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APPARENCES

BOARD MEMBERS

YVETTE STOWERS
Deputy State Controller
(Acting Chairperson of the Board)

MALIA M. COHEN
Board of Equalization
Chairperson

GAYLE MILLER
Chief Deputy Director
Department of Finance

---o0o---

STAFF

SELVI STANISLAUS
Executive Director

DAWN CASEY
Board Liaison

JOZEL L. BRUNETT
Chief Legal Counsel

SHANE HOFELING
Assistant Chief Counsel

LYNN CHAU
Audit Division

ADAM CLARK
Audit Division

FRANK CURCURO
Accounts Receivable Management Division

KEITH PARSLEY
Filing Division

TIPHANIE WEISS
Financial Management Bureau

KATHRYN S. SWANK, CSR (916) 390-7731
APPARENTANCES CONTINUED

STAFF CONTINUED

ALLEN WILSON
Filing Division

SONIA WOODRUFF
Legal Division

---o0o---

ALSO PRESENT

PAUL STEFFEN
Public Participant

---o0o---
SACRAMENTO, CALIFORNIA
THURSDAY, JUNE 13, 2019, 1:45 P.M.

---o0o---

ACTING CHAIRPERSON STOWERS: Good afternoon. All righty. This is the scheduled meeting for the Franchise Tax Board.

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

MS. CASEY: Member Cohen?

MEMBER COHEN: Present.

MS. CASEY: Deputy-Chair Yvette Stowers?

ACTING CHAIRPERSON STOWERS: Present.

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

Please stand and join me in the Pledge of Allegiance.

(Pledge of Allegiance was recited in unison.)

ACTING CHAIRPERSON STOWERS: The public has the right to comment on each agenda item. If there are any members of the public wishing to -- wishing to speak on an item, please come forward when the item is called, and you will have three minutes to address the board.

The first item, Members -- or Member, is approval
of the minutes. We have the minutes of March 14, 2019, board meeting.

MEMBER COHEN: Good afternoon, ladies and gentlemen.

I would like to make a motion to approve the minutes.

ACTING CHAIRPERSON STOWERS: I second that motion.

Without objection, the motion passes.

Item number 2 is a PowerPoint presentation on effective communication -- effective compliance, a strategic approach, presented by Lynn Chau and Adam Clark. This is an informational item. And I do believe we have public comment on this item. We will take public comment after the presentation.

Ms. Chau.

MS. CHAU: Thank you.

Good afternoon. My name is Lynn Chau, and with me to present today is my colleague, Adam Clark. We are both managers at the Audit Division here at FTB.

Today we would to share with you a little bit about effective compliance through a strategic approach. Though this effort only begun in the last couple of years, we have already seen some encouraging results.

Our mission here at the Franchise Tax Board is to
help taxpayers file timely and accurate tax returns, as well as pay the correct amount of tax in order to fund the services that are important to Californians.

To achieve that mission, FTB focuses on each of our foundational strategic goals:

These strategic goals include being taxpayer centric. This has to do with how we interact with our customers to help them fulfill their tax obligations;

Strong organization and operational excellence.

These are the last two goals you see on the pillars. They have to do with how FTB operates, specifically the value we place on our employees and how we seek best practices and efficiencies in all of our processes and procedures.

In our presentation today is the second pillar, effective compliance, which has to do with FTB's commitment to fairly administer the tax law to ensure taxpayers file and pay the correct amount.

When we built our strategic plan, we understood that most taxpayers were compliant; in other words, they filed their taxes correctly and paid on time. We call this compliance path the blue path. And as you see from the chart, the majority of the revenue we collect for the State's General Fund is from those taxpayers who do the right thing.
But some of our revenue comes from taxpayers who, for whatever reason, fall into noncompliance; they either don't file timely, don't pay, or they file incorrectly. We refer to the noncompliance path as the red path.

We also recognize that most of the taxpayers in the red path don't really intend to be there. The average person doesn't set out to do anything wrong. Sometimes life just happens or income tax laws are misunderstood.

Regardless of the reason, taxpayers on the red path are much more costly to address than those in compliance, on the blue path.

The reality is that while most of our revenue comes from blue path taxpayers, most of our operating budget is spent on taxpayers caught on the red path, regardless of their reason for being there.

We are here today to talk to you about how we are actively trying to nudge more taxpayers from the red path of noncompliance back onto the blue path by using more education and outreach methods to complement the traditional audit strategies. This approach leads to overall benefits for both taxpayers and the State of California.

The first step in our strategic approach to
effective compliance includes a strategy to improve accuracy of returns. We do this by trying to educate taxpayers we have identified with potential areas of noncompliance in their filing history. We focus on ways to use existing data, data mining tools, and shared knowledge to identify the best cases to receive education letters.

We also limit our focus by using internal tools and statistical data directly from the tax returns that are filed to identify specific taxpayer segments who might be at risk of noncompliance. This approach allows us to narrow down the universe of taxpayers and only send letters to taxpayers who are potentially impacted.

By employing these types of strategies, we can proactively contact taxpayers to provide them with helpful information so that they can file their next year's return accurately, versus a reactive approach following our normal audit procedures, which includes an audit of their filed tax returns.

In essence, we are providing them with an opportunity to self-correct to quickly return to the blue path.

Step 2 involves analyzing the data we obtain from internal tools to get a better understanding of common errors or mistakes that are occurring. This will help
us determine whether the educational letters are good strategies for addressing the noncompliance. In some instances, a thorough analysis of the data shows the following taxpayer-specific segment warrant a reminder of their tax obligations:

Those reporting higher than average or expected deductions;

Taxpayers submitting incomplete or missing forms or schedules;

And those with data from filed tax returns that does not appear to be in line with the current tax laws.

