for both the primary and secondary sites and a MF CPU for the secondary site.

This alternative will meet FTB’s current and future mainframe storage, backup, and recovery needs and mitigate the risks associated with running on an unsupported system. It will also provide the appropriate solution for the department’s revenue activities and meet the business objectives and functional requirements necessary to maintain existing systems without risking major equipment or software failure, or loss and/or contamination of mission critical data.
### Budget Request Summary

The Franchise Tax Board (FTB) requests $1.8 million General Fund for 20 permanent positions in 2019-20 and ongoing to assist in the support of the $2.5 billion Nonwage Withholding Program. The additional resources will greatly assist the Withholding Services & Compliance Section’s (WSCS) ongoing efforts to provide assistance and guidance to California’s withholding agents, taxpayers, and representatives, resume compliance and education activities, and sustain priority workloads that collect nonwage withholding payments for the State.

### Requires Legislation

| □ Yes | □ No |

### Code Section(s) to be Added/Amended/Repealed

**Department CIO Date**

*If yes, departmental Chief Information Officer must sign.*

### For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

| Project No. | Project Approval Document: | Approval Date: |

### If proposal affects another department, does other department concur with proposal?

| □ Yes | □ No |

*Attach comments of affected department, signed and dated by the department director or designee.*

### Prepared By

- **Department Director**
  - **Date**

### Reviewed By

- **Agency Secretary**
  - **Date**

### Department of Finance Use Only

#### Additional Review:

- □ Capital Outlay
- □ ITCU
- □ FSCU
- □ OSAE
- □ CALSTARS
- □ Dept. of Technology

| PPBA | Date submitted to the Legislature |
Analysis of Problem

The Franchise Tax Board (FTB) requests $1.8 million General Fund for 20 permanent positions in 2019-20 and ongoing to assist in the support of the $2.5 billion Nonwage Withholding Program. The additional resources will greatly assist the Withholding Services & Compliance Section’s (WSCS) ongoing efforts to provide assistance and guidance to California’s withholding agents, taxpayers, and representatives, resume compliance and education activities, and sustain priority workloads that collect nonwage withholding payments for the State.

B. Background/History

FTB administers the following nonwage withholding programs under the California Revenue and Taxation Code (R&TC) Sections 18662, 18664, and 18666:

- Sales of California Real Estate
- Trusts and Estates Distributions
- Partnerships and LLC Distributions or allowable share
- Payments to Nonresidents
- Backup Withholding
- Tribal Withholding

Withhold at Source services began in the early 1950s and was primarily directed toward the entertainment industry. During the 1980s the program expanded, due in part to the following:

- Recognition of the tax gap and the identification that noncompliance existed in nonwage activities not supported by withholding or an information return.
- Governor and Department of Finance’s requests for FTB to respond to the tax gap as well as ensure taxpayers have the tools and knowledge to comply which supports California’s voluntary tax compliance system.
- Passage of the 1986 Tax Reform Act, which included new federal withholding requirements.

California conformed to the 1986 Tax Reform Act and in addition enacted Senate Bill (SB) 2319, which made various changes to California withholding requirements with respect to dispositions of California real property interests by nonresidents. Consequently, during the mid-1980s and early 1990s, the program was expanded to include the following withholding activities:

- Independent Contractors
- Foreign sellers of California real property
- Withholding on allocation of California sourced income to foreign partners
- Withholding on distribution of California sourced income to domestic partners
- Domestic nonresident sellers of California real property

FTB’s withhold at source program has contributed the following amounts to the General Fund:

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,736,000</td>
<td>2,092,000</td>
<td>2,321,000</td>
<td>2,491,000</td>
<td>2,831,000</td>
</tr>
</tbody>
</table>

Beginning in fiscal year 2013-14, the WSCS began struggling with significant backlogs in various workloads and the inability to respond to withholding agents’ inquiries regarding responsibilities to withhold or how to remit withholding payments or respond to taxpayers whose withholding payments were not correctly applied on their FTB accounts. In 2014-15, in an effort to improve services, the
Analysis of Problem

WSCS evaluated their staffing and workloads. This showed that several factors were contributing to the ongoing issue of increased backlogs and inability to respond to withholding agent and taxpayer inquiries.