Again, our desire is to encourage self-correction rather than conducting audits of these taxpayer-specific segments.

Step 3. Once we know our taxpayer-specific segments, we send educational letters as part of our strategy to bring these taxpayers into compliance. Our intention with this effort is to make sure these taxpayers are better informed when they go to prepare the next tax return. The -- these letters offer assistance to help them understand their tax obligations and provide helpful information for their specific tax issue.

It is important to note that we are considering this an educational campaign to ensure taxpayers have
all the information to make a well-informed decision prior to filing their tax returns. The educational letters are purposely designed to be a less intrusive contact with the taxpayers as opposed to needing to open an audit.

This way, we can help nudge taxpayers that potentially could be veering off the blue path, back to the path of self-compliance. This strategy not only benefits the State but the taxpayers as well.

And now, Adam will talk to you more about the type of letters we send out, expand more on the benefits of an educational approach, and discuss what's next.

MR. CLARK: Thank you, Lynn.

As Lynn noted, this effort is designed as a campaign for taxpayers to conscientiously evaluate their tax return data and correctly file that next return. In some instances, these taxpayers' filing history did identify them at risk for potential noncompliance.

Some examples of the education campaign letters we have sent include the most misunderstood or inaccurately applied tax laws, such as itemized deductions, corporate miscellaneous expenses, head of household filing status, California like-kind exchanges, and corporate nonfilers.

For purposes of time today, I will touch briefly
on just a few of those:

Our letters to taxpayers claiming itemized deductions or corporate miscellaneous expenses are on
effort to see if a little education can go a long way in helping those taxpayers file accurately. By using our
data analysis tools, we identify taxpayers with unusually high deductions or expenses. The focus of those letters was to educate taxpayers to include only deductible amounts they are legally entitled to claim, and to maintain and provide appropriate supporting documentation for all deductions claimed.

Another type of letter we sent was to taxpayers that forgot to attach or provided incomplete required forms with their tax returns, especially a couple of our newer forms, the 3532 for claiming head of household and the 3840 for reporting a like-kind exchange.

Rather than conduct a traditional audit for those taxpayers that didn't attach those proper forms or provided incomplete information on those forms, we sent them letters explaining the filing requirements of the forms so they would be informed of the proper way to file when filing their next return, as well as how to correct their current filing.

The third type of letter reminds corporate taxpayers of their tax return filing obligation. We
want to educate these businesses that may not be aware
of or fully understand the newest apportionment rules, 
and give them a chance to get those returns filed and 
avoid a future contact by FTB.

We recognize several positive benefits to our 
strategic education approach:

It's efficient;

It reaches out to only specific-taxpayer segments 
who are at risk of noncompliance, rather than an entire populous;

It also brings taxpayers into self-compliance 
with direct taxpayer education, moving them from the red path on to the blue path with a gentle nudge in the right direction;

It also creates transparency. By reaching out to these taxpayers and openly sharing with them education and resources to self-correct, we're providing them with a transparent look into what we would identify as potentially problematic. And it demonstrates that we have the taxpayer's best interest in mind;

It's also less intrusive and more cost effective 
than a full audit, simply by influencing the taxpayer's behavior;

Finally, it provides a better customer experience with the same results, once again, shifting taxpayers
from the red path to the blue path.

   Anytime we can offer the taxpayer the opportunity
to self-correct, rather than be audited, I would say
that's a much better experience for that customer.

   Now I would like to share with you Joe's story to
illuminate the impacts and desired outcome of our
education letters. Joe is a busy man: He works
full-time; he coaches his kid's baseball team; and he's
just busy with life. Joe and his wife are just happy
when they get a few minutes in the evening to sit down
and watch the final episode of "Game of Thrones."

   For several years, Joe has been required to spend
money on items for his job and then his company
reimburses him for most of those items on his paycheck.
Joe and his wife are very responsible with their
finances and like to save money by doing their taxes
themselves.

   Joe has always claimed those work expenses as
itemized deductions when he files his return. His
relatives and friends have always talked about the
different types of expenses they deduct on their taxes
so he never thought twice about doing the same. After
all, Joe isn't a tax expert and he doesn't have a lot of
time to spend researching tax laws.

   Unfortunately, what Joe hadn't realized was that
he wasn't supposed to be deducting those expenses that were reimbursed by his employer. He was on the red path and he didn't even know it.

After doing some data analysis, FTB noticed that Joe's itemized deductions were quite a bit higher than most for several years in a row. At that point, it would have been normal for FTB to send him an audit letter, requesting Joe provide information and documents to support his deductions.

As you can imagine, that would have been likely a daunting task for Joe and his wife, who know very little about income taxes. It also would have been an expensive way for FTB to bring Joe back to the blue path.

Instead, FTB sent Joe an education letter at the beginning of the year when he was getting ready to file his next return. Understandably, Joe was still apprehensive when he opened that government letter from FTB. But the letter just informed him that his deductions had seemed unusually high, and gave him some quick information to help him get familiar with the rules to remember for his next return.

After getting that letter, Joe looked into it and found out that he wasn't supposed to be taking some of those deductions. When he filed the next return, he
lowered his deductions to only those that he was allowed to take. In addition, like many taxpayers who want to do the right thing, Joe decided to amend his previous tax returns as well.

This is a simple example of Joe's story that illustrates the desired outcome of our effective compliance by using more education and outreach to guide taxpayers towards self-compliance.

Moving forward, we plan to continue to analyze the data to determine areas for further education and outreach. Our goal is to incorporate any lessons learned into other education and outreach opportunities in order to make it easier for taxpayers to file accurately.

We sincerely believe that nudging taxpayers towards self-correction and self-compliance will continue to reap positive benefits for the taxpayer and the State of California.

In fact, during the short time since we implemented these education campaign letters, we're encouraged to see taxpayers responding towards self-correction and reentering the blue path.

This just reinforces what we've believed all along: Most people don't want to be on the red path or intend to end up there. It makes us feel proud that a
simple letter is able to make a difference for the taxpayer.

At FTB, we're always looking for ways to improve our processes and customer experience. In this case, that means helping our customers possibly avoid a contact from FTB. By guiding them towards self-correction, we can potentially save the taxpayer, as well as the state, time and money. To us, that's a win-win.

Thank you for your time and allowing us to present to you today. We are happy to answer any questions you might have.

ACTING CHAIRPERSON STOWERS: Thank you.

I believe we have public comments.

Sir, please state your full name.

MR. STEFFEN: Absolutely.

ACTING CHAIRPERSON STOWERS: And excuse me, sir. You have three minutes to present your comments.

MR. STEFFEN: I'm going to do my best.

ACTING CHAIRPERSON STOWERS: Okay.

MR. STEFFEN: So my name is Paul Steffen (phonetic). I own a small property management in Claremont, California. And I drove up today to take advantage of this opportunity provided to me.

Apparently, I was on the red path and didn't know
And I wanted to address you regarding a regulation that I think was possibly well-intended but functionally difficult, for those of us that are small business people, to understand and operate through. And that specifically is the adoption of regulations for nonresident withholding in regards to property management companies being held responsible for that.

In 2008, the Legislature adopted Revenue and Taxation Code 18662, that provided a rough framework for collecting taxes for income earned on nonresidents -- nonresidents in the state of California that earned income here.

In 2011, having done some research, I learned that the FTB, as part of its program -- that was relatively new at that time -- called Withholding At-Source System, developed specific regulations to ensure taxes were collected from those nonresidents, which I think is a great idea.

Part of that included, though, property management companies. And one thing that segregates collecting on rental income, where there's a property involved, is that that asset doesn't leave the state of California. And I believe the Franchise Tax Board erred in that they had much simpler methodologies for
collecting that money that didn't involve the property management company. Each and every year, I sent in 1099s to the IRS, which I believe that data is shared with the Franchise Tax Board. On that 1099, there's a box checked for rental income and the total amount of that rental income collected.

At no time -- since the adoption of RTC 18662, through the adoption of your regulations -- as a property management company, was I ever notified of my error and not understanding that I had to withhold money from my few clients that are outside of the state of California.

I would encourage the Franchise Tax Board to reconsider their position regarding this and consider that it might be in the best interest to utilize the information provided by the IRS, cross-referencing it with their tax returns received, looking at the gap. You have an opportunity, which actually happened in 2012, when the Franchise Tax Board contacted me about one of my clients and asked me to levy their income for a specific dollar amount of unpaid taxes. I did so. I thought that's how the system worked, to my, I guess, detriment.

So the Franchise Tax Board actually has the opportunity to not only levy, but to lien the property.

KATHRYN S. SWANK, CSR  (916) 390-7731
I think that's much better than putting the burden on
the small business owner, who is now basically horribly
affected in my ability to stay in business.

My penalty is about $16,000. I believe that
probably wasn't a very nice nudge back on to the blue
path, and I think it could have been done much, much
better. And I would encourage you to modify -- and I'm
glad you are looking at these opportunities to do things
better, but include business as well. Okay? So that's
it for me.

ACTING CHAIRPERSON STOWERS: Thank you, sir.

Wow. Is Ms -- is our advocate here? Is Susan
Maples in the audience?

MS. MAPLES: Yes. Here.

ACTING CHAIRPERSON STOWERS: Ms. Maples, would
you talk to him further? This sounds like maybe
something we can look at for -- in our Taxpayer Rights
portion of the year, and maybe -- the program needs to
speak with him as well. That would be great.

MS. MAPLES: We'll make contact after the
meeting.

MR. STEFFEN: I will be right here.

(Laughter)

ACTING CHAIRPERSON STOWERS: Thank you, sir.

MR. STEFFEN: Thank you.
ACTING CHAIRPERSON STOWERS: Any more comments?

MEMBER COHEN: I actually do have, maybe, two questions for staff.

First, I just want to say, good afternoon, everyone. It's nice to see so many people coming out, participating and caring about what's going on at the FTB.

So to staff, I was curious to know if the FTB has conducted any -- any type of best practices review of the compliance strategies of other large states.

MR. CLARK: Not that I am aware of. I think -- yeah, I kind of feel like we're a little bit on the forefront on this, as far as we're aware.

MEMBER COHEN: Okay. I am just curious to know if any other states have any other best practices learned or any other pitfalls that we can begin to avoid as we continue to roll out this new initiative.

MR. CLARK: I'm not aware of any, but I think it would be a good idea to check in with them and see what we can learn.

MEMBER COHEN: Okay. Next question is, I was curious also to note, the FTB analyzed the compliance rates of different taxpayers. So for -- different types of taxpayers. So, for example, high income filers versus low income filers.
Is there any -- is there a profile that you were able to begin to develop or work from?

MR. CLARK: I think we're sort of in the beginning stages of this, but I think that goes into the data analysis that we want to do as we further this -- these kind of efforts.

MEMBER COHEN: So something else we should begin to look at also is the multi-state businesses versus California-only businesses, C Corporations versus S Corporations, so begin to see if there's any kind of pattern there so that we can continue to produce a good product that's clear, succinct, easy to understand, and get everyone off the red path.

MR. CLARK: Absolutely.