FTB identified a primary issue that was driving the increased workloads – the inability to match nonwage withholding payments to the proper accounts due to insufficient or incorrect information being provided by the withholding agents. In order to appropriately match these payments, FTB needed to reach out to the agents to obtain identifying or correct information. As withholding requirements expanded triggering increased volumes as well as these errors, FTB was not staffed to maintain this workload. This ongoing problem triggered issues that include:

- Dedication of more time and resources to manual intervention and working accounts.
- Issuance of erroneous notices as a result of not properly associating payments to the taxpayer, causing a balance due notice to be issued – this causes a delay in accounts being properly resolved and great frustration for the taxpayer.
- Increased costs to the department, which results when erroneous notices are issued leading to an increase in phone calls and correspondence.
- Increased customer dissatisfaction from payments being cashed by FTB but not associated to the taxpayer – this prompts an increase in complaints to external agencies/representatives.
- Overall dissatisfaction with the quality of services provided to the nonwage withholding community.

In 2014-15, FTB took the two actions below to immediately begin addressing workload constraints associated with FTB’s inability to match withholding payments to a taxpayers’ account triggering the impacts above.

1. Limited term temporary help funding provided by the enterprise. Temporary resources were redirected within the department to allow better service levels and allow time to better understand the situation and the ongoing nature of the issue. Temporary help positions were funded as listed in the following table:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Positions</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>1 LT Administrator I, 2 PI Compliance Representative, 10 PI Tax Technician</td>
<td>$449,000</td>
</tr>
<tr>
<td>2015-16</td>
<td>1 LT Administrator I, 2 PI Compliance Representative, 10 PI Tax Technician</td>
<td>$661,000</td>
</tr>
<tr>
<td>2016-17</td>
<td>1 LT Administrator I, 2 PI Compliance Representative, 10 PI Tax Technician</td>
<td>$701,000</td>
</tr>
<tr>
<td>2017-18</td>
<td>1 LT Administrator I, 2 PI Compliance Representative, 10 PI Tax Technician</td>
<td>$701,000</td>
</tr>
</tbody>
</table>

*PI numbers represent full time equivalent hours.

2. Workload prioritization and reducing efforts on various workloads to support most critical workloads. To ensure that critical workloads were properly staffed, it was necessary to evaluate and prioritize the WSCS workloads. To balance workloads and redirect staff to priority workloads, the WSCS made a strategic decision to temporarily stop working the following workloads to better support the most critical workloads.

- Escrow Compliance Reviews (Review Escrow Companies to ensure they fill out forms and report transactions correctly)
  - Impacts:
    1. Influx of inaccurate and incorrect forms
    2. Increased phone calls and correspondence
    3. Delayed refunds to taxpayers
    4. Increased manual interventions to resolve discrepancies

- Venue Failure to Withhold Reviews (Review Venues to ensure they are withholding properly)
  - Impacts:
    1. Less withholdings from non-resident performers earning CA source income
2. Decreased revenue
   • Education and Outreach (E&O) activities (Reduced team from 3 to 2)
     ➢ Impacts:
       1. Influx of inaccurate and incorrect forms
       2. Increased phone calls and correspondence
       3. Delayed refunds to taxpayers
       4. Increased manual interventions to resolve discrepancies
       5. Increased delays in review – at certain and limited times, review staff was redirected to education and outreach activities delaying case resolution.
   • Annual Notices Mailings (Letter to notify taxpayers of unclaimed withholding credits)
     ➢ Impacts:
       1. Increased complaints about FTB’s poor communication with taxpayers and lack of information regarding their available credits
       2. Increased accounts transitioning into costly collection actions

In addition to temporarily suspending these workloads, the WSCS implemented process improvements creating efficiencies and worked with internal and external stakeholders to improve procedures, processes, and E&O activities. Specific efficiencies were realized by improving the incoming data/information from withholding agents to the department. Receiving better quality data leads to a higher probability of matching payments to the right taxpayers. A few examples of these improvements are:

• Clarification of the withholding and instruction forms to assist withholding agents with submitting accurate data.
• Regulation changes to clarify and simplify reporting requirements
• Implementation of a validation tool for Secure Web Internet File Transfer (SWIFT)
• Semi-automation of manual workloads, such as Withholding Information Notices (WINs) and Non-Filed Annual Notices
• Implementation of a centralized procedure manual
• Cross-training of staff to minimize peaks and valleys inherent in all workloads

The additional staff, reducing or curtailing certain workloads and various process improvements allowed the WSCS to reestablish and maintain acceptable service levels and timely complete priority workloads (but not all critical workloads).

Without taking proactive steps to address ongoing compliance reviews of, and education and outreach activities to withholding agents and third party stakeholders, they will continue to send incomplete and inaccurate data to FTB. This results in lost revenue and requires manual intervention by FTB to associate withholding to the correct taxpayer account, undermining service levels, increasing costs to the department and preventing taxpayers from receiving their appropriate withholding credit timely, perpetuating frustrations for taxpayers. Approving this proposal will allow the WSCS to better serve and provide guidance to taxpayers, representatives and withholding agents to correctly withhold and submit nonwage withholding payments and re-establish E&O activities.