MEMBER COHEN: But other than that, I think it was fantastic. Congratulations. This is something we're going to be continually be implementing as we move forward.

MR. CLARK: Thank you.

MEMBER COHEN: Yeah. Thank you.

ACTING CHAIRPERSON STOWERS: Thank you, Ms. Cohen.

I have a question regarding the educational letters with respect to the like-kind exchange.

Do you have any data on it yet, on the response
you are getting?

MR. CLARK: I am not aware of that. I think we could follow up though, if we do.

ACTING CHAIRPERSON STOWERS: Is it still too new in the program?

CHIEF COUNSEL BRUNETT: I think it's still too new. We definitely will be gathering the data.

ACTING CHAIRPERSON STOWERS: And with respect to the letters, we can expect to see a decline in audit letters as well, since we are doing these educational letters?

MR. CLARK: That's definitely our goal. Absolutely.

ACTING CHAIRPERSON STOWERS: Okay. All righty. Item number 3.

Thank you guys very much. Appreciate it.

We're now on Item number 3, which is a PowerPoint presentation on the 2019 Filing Season Update, presented by Allen Wilson and Frank -- Frank. I'm sorry. I was corrected three times. I even called your voice mail to get this pronouncement and I still can't keep it in my head.

(Laughter)

MR. CURCURO: It's Curcuro.

ACTING CHAIRPERSON STOWERS: I do apologize.
MR. CURCURO: No worries.

ACTING CHAIRPERSON STOWERS: You have the floor.

MR. WILSON: Good afternoon, Board Members, and thank you for your time here today.

My name is Allen Wilson, and I work in the Filing Division of the Franchise Tax Board, and to my left is Frank Curcuro of our Accounts Receivable Management Division.

At the March board meeting, we talked about some of the unique characteristics -- challenges that we were expecting for the 2019 filing season. We promised that we had planned well to meet those challenges and fully expected to return in June to report on a very successful filing season, and here we are.

We would like to share just a few highlights that made this season very successful:

We gathered significant amounts of data in order to evaluate our performance as an enterprise. All of these metrics are very important to help guide us as we make decisions on resources and workloads.

Rather than just read a list of facts and figures, we thought you would appreciate a short video instead to show you all that we've accomplished so far this year in regards to our filing season. So please direct your attention to the video screen and prepare to...
be impressed.

    (Video presentation)

    (Applause)

    MR. WILSON: Some great stats, and I love those shots of the VITA volunteers. So thank you for letting us share our video with you.

    MEMBER COHEN: That was absolutely amazing. Really exciting. I didn't even know you guys produced beats out here at FTB.

    (Laughter)

    MEMBER COHEN: Then we find out you got a recording studio in here. I am going to lay a couple of tracks and we're going to have a FTB soundtrack. Could you imagine Selvi walking in on that music?

    (Laughter)

    MEMBER COHEN: I love it. I need to get a copy of that.

    (Applause)

    MR. WILSON: We would love to have you. Wait till you see these lights go too.

    (Laughter)

    MEMBER COHEN: I knew you guys had it going on, but wow.

    MR. WILSON: So some more numbers here. Every chance we get, we do like to take the opportunity to
champion our electronic services that we make available
to taxpayers, whether it's e-file, online payment
options, or any of our online self-service options.

This year, we are thrilled to report that
electronic payments increased by about 450,000 payments,
as compared to last year, which is a 15 percent
increase. Electronic payments are the fastest, easiest,
and most accurate way for taxpayers to remit payment to
us. And we continue to see a shift from paper checks to
electronic payments. This is great news.

Another key metric for us to evaluate our
performance each year is the speed with which we deliver
our refunds to our personal income tax filers. We know
that these funds are important to Californians, so we do
our very best to get them an accurate refund as quickly
as possible.

I'm thrilled to share that, again, in 2019, we
have done a fantastic job of doing this. To date,
88 percent of taxpayers receive their refund within 14
days, and 98 percent receive their refund within 30
days. These are tremendous numbers, and we're very,
very proud of them.

This efficiency in refund delivery ensures that
not only taxpayers get their money back quickly, but by
meeting our statutory interest cutoff dates, the State
benefits fiscally by not having to pay interest unnecessarily.

All of our successes that we have discussed here today only come as a result of careful planning and coordination between our business and our IT staff.

As you may recall, at the March board meeting, when we last updated you on our filing season efforts, we had a couple of significant challenges thrown our way for the 2019 season. We had the perfect storm and we had federal tax return -- federal tax reform. To recap, "perfect storm" is the term that we use when the tax filing deadline of April 15th falls on a Monday, like it did this year. Frank will be sharing more about our perfect storm mitigations later in the presentation.

So, for now, I will just say that our planning and our forecasting efforts were a great success and we weathered the perfect storm.

In regards to federal tax reform, our tax forms development team and all our public facing customer service teams did an amazing job to ensure that our customers had all the information available to them in order to clearly understand their tax obligations from a California perspective. This included not only revising forms and instructions, but training hundreds of staff to help them become familiar with federal tax changes.
and the impacts on the California tax filing.

We would like to thank all of these dedicated individuals for a job well done.

And now I would like to pass it over to Frank to continue our presentation.

MR. CURCURO: Thank you, Allen, and good afternoon everybody.

As Allen mentioned, knowing that April 15th would fall on a Monday, FTB began planning ahead for this year's filing season in May of 2018. We also anticipated taxpayers would be struggling to figure out how federal tax reform affected their California taxes. Our term for this predicted event was the "perfect storm."

We expected our e-file and other critical filing systems would be stretched to their limits, our web visits would be high, and the projected phone call volumes to be as much as 35 percent higher than last year's volumes.