Since 2014-15 and the resulting actions taken to manage the workload, the WSCS has not identified a trend that suggests this workload will reduce so that the temporary staff will no longer be needed or that the WSCS could resume previously reduced or curtailed critical activities. Additionally, FTB was criticized for failing to appropriately notify taxpayers annually of their pending withholding credits and working with withholding agents to ensure they understand their responsibilities. FTB does not find fault with this criticism and is asking for additional resources to ensure that these workloads can resume.
Analysis of Problem

Resource History
(Dollars in thousands)

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<tr>
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<tbody>
<tr>
<td>Authorized Expenditures</td>
<td>4,395</td>
<td>4,666</td>
<td>4,927</td>
<td>4,934</td>
<td>5,199</td>
</tr>
<tr>
<td>Actual Expenditures</td>
<td>4,633</td>
<td>5,360</td>
<td>5,648</td>
<td>5,914</td>
<td>6,211</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,736,000</td>
<td>2,092,000</td>
<td>2,321,000</td>
<td>2,491,000</td>
<td>2,831,000</td>
</tr>
<tr>
<td>Authorized Positions</td>
<td>56.5</td>
<td>58.5</td>
<td>58.5</td>
<td>57.5</td>
<td>57.5</td>
</tr>
<tr>
<td>Filled Positions</td>
<td>53.0</td>
<td>55.4</td>
<td>53.2</td>
<td>54.7</td>
<td>55.0</td>
</tr>
<tr>
<td>Vacancies</td>
<td>3.5</td>
<td>3.1</td>
<td>5.3</td>
<td>2.8</td>
<td>3</td>
</tr>
<tr>
<td>Vacancies Attributed to LOA</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vacancies with Existing Job Op</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
</tr>
</tbody>
</table>

Workload History

<table>
<thead>
<tr>
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<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Calls Offered</td>
<td>71,982</td>
<td>83,132</td>
<td>78,455</td>
<td>77,951</td>
<td>71,298</td>
<td>75,901</td>
</tr>
<tr>
<td>Calls Answered</td>
<td>55,595</td>
<td>50,335</td>
<td>42,166</td>
<td>45,619</td>
<td>47,111</td>
<td>53,130</td>
</tr>
<tr>
<td>Level of Access (LOA)</td>
<td>77%</td>
<td>61%</td>
<td>54%</td>
<td>59%</td>
<td>66%</td>
<td>70%</td>
</tr>
<tr>
<td>Pre Verification †</td>
<td>N/A</td>
<td>21,630</td>
<td>48,698</td>
<td>55,272</td>
<td>55,649</td>
<td>56,205</td>
</tr>
<tr>
<td>WINs ‡</td>
<td>N/A</td>
<td>N/A</td>
<td>658</td>
<td>2,195</td>
<td>9,104</td>
<td>9,195</td>
</tr>
<tr>
<td>Annual Notice †</td>
<td>N/A</td>
<td>18,088</td>
<td>15,603</td>
<td>N/A</td>
<td>876</td>
<td>16,846</td>
</tr>
</tbody>
</table>

1 Pre Verification workload began March 2015
2 WINs workload began 2015-16. Resource constraints led to a temporary stoppage of annual notices
3 Annual Notices workload began July 2014 and resource constraints led to a temporary stoppage of work related to annual notices. FTB temporarily funded workload with additional temporary help to restart program June 2018.

C. State Level Considerations

This funding request supports FTB’s Strategic Goal #4: Operational Excellence. This goal leads to building an operational infrastructure that “optimizes processes, products, services and resources to better serve our customers.” Continuously providing excellent and cost-effective products and services to FTB customers, such as addressing taxpayer questions via the contact center, and providing timely and accurate notices assists in meeting this goal.

FTB considers customer service a high priority and, as stated in the organizational values, strives to “deliver excellent products and services,” where collaborations are done to meet customer’s needs. One way of accomplishing this is via FTB’s goal of providing Taxpayer Centric Service, which is to “enhance our services to help taxpayers fulfill their tax obligations.” Providing timely and accurate taxpayer assistance is crucial to achieving this goal and maintaining a healthy voluntary compliance system.