In preparation, FTB put together contingency plans to ensure we had coverage and that our systems could handle the increased activity.

Several divisions worked together to develop mitigation strategies to ensure we can provide smooth public counter operations, maximum levels of access at
our contact centers, and provide overall excellent customer service to all of our taxpayers. It was an enterprise-wide effort.

I am proud to tell you that our efforts paid off this year, and this year's filing season was another success.

Our systems effectively handled the loads, processing a 16 percent increase in secure data transfers. Our website withstood over 442,000 visits and we processed over $2 billion in web-based payments between 12:01 a.m. and 3:00 p.m. on April 15th.

In fact, set some new FTB records: We processed 570,000 e-file and paper returns; we processed 365,000 payments; between April 10th and 17th, e-filed returns were processed within an average of 22 hours and our paper returns took an average of 29 hours.

Another area where our efforts have significantly paid off is our call center's level of access to ensure our customers could reach us during filing season. Our primary contact centers answered 352,000 calls this year and the access rate was 73 percent. In addition, the average wait time was only six minutes.

Another important filing season update we would like to share with you today is FTB's Volunteer Income Tax Assistance Program, otherwise known as VITA. The
mission of the VITA program is to provide free tax
preparation for low- to middle-income taxpayers and
seniors who file the basic tax returns. The service is
intended to assist taxpayers with simple returns, who
cannot afford to see a paid preparer and who need the
assistance.

We're very proud to report that once again this
year, our VITA program was a success. We had 142 FTB
volunteers; 54 new volunteers this year; we assisted
taxpayers at 25 community sites, filed 19,000 state and
federal returns; spent over 2600 volunteer hours; and
saved Californians an estimated 453,000 in tax
preparation savings or costs.

In addition to traditional VITA locations, four
years ago we expanded the program to include the eBus.
The eBus serves as a mobile hub for free tax preparation
assistance to help more California residents keep their
hard-earned money.

Staff, with IRS-certified VITA preparers,
taxpayers received quality tax preparation and help in
filing all necessary documents correctly, securely, and
with ease. FTB partners with the Community College
Foundation to secure the use of their eBuses from
February 2nd through April 15th.

This year, FTB expanded our eBus use and
scheduled 52 successful eBus events through 19 VITA Organization Partnerships. And over the course of the filing season, the eBuses traveled approximately 8400 miles across the state of California, ranging from Shasta County down to Riverside, helping to serve thousands of people in need of free tax prep VITA services.

Here's what our partners are saying:

"The FTB VITA training we had at the beginning of the year was excellent!"

"The E-bus made preparing taxes fun! The customers were very comfortable and enjoyed the experience which otherwise could be somewhat intimidating."

"The bus driver was great! Plus, the bus was a great visual and added to the event excitement."

"Booking the e-bus was a fantastic experience. FTB staff made the experience painless. We would definitely use the bus again!"

And, lastly, the California Earned Income Tax Credit, also known as CalEITC, is designed to put money in the pockets of low income working people. Taxpayers can claim the credit simply by filing a California tax return.

This year, we saw positive growth in the program.
returning $348 million to California taxpayers, a 13 percent increase from last year.

So, in conclusion, filing season is our prime time and every single person at FTB shares a collective sigh of relief at the end of that last day. We all feel the pressure to make sure we do our very best for California taxpayers.

We appreciate your continued support. We truly enjoyed your visit to our campus to help celebrate the end of yet another successful filing season.

Thank you so much for taking the time to help us educate the public and encourage our hard working staff. You make a big difference.

At this time, we would like to take any questions you may have.

ACTING CHAIRPERSON STOWERS: Thank you, Allen.

Thank you, Frank.

Before we go to questions, we have some VITA volunteers in the audience.

Will you please stand so we can acknowledge you?

(Applause)

ACTING CHAIRPERSON STOWERS: Thank you very much.

A couple people didn't stand. Ms. Boyles (phonetic).

All right. Thank you, Frank. Thank you, Allen.

Ms. Cohen.
MEMBER COHEN: No. I have no questions. I have said my comments. I am thoroughly impressed. I had a great time with the staff on election -- on Election Day --

(Laughter)

MEMBER COHEN: On Tax Day. That's my second favorite day. My first favorite day is Tax Day now.

(Laughter)

MEMBER COHEN: But I was just absolutely delighted to see so many people, hard working, doing excellent work.

Thank you.

ACTING CHAIRPERSON STOWERS: Thank you.

Thank you, guys. You had a great filing season. I think I said -- you guys said a "perfect storm." We had May flowers. It was fabulous. Everyone -- everyone, from all programs across the board, did an excellent job. Increasing Cal EITC claims, perfect. 73 percent access on the phones, perfect. Increased e-payments, that's really good. So I really tip my hat off to you guys. So congratulations. Job well done.

MR. WILSON: Thank you.

MR. CURCURO: Thank you.

ACTING CHAIRPERSON STOWERS: All right. Item 4 is also a PowerPoint presentation, Sustaining Great
Leadership, presented by Sonia Woodruff and Keith Parsley. This is an informational item as well.

MS. WOODRUFF: Good afternoon.

ACTING CHAIRPERSON STOWERS: Hello.

MS. WOODRUFF: I am Sonia Woodruff and I am here with Keith Parsley. I am a Tax Counsel IV in our Legal Division, and Keith is a manager from our Filing Division. We are both very fortunate to be selected as participants in this year's Management Development Program here at Franchise Tax Board.

MDP is an annual program that provides management training to around 20 supervisors and managers. The program also includes a project component to address an enterprise business opportunity. Keith and I were part of a six-member team tasked to find ways to build a cultural norm around engagement and empowerment amongst FTB leadership.

After being assigned to this project, we spent some time talking to our peers to ask about their vision of great leadership at FTB. We would like to share some of the typical comments we received.

(Vide presentation)

MS. WOODRUFF: While there are always exceptions in every organization, FTB already has an abundance of leaders who empower their staff and elevate engagement,
so you may be wondering why we were assigned to this project.

We would like to share with you just some of those reasons:

MR. PARSLEY: First, this project directly supports our strategic plan: Our mission is shown at the top; our foundational principles are the boxes at the bottom that support everything we do; finally, our four strategic goals are represented by those pillars.

The "Strong Organization" pillar represents the proactive commitment we make to our employees. This includes helping them develop their skills, discover their strengths, and build their careers.

The second reason we were tasked with this project can be found in our FTB values. While all of our values are supported by this project, it's clear that "Lead with Integrity and Inspiration" is the strong tie. FTB needs to retain and grow great leaders, those that empower staff and motivate them to a higher level of engagement.

Probably the most compelling reason for this project ties back to a workforce planning exercise we completed in 2016.

This chart shows that over 40 percent of our entire workforce of 6,000 employees will be eligible to
retire by 2020. With those numbers, it doesn't really
matter that FTB has great leaders today unless there are
resources in place to ensure we continue to grow great
leaders in the future.

Our project deliverable was to first recommend
consistent definitions for employee engagement and
empowerment.

Next we were asked to recommend tools and
resources that would support those concepts as a
cultural norm for years to come.

MS. WOODRUFF: Our first step was to conduct some
research. In 2016 FTB conducted a survey to gauge the
effectiveness of FTB leadership. The survey showed
that, overall, FTB is a great place to work. However,
it did indicate some areas where improvement was needed.

In reviewing the data, it was clear that FTB
lacked standard definitions of two key components of
great leadership, specifically engagement and
empowerment. In addition, the data showed many of FTB's
existing tools and resources were underutilized.

So up to this point, we thought we had an idea of
the problem. Now it was time to update the research.

Our research methods included our team creating a
wall of words to capture what great leadership meant to
us, especially in the area we believe to be most
important: Engagement and empowerment.

We looked outside of FTB to see how others ensured great leadership. We reviewed scholarly articles, reviewed companies' websites, and looked at highly rated books. We also reviewed the Cal GovOps Engaging Government Employees presentation from November 2014.

After gathering our external research, we wanted to test it against current attitude at FTB. In order to do that, we facilitated nine focus groups from over 250 FTB volunteers. We had representation from all levels of staff and from every division at FTB, including our field offices.

We concentrated each focus group on open-ended questions. We asked what they thought engagement and empowerment looked like for FTB, and we asked for specific examples and suggestions. We also prepared and circulated a survey to everyone who expressed an interest in our project. Overall, the focus groups and surveys provided us with excellent feedback.

We were able to group the majority of that feedback into four overarching themes, and those were communication, connection, coaching, and trust.

For communication, most people felt good communication was paramount in an empowering leader.
Staff wanted a leader to be able to communicate the larger vision of the organization while also staying positive, transparent, and sharing the "why" behind decisions.

Connection was really all about that personal connection between staff and leaders -- or the relationship between staff and leaders and the connection to the overall enterprise, its vision, and its goals.

For coaching, FTB employees felt strongly that empowering leaders have excellent coaching skills, including the ability to support, motivate, and build employee confidence.

Last but not least is trust, which is one of the most important subjects that arose in our focus groups. FTB staff wanted to feel that they could trust their leaders and also be trusted by their leaders.

MR. PARSLEY: After gathering all this information, we struggled to find a way to communicate the message in a way that was relatable and easy to remember. Then we came across a 2018 article from a company called Emplify. The graphic Emplify created showing a head, a heart, and hands makes an interesting analogy to the intellectual, emotional, and behavioral components of engagement.
Let me share their definition of "employee engagement" with you:

"An employee's intellectual (head) and emotional (heart) connection with an employer, demonstrated by motivation and commitment (the hands) to positively impact the company vision and goals."

While this is a great definition, we wanted a clear, concise, and personalized definition that would resonate with FTB. With that in mind, we converted the head, heart, and hands concept into Think, Feel, Do. While simplistic, this still has a large impact. The details behind each of the components will help show what we mean.

"Think" represents the intellectual component, the head. This is characterized by someone who has opportunities for growth, their work represents the kind of challenges they find intellectually stimulating, and they are able to use their strengths.

"Feel" is the emotional component, the heart. This is characterized by someone who feels their work is purpose-driven and meaningful, is valued by their leadership and the organization, and, even further, it contributes to the local and larger community.

The "Do" represents the behavioral component, the hands. Once someone is intellectually and emotionally
connected, their behavior will reflect this when they
take more initiative and consistently bring a positive
attitude. The true indicator of an engaged employee is
that they take ownership for the quality of their work
and the success of their organization.

The Think, Feel, Do concept helped us solidify
standardized definitions for employee engagement and
empowerment. An engaged employee is an individual who
thinks, feels, and acts in ways that positively impact
the vision and goals of one FTB. This is easy to read
and easy to understand, and ties into the Think, Feel,
Do concept and is also personalized for FTB.

Next, employee empowerment is the process of
enabling individuals to think, behave, make decisions,
and take action in independent and self-directed ways.
This is also easy to read and easy to understand. The
tie-in to Think, Feel, Do is less obvious, but its
essence is still present.

Now we would like to share some of the resources
and toolkits that can be used to sustain great
leadership at FTB.

The table you see here shows a sampling of the
leadership development opportunities for three of the
four themes: Trust, Connection, and Coaching. We will
also have development opportunities for communication.
These courses will complement and support the other great leadership programs that FTB already has in place.