D. Justification

In order to maintain acceptable staffing levels to engage in all critical workloads necessary to support the program, FTB is requesting additional resources as noted below. Thirteen of the twenty resources requested are related to converting current Permanent Intermittent (PI) staff to permanent positions. FTB began self-funding these staff in 2014-15 with internally redirected funds but is no longer able to support this redirection. Position authority and full funding is being requested in this BCP. Additionally, FTB is requesting seven new positions to resume previously reduced or curtailed workloads that are critical to the sustainability of the program. Due to the actions taken by FTB to manage this program over the last five years, the program has seen substantial stabilization and revenue to the General Fund has increased by $600 million annually. Continuing these resources and allowing the new positions requested will allow FTB to ensure this workload remains stable, viable, and ensure this revenue stream to the General Fund is sustained.
In addition to leveraging temporary help staff and implementing efficiencies, the section also explored a technical solution to determine if automation would reduce the need for additional staffing. However, the WSCS relies on third-party data and the complexities of the identified workloads did not fully align with a suitable IT solution. As a result, to meet ongoing essential functions of the section, the WSCS remains dependent on manual processes.

**Administrator I – 1 permanent position (existing PI staff)**

The Administrator I will provide supervision for the tax technicians and compliance representatives requested in this proposal. They will ensure service levels and performance measures are efficiently and effectively maintained and provide oversight and guidance for the day to day workload and operations.

**Compliance Representatives: – 5 permanent positions (2 existing PI staff, 3 new staff)**

The five compliance representatives will support two critical workloads. Two compliance representatives will provide lead coverage for the requested 14 tax technicians. These leads are responsible for providing technical assistance, general workload directions, scheduling assignments and monitoring workloads. They ensure that staff provide clear and correct information to taxpayers, representatives and withholding agents.

The other three compliance representatives are new staff resources and will be working-level staff and would enable the WSCS to resume their withholding education and compliance activities and the compliance reviews for the Real Estate and Venue Withholding workloads. These activities are vital to the section’s task of addressing noncompliance within the nonresident and real estate withholding community. Additionally, addressing noncompliance improves the quality of data used to ensure taxpayers receive their credits without manual intervention.

**Tax Technicians: – 14 permanent positions (10 existing PI staff, 4 new staff)**

The requested tax technicians address the following four critical workloads:

- Pre-Verification of withholding payments and credits
- WINs – Notices issued to withholding agents to inform them of imbalances in their withholding accounts
- Annual Notices – Notices issued to taxpayers to inform them of unclaimed Withhold at Source credits (resumption of workload)
- Responding to withholding agent and taxpayer queries

This request is primarily centered on the concept of maintaining current staffing levels. The following table shows the projected hours/positions attributed to the requested 14 tax technicians and is based on 2016-17 volumes and hours.

<table>
<thead>
<tr>
<th>Workload</th>
<th>Annual Hours</th>
<th>Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Verification</td>
<td>8,000</td>
<td>4</td>
</tr>
<tr>
<td>WINs</td>
<td>3,000</td>
<td>2</td>
</tr>
<tr>
<td>Annual Notices (2014-15)</td>
<td>10,000</td>
<td>5</td>
</tr>
<tr>
<td>Respond to Account Inquiries</td>
<td>5,000</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Hours</strong></td>
<td><strong>26,000</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

Attachment I projects the distribution of tax technician hours for both permanent and redirected temporary help staff assigned to address the above workloads. The attachment depicts the peak times for the Phone & Pre-Verification workloads. There are currently 18 permanent tax technicians and 14 PI tax technicians performing the work using 59,200 hours annually (approximately 5,000 per month).
The requested 14 permanent tax technicians allow the WSCS the flexibility to properly staff and maintain suitable inventory levels and LOAs for these workloads.

**Pre-Verification – 4 Tax Technicians (Existing PI staff)**

The Pre-Verification workload began in March 2015 due to the WSCS wanting to proactively address the issues that resulted in disallowed withhold at source credits when claimed on a tax return. The WSCS can verify and allow withholding credits when a tax return is being processed. By being proactive with the pre-verification process, the WSCS was able to match taxpayers withholding correctly to their return during processing thus preventing erroneous Notice of Tax Return Changes (NTRCs) and therefore decreasing the amount of correspondence and phone calls. To ensure taxpayers’ withholdings are accurately applied to their account, the WSCS works in conjunction with the Information Validation Section (IVS) to verify nonwage withholding prior to sending a NTRC. The accounts in this workload fall out of the Return Analysis automated processes and must be manually processed. This manual process requires account analysis to reconcile these accounts and payments therefore an IT solution is not feasible.

The chart below shows Pre-Verification volumes and hours for the past three years.

Streamlined procedures and experience gained by staff working this workload led to increased production rates. While maintaining a suitable level of service, staff must follow a 72-hour turnaround policy throughout the year, including peak periods (April and October). This turnaround period reduces tax return processing, which in turn reduces interest paid and mailing of erroneous notices. Erroneous notices burden the taxpayer by requiring them to call FTB, which increases phone calls, and wait times for taxpayers who have a valid need to contact FTB. Retaining current staff levels is vital to maintaining the current production rate and reducing erroneous notices for this workload.

**Withholding Information Notices (WINs) – 2 Tax Technicians (existing PI staff)**

WINs are notices sent to withholding agents to inform them of an imbalance in their withholding accounts. An imbalance occurs when the withholding agent submits a form recognizing withholding is due but does not remit the relevant funding to FTB. In 2014-15 the WSCS underwent an internal review for program operations. The audit revealed that WINs were not being generated and sent to withholding agents who owed Withholding at Source underpayments, nor were the underpayments transferred to the section’s accounting system for billing purposes. To address this finding, in January 2016, the WSCS implemented this new workload and began sending WINs.

To determine if an underpayment or overpayment exists and if a WIN needs to be sent, this workload requires staff to analyze withholding agent accounts in FTB’s system. The WSCS automated some of this manual process but manual work is still required and cannot be avoided. Once staff determines an imbalance exists, staff will update the system and the system will monitor the accounts, notify staff when a taxpayer does not respond to a notice within established parameters, and indicate if action should be taken to refer the account to FTB’s accounting system for billing.
The table below shows the volumes and hours for the WINs workload. Since its inception in 2016, due to efficiencies and automation, volumes are increasing while hours remain within a similar range each year.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Volume</th>
<th>Hours Worked</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-16</td>
<td>658</td>
<td>910</td>
</tr>
<tr>
<td>2016-17</td>
<td>2,195</td>
<td>3,210</td>
</tr>
<tr>
<td>2017-18</td>
<td>9,104</td>
<td>2,210</td>
</tr>
<tr>
<td>2018-19</td>
<td>9,195</td>
<td>2,902</td>
</tr>
</tbody>
</table>

In 2018-19, the volume is expected to continue its increase pattern but at a more stabilized rate. To maintain a suitable level of service, the WSCS will need to continue to rely on the tax technicians requested in the BCP.

**Annual Notices – 5 Tax Technicians (1 existing PI staff, 4 new staff)**

Many taxpayers forget they had nonwage withholding or forget the exact amount of the nonwage withholding remitted. These taxpayers can call FTB for the information or claim the incorrect amount on the return triggering workloads discussed throughout this BCP. However, some taxpayers just fail to claim the credit on their tax return. In these situations, FTB should send annual notices to personal income taxpayers to notify them of their unclaimed Withhold at Source credits and inform them of the actions needed to claim the credits. Due to resource constraints, this workload was curtailed in 2016-17 and 2017-18. As previously noted, FTB was criticized for failing to appropriately notify taxpayers annually of their pending withholding credits. FTB does not find fault with this criticism and is asking for additional resources to ensure this workload continues.

With a desire to resume this workload as efficiently as possible, the WSCS performed a thorough examination of this workload to identify improvements or efficiencies. Leveraging ongoing IT resources, some of the workload was automated. These improvements and efficiencies reduced FTB’s need for even more resources than the requested amount. However, prior to sending notices to taxpayers a large portion of this workload still requires a manual account analysis by staff. The additional staff requested will allow FTB to perform this responsibility.

Notifying taxpayers of their Unclaimed Withholding Credits is extremely important to not only the taxpayer, but also to FTB and the State. Informing taxpayers of their available withholding credits reduces the time associated with manually correcting accounts and lowers the percentage of accounts falling into more costly collection avenues. Additionally, FTB’s mission includes ensuring taxpayers pay their proper amount of tax. If individuals or entities are unaware of their available withholding, they may double pay their tax leaving the state with an outstanding liability. With these additional resources, the WSCS will continue to do their due diligence in reaching out to ensure taxpayers are aware of their available credit.

**Responding to Account Inquiries – 3 Tax Technicians (existing PI staff)**

The WSCS staff respond to inquiries from withholding agents, taxpayers and tax professionals that relate to proper remittance (agents) and proper crediting of amounts to taxpayer accounts (taxpayers and representatives). These contacts are often in response to a NTRC or seeking information to claim the correct amount of withholding on a return being filed. While efforts have occurred to solicit better, accurate, and complete data from the withholding agents, a substantial amount of data still must be manually matched. Delays or errors in the matching of this data prompt inquiries that FTB must respond to.

As noted, to address this situation and effectively the program area utilized PI tax technicians. In 2016-17 over 5,000 hours were devoted to the call center, compared to 4,500 used in 2015-16. The chart below shows the fluctuations in the LOA over the past four years.
The ability to redirect staff on a daily basis greatly increases the amount of customers staff can assist. As shown in the Projected Outcomes chart below, the annual call volume is expected to remain fairly stable. The WSCS’s ability to continue using tax technicians is vital to maintaining the ability to respond to customers inquiries. These resources will allow the WSCS staff to sustain a 70 percent level of access.