For the sake of time today, I will touch on Trust. FTB has developed a "Speed of Trust" class based on Franklin Covey. This class focuses on building high trust relationships. And one impactful quote that stands out from that class is, "Extending trust is the ultimate act of leadership. It's the defining skill that transforms a manager into a leader."

Our team also recommended the following tools that are currently under development within FTB's talent management umbrella. The first proposed tool is, develop a leadership expectations document based on our Leadership Competency Model. This tool will include a requirement for regular one-on-one meetings using the FTB-developed one-on-one toolkit.

The second proposed tool looks to draw out the critical components of excellent leaders in the interview process. We are working on a set of questions that will help identify those candidates that truly understand and practice the behaviors that empower staff and increase levels of engagement.

MS. WOODRUFF: In closing, the Think, Feel, Do concept forms the core of employee engagement. Meanwhile, Communication, Connection, Coaching, and
Trust are leadership tools that help create the conditions for engagement and empowerment to take root and thrive.

As we have discussed today, building high trust relationships with a focus on communication, coaching, and connection are effective ways to create those conditions. Finally, this reflects the interaction between empowerment and engagement.

The great thing about our project's findings is that we do not need to wait to get started. All of us can begin implementing these ideas today. As leaders, by creating and maintaining a culture that -- where leaders and employees communicate, coach, and establish trust, we can create and sustain positive results.

Thank you for the opportunity to share the results of our project with you today. Our team is excited to take all that we've learned through this experience and become more dedicated champions of empowering our staff and watching what can be accomplished as we move the needle up on employee engagement.

We appreciate the support of our board for FTB's programs to develop the skills of our leaders. We are confident that your investment of trust will pay dividends for FTB's future.
We would be happy to answer any questions that you might have.

ACTING CHAIRPERSON STOWERS: Thank you, Sonia.

Thank you, Keith.

Member Cohen.

MEMBER COHEN: I just want to say that I'm really encouraged that the FTB is reaching out and -- to its employees to perform the study on sustaining great leadership. I think that's one of the defining characteristics of a body of leaders, good solid leaders, is that you are not resting on your laurels, but that you're constantly trying to better your best. And few people actually solicit feedback. They accept the status quo, but not the FTB. I feel like this is an organization filled with overachievers. From the top, all the way down, everyone is just killing it.

I think it's important that each person in a large organization, such as FTB, really feel valued and believe that their work has meaning. So I'm grateful to come here every couple months to feel that feeling. Good job.

MR. PARSLEY: Thank you.

ACTING CHAIRPERSON STOWERS: I like the Think, Feel, Do. I can connect to that.

Thank you very much.
ACTING CHAIRPERSON STOWERS: We are now moving to Item number 5, Administrative Matters. We have Tiphanie Weiss presenting Conceptual 2020-21 Budget Change Proposals. This is an informational item.

MS. WEISS: Good afternoon. Thank you.

My name is Tiphanie Weiss. I'm the Director of the Financial Management Bureau, and I am here this afternoon to present our Budget Change Proposal concepts under development for the 2020-21 fiscal year.

FTB will return to the September board meeting to present the fully developed proposals for your approval.

For the 2020-21 fiscal year, FTB has identified six Budget Change Proposal concepts:

The first is the California Competes Tax Credit Concept. In 2013, the Governor's Economic Development Initiative was signed and enacted as an incentive to boost California's economic development. The initiative included a California Competes Tax Credit. In June 2018, SB 855 was enacted, extending the allowance of the credit until taxable year beginning before January 1st, 2030. This concept will evaluate the resources required to continue to administer the credit, including the potential to convert limited term resources to permanent resources.
The next concept is the Mainframe Workload Growth concept, and it deals with the replacement of the enterprise mainframe server, additional memory, and software to meet workload growth projections and address end-of-market concerns.

FTB's mainframe is essential to the mission-critical legacy applications. The mainframe supports application systems associated with filing, collections, audit, nonfiler and refund processes, websites, and phone lines.

All of these systems have substantial dependency on the data that resides within the mainframe and, therefore, rely on the mainframe environment having sufficient processing capacity to support effective and secure operations of those applications. These upgrades will ensure FTB's ability to efficiently and effectively conduct our administrative duties related to income and Franchise Tax functions.

The next concept is the Vehicle Registration Collections, or VRC, System Modernization Project, and it explores the modernization of the delinquent vehicle registration system that is being used for the program.

In 1993, the California Legislature transferred the responsibility for collecting delinquent vehicle registration fees from the Department of Motor Vehicles.
to Franchise Tax Board. To administer this program, FTB uses the delinquent vehicle registration system. The current system is a custom-developed mainframe application. The system is an aging system, written in a now outdated programming language. As a result, the system lacks flexibility, is at risk of not being supported, and FTB has difficulties recruiting new programmers with the necessary knowledge to support the system.

Due to the age of the existing system, and limited resources, FTB would not be able to implement future system augmentations as a result of legislation or other changes.

The goal of modernizing the delinquent Vehicle Registration System is to allow FTB to effectively and efficiently administer the VRC program by reducing the risk of system failure and technical failures that could impact the VRC program revenue generating activities.

The fourth concept is accessibility. Accessibility refers to the practice of making products, services, websites, and environments usable by all individuals. When you correctly design, develop, and edit, all users have equal or comparable access to information and functionality.

While FTB has been addressing accessibility over
the past years, as FTB updates its products for accessibility, the workloads surrounding these products continue to grow and increase in complexity. These resources will allow FTB to continue to apply mandated accessibility standards on its websites, web applications, tax and business forms, instructions, publications, and tax return displays.