FTB is not able to redirect positions to address these workloads. FTB positions, including vacancies, have a body of work associated to it. Redirecting a position would leave FTB without the needed resources to perform mission critical work.

This proposal addresses and includes appropriate facility needs in the total funding request.

E. Outcomes and Accountability

To address compliance issues, FTB’s Executive Management established the Compliance Action Committee (CAC). The CAC addresses enterprise-wide policies and practices that relate to FTB’s strategic goal of Effective Compliance. Committee membership include enterprise-wide Division Chiefs and Bureau Directors managing programs to help taxpayers and withholding agents to comply with the tax laws. Members will ensure the requested resources contribute to increased taxpayer compliance in accordance with tax laws. The CAC reports directly to the executive sponsors and ultimately to the Executive Officer.

The implementation and on-going progress of the workloads addressed in the proposal will be monitored by the CAC who will regularly update Executive Management. While the responsibility for monitoring the use of resources associated with this proposal lies with the CAC, the ultimate fiscal responsibility remains with the department’s Chief Financial Officer.

The following table shows the projections for the four workloads addressed in this proposal.

### Projected Outcomes

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<tbody>
<tr>
<td><strong>Responding to Account Inquiries</strong></td>
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<td>Calls Offered</td>
<td>75,901</td>
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<td>77,427</td>
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<td>Calls Answered</td>
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<td>53,661</td>
<td>54,198</td>
<td>54,740</td>
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<tr>
<td>Level of Access (LOA)</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
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<tr>
<td><strong>Pre Verification</strong></td>
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<td>9,380</td>
<td>9,474</td>
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</table>
F. Analysis of All Feasible Alternatives

Alternative 1: Approve $1.8 million General Fund to support 20 permanent position in 2019-20 ongoing.

Approval of this proposal will allow the program to hire 20 permanent positions to greatly assist the department in achieving an appropriate service level. The positions allow the WSCS to identify withholding agent noncompliance, ensure taxpayer accounts are correct avoiding unnecessary contacts and bills and that taxpayers are notified of their credits, ensuring appropriate education efforts occur, and being able to respond to inquiries on account errors. Additionally, the stability that accompanies full time positions will minimize workforce turnover which will greatly enhance the WSCS’s prior ongoing efforts to further improve services for customers. FTB considers the aforementioned workloads and tax technicians who work them permanent components that significantly contribute to the withholding program’s revenue which has grown over $600 million in the last five years and annually approaches $2.5 billion.

Alternative 2: Approve $1.8 million General Fund to support 13 permanent positions and 9 PI positions in 2019-20 on-going.

The WSCS would continue to look to achieve all of the workload objectives cited in Alternative 1. Approving the funding for 13 permanent positions and 9 PI staff provides the resources needed to continue working the workloads the department views as permanent and are therefore not appropriately funded by temporary help funds. However, with this alternative, the ongoing staffing issue and maintenance of a stable workforce would continue with the exception of the risk related to high PI turnover rate as PI staff continuously seek permanent opportunities. Staffing with PI staff today introduces risks to operations and reduces the impacts FTB is able to achieve with permanent staff.

Alternative 3: Approve $1.1 million General Fund to support 12 permanent position in 2019-20 and ongoing.

Approval of this proposal is a scaled back alternative and would reduce the tax technicians to 10, the number of compliance representatives to one, and one administrator I. The compliance representative would provide review for the tax technicians to ensure quality work and prevent increased backlogs. The WSCS would still desire the option of asking for permanent positions as the need to maintain a stable workforce is vital to the overall success of meeting workload goals. This alternative will not allow the WSCS to improve their service to an acceptable level and the section would be unable to resume the compliance reviews for withholding agents and the annual notification process. As such, many taxpayers, representative and withholding agents would remain unaware of their rights, credits and/or balances. The mission of FTB to ensure taxpayers pay the proper amount of taxes cannot be met with when individuals or entities are unaware of their withholding obligation or credits.

Alternative 4: Do not approve proposal

If this proposal is not approved, withholding agents and taxpayers would be unable to obtain the withholding information needed to file accurate returns, the WSCS would experience a decrease in service levels, and withholding agent and taxpayer compliance. It is unclear if FTB is able to fund the temporary workforce ongoing due to competing priorities. If FTB is able to fund it ongoing, the WSCS may not be able to sustain their service at an acceptable level and the section may be unable to resume the compliance reviews for withholding agents and the annual notification process. If FTB is not able to fund this workload ongoing, significant work would cease, access to FTB would be extremely limited and revenue would likely decline as noncompliance increases.
Analysis of Problem

G. Implementation Plan

- June 2019 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.
- June 2019 – Department of Finance notifies FTB of funding approval.
- July 2019 – Permanent positions are established and FTB begins hiring.

H. Supplemental Information

None

I. Recommendation

FTB recommends Alternative 1: Approve $1.8 million General Fund to support 20 positions in 2019-20 ongoing.

This alternative best positions the department to succeed at providing service to withholding agents, taxpayers, and representatives. The approval of hiring permanent positions provides the best alternative for keeping experienced staff in place and allows for greater expertise and work efficiency for all the WSCS workloads. These positions would provide the opportunity to maximize the section’s ability to meet customer’s needs, reduce erroneous noticing and improve the quality of data submitted to the department by third-party agents. In turn, the WSCS’s revenue growth would continue to increase and contribute to the State’s General Fund.
FY 18-19 Projections

*Includes all Tax Technician workloads worked by PFT/Temp TT’s
This proposal includes a request for a technical appropriation adjustment. This proposal also requests authorization of two new positions for the Franchise Tax Board (FTB) for the Tax Appeals Assistance Program (TAAP).

The TAAP program was originally established by the Board of Equalization (BOE) and with the restructuring of BOE and the transfer of the appeals process to the new California Office of Tax Appeals, this workload moved to the California Department of Tax and Fee Administration (CDTFA). There is not an appropriate alignment for Franchise and Income Tax (FIT) appeal cases to be handled by CDTFA. This proposal requests to transfer the FIT component of the program from CDTFA to FTB.

See Attachment I for the technical adjustment.
Analysis of Problem

A. Budget Request Summary

This proposal includes a request for a technical appropriation adjustment. This proposal also requests authorization of two new positions for the Franchise Tax Board (FTB) for the Tax Appeals Assistance Program (TAAP).

The TAAP program was originally established by the Board of Equalization (BOE) and with the restructuring of BOE and the transfer of the appeals process to the new California Office of Tax Appeals, this workload moved to the California Department of Tax and Fee Administration (CDTFA). There is not an appropriate alignment for Franchise and Income Tax (FIT) appeal cases to be handled by CDTFA. This proposal requests to transfer the FIT component of the program from CDTFA to FTB. See Attachment I for the technical adjustment.

F. Supplemental Information

Attachment I: List of requested adjustments.

G. Recommendation

Approve Alternative 1.

Alternative 1 - Approve $378,000 and two permanent positions.

This alternative will allow FTB to continue the TAAP program which allows participating law students to assist taxpayers with their state tax appeals.
Franchise Tax Board Technical Adjustments BCP
(Dollars in Thousands)

<table>
<thead>
<tr>
<th>BU</th>
<th>Department Name</th>
<th>Title</th>
<th>Hyperion BR Name</th>
<th>Amount</th>
<th>Proposition/Fund</th>
<th>Adjustment Type</th>
<th>Reason</th>
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<tbody>
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<td>7730</td>
<td>Franchise Tax Board</td>
<td>TAAP</td>
<td>7730-006-BCP-2018-GB</td>
<td>$378</td>
<td>0001 General Fund</td>
<td>New Appropriation</td>
<td>FTB is requesting $378,000 and two positions (AGPA and TC IV) to fund the Tax Appeals Assistance Program (TAAP). A portion of this program is being transferred from CDTFA to FTB to handle the Franchise and Income Tax (FIT) appeal cases.</td>
</tr>
</tbody>
</table>
The Franchise Tax Board (FTB) is requesting $570,000 General Fund and 7.5 positions in 2019-20 and $530,000 ongoing to implement the EITC Age and Income Expansion included in the Governor’s Budget. These resources are critical in order to successfully implement the EITC expansion.

If proposal affects another department, does other department concur with proposal?  ☑ Yes  ☐ No  
Attach comments of affected department, signed and dated by the department director or designee.
Analysis of Problem

A. Budget Request Summary

The Franchise Tax Board (FTB) is requesting $570,000 General Fund and 7.5 positions in 2019-20 and $530,000 ongoing to implement the EITC Age and Income Expansion included in the Governor’s Budget. These resources are critical in order to successfully implement the EITC expansion.

B. Background/History

The 2015 Budget enacted the state’s first-ever CalEITC to help the poorest working families in California.

The 2017 Budget expanded the credit to include the self-employed and increased the income range so more individuals working up to full-time at the newly increased minimum age would qualify. For the 2017 tax year, CalEITC credits are on a pace to hit $350 million affecting around 1.5 million households.

SB 855, enacted in 2018 expands the CalEITC to working individuals who are aged 18 to 24 or over age 65. In addition, the qualifying income range for the credit is expanded so that employees working up to full-time at the 2019 minimum wage of $12 per hour would qualify for the credit. The expansion of the credit is expected to cost about $60 million in 2018-19 and to benefit over 700,000 households.

The changes expand the CalEITC beyond the parameters currently in federal law. The current CalEITC, along with the federal EITC, only allows individuals who are at least age 25 and not more than age 65. This change allows the CalEITC to be claimed by all individuals who are least at 18, as long as they meet the other qualifying criteria for the credit. Additionally, the qualifying income range for the credit will be increased for the 2018 tax year to $24,960 for tax filers with one or more dependents and to $16,800 for tax filers with no dependents. These endpoints will be adjusted each year for inflation.

See Attachment 1 for Resource History and Attachment 2 for Program Workload Measures

C. State Level Considerations

This proposal supports FTB’s mission to fairly and effectively administer the state’s tax system and the strategic plan goals for Taxpayer Centric Service, Effective Enforcement, a Strong Organization and Operational Excellence.

D. Justification

The CalEITC is a key component of the Administration and the Legislature’s commitment to assist California families living below the poverty level. In the Enrolled Bill Report supporting SB 855, FTB noted a resource need but FTB was asked to absorb costs for 2018-19 and put forward a BCP for 2019-20. For ongoing operations, in order to ensure returns are processed and refunds are issued timely as well as ensuring improper payments of this refundable credit are minimized, FTB is requesting the following resources:

Fraud and Discovery (3 permanent positions)
FTB’s Fraud Unit detects and prevents improper payments related to refundable credits, identity theft, and preparer driven issues due to questionable deductions and claims of nonrefundable credits. These additional resources will address an increased risk associated with improper payments attributed to the CalEITC Age and Income Expansion. The IRS has historically experienced a high rate of improper
Analysis of Problem

payments with their refundable EITC. The improper payments can stem from honest mistakes, however, many are related to fraudulent type behavior and identity theft.

The additional resources will prevent improper payments and saves the state from losing revenue, discourages bad actor efforts to conduct fraudulent type activities, and ensures the safety and confidence of taxpayers in the tax system and in FTB’s administration of the income tax laws.

Contact Center (3 permanent positions)
The positions within the contact center will respond to increased telephone calls and live chats from new and existing taxpayers. FTB provides customer service to achieve public confidence and trust in state government as well as address taxpayer needs to ensure that they:

- Receive immediate answers to their tax questions and issues at the first point of contact.
- File their tax returns correctly in support of the voluntary compliance nature of our tax system.

Return Processing (1 permanent-intermittent and .5 temp help positions)
EITC paper and electronic returns will go through the same processing as other returns. This will include the traditional processes of receiving, scanning and keying information.

FTB is not able to redirect resources to address this workload. FTB positions, including vacancies, have a body of work associated to it. Redirecting a position would leave FTB without the needed resources to perform mission critical work.

This proposal addresses and includes appropriate facility needs in the total funding requested.

E. Outcomes and Accountability

It is the responsibility of FTB to implement the EITC Age and Income Expansion. The processing of the tax returns and fraud prevention will be handled under the direction of the Filing Division Chief. The fiscal oversight is the responsibility of the Chief Financial Officer (CFO).

See Attachment 1 for Projected Outcomes.

F. Analysis of All Feasible Alternatives

Alternative #1 - Approve $570,000 and 6 permanent, 1 permanent-intermittent and .5 temporary help positions.
This alternative will provide FTB the needed resources to implement the age and income expansion.

Alternative #2 - Approve $570,000 and 6 three-year limited term, 1 permanent-intermittent and .5 temporary help positions.
This alternative does not provide continuing resources for a permanent program.

Alternative #3 - Do not approve request.
Failure to receive the funding and resources will result in unnecessary and significant risks in implementing the age and income expansion. In addition it will affect FTB’s ability to timely process tax returns and payments and could cause taxpayers to have their refunds delayed.
G. Implementation Plan
June 2019 – All documents to establish the permanent positions are prepared and approved by the FTB Budget Officer and forwarded to Department of Finance.

June 2019 – Department of Finance notifies FTB of positions approval.

July 2019 – Permanent positions are established and FTB begins hiring.

H. Supplemental Information
None

I. Recommendation
Alternative #1 is recommended, as this alternative will allow FTB to implement the EITC age and income expansion and achieve the goal of the Administration and the Legislature’s commitment to assist California families living below the poverty level.