The next concept is the Enterprise Data to Revenue 2 concept. In 2008 FTB began a multiphase Tax System Modernization effort aimed at modernizing systems and achieving a strategic Target Architectural Model. The Tax System Modernization consists of three phases:

The first phase, the EDR project, laid the foundation by delivering the infrastructure and software architecture for a consolidated platform with common business functions and services. EDR implemented the case management, modeling, and an internal and external taxpayer folder, or MyFTB.

The EDR2 will build on this platform delivering enterprise case management and modeling services for audit, filing enforcement, and underpayment, as well as expand on taxpayer folder and call center platforms.

This concept will explore the resources required for two critical components to appropriately prepare the organization for EDR2: Organizational change management
and business process management.

The success of the first EDR project was dependent on FTB's staff's ability to quickly understand and adopt the vast changes to technology, business processes, and procedures. An Organizational Change Management Program plays a critical role in facilitating these activities.

FTB also established the Business Process Management, or BPM, team during the initial EDR project to help with documentation, enhancement, and implementation of consistent enterprise business processes that utilize the new platform. FTB has matured the BPM process, and, in anticipation of the EDR2 project, this team will need to model, analyze, reengineer, and ultimately be prepared to assist with the implementation and monitoring of the new processes that will be modernized with EDR2.

And the final concept is a Capital Outlay Budget Change Proposal concept for campus security upgrades. This concept evaluates security improvement opportunities at FTB's central office campus. FTB's goal is to be proactive in addressing security vulnerabilities and mitigate or reduce the risk of a security breach that could result in risks to FTB's mission-critical operations and revenue to the State's
General Fund.

This concept seeks to address security vulnerabilities to minimize risk to FTB operations, revenue collection, other assets, as well as the State's General Fund.

I would be happy to answer any questions.

ACTING CHAIRPERSON STOWERS: Thank you, Tiphanie.

MEMBER COHEN: No. I don't have any questions.

Just, again, commending management staff, bringing this to our attention.

Are we going to see this in September?

MS. WEISS: Yes. Correct.

MEMBER COHEN: Okay. So I look forward to seeing the items in detail in September.

MS. WEISS: Absolutely. Thank you.

ACTING CHAIRPERSON STOWERS: Thank you, Tiphanie.

MS. WEISS: Thank you.

ACTING CHAIRPERSON STOWERS: Item 6, Executive Officer Time.

EXECUTIVE OFFICER STANISLAUS: Thank you, Board Members. I would like to briefly report that the FTB (inaudible) --

(Reporter clarification)

EXECUTIVE OFFICER STANISLAUS: I would like to briefly refer to FTB's corporate slide deck that was
provided to you in the board binder materials. This slide deck is just one of the tools FTB uses to ensure we all speak with one voice. This information is updated at least annually and is made available to staff for onboarding purposes and to staff who need to create presentations for various reasons. I thought this information might be useful to you and helpful as a foundation for future board presentations.

Thank you.

ACTING CHAIRPERSON STOWERS: Thank you.

MEMBER COHEN: Thank you.

ACTING CHAIRPERSON STOWERS: That was brief.

Item 7, Board Member Time.

Ms. Cohen.

MEMBER COHEN: Nothing at this time.

ACTING CHAIRPERSON STOWERS: Great. I have a couple of comments.

First of all, for the September meeting, Controller Yee would like to place on the agenda or maybe -- yeah, September, on the agenda, a stakeholder forum to discuss the gig economy.

The topics for this forum may include what is the gig economy; an update on FTB's efforts to educate service providers and platform providers on tax matters; an update on 1099 reporting and whether compliance has
improved; how the gig economy may potentially affect state revenue and state expenditures; potential changes to employment laws to accommodate the gig economy; and the future of the gig economy.

Hopefully we can do it for the September meeting.

My other item: I have a retirement resolution. Allen. Allen Wilson is retiring. Wow.

Whereas, Mr. Allen Wilson faithfully served the people of the State of California for the past 33 years, most recently as the Director of the Filing Method and Budget Bureau within the Filing Division of the Franchise Tax Board;

Whereas, Mr. Wilson began his career with the Franchise Tax Board in July 1986 at the L.A. District Office before nearly half of his current career was born (verbatim).

(Laughter)

ACTING CHAIRPERSON STOWERS: Makes us feel old.

And during what was arguably the most epic fashion decade of all time;

Mr. Wilson, realizing that he would never be comfortable sporting shoulder pads and Miami Vice white loafers with no socks, stood them up for more fashion-to-date, Sacramento area, where he became a huge e-file -- e-file and e-pay programs, as well as primary
contributor for web applications such as CalFile, WebPay, myFTB, always arguing for what we lovingly refer to as "Allen improvements," which also notably included excellent working relationship with tax software vendors;

And, whereas, Mr. Wilson will be remembered fondly for his infectious laugh, his ability to stay cool, calm, and collected, even in the most difficult situations, and his highly valued traits of kindness, generosity, which benefited many of his FTB friends;

And, whereas, Mr. Wilson's future plans includes a new home along the gorgeous Oregon coast, mission trips to Central and South America, and plenty of quality time with his lovely wife, Patrice, and his beautiful daughters, Melissa and Emily.

And now, therefore, let it be resolved that this 13th day of June, by the Franchise Tax Board, we recognize Mr. Allen Wilson on this occasion of his retirement for his professional and personal dedication to the Franchise Tax Board, and, most importantly, to the people of the state of California.

Thank you, Allen.

(Applause)

MR. WILSON: Thank you. So I guess I get one last time with the microphone.
So first, I want to just express my thanks and
gratitude to the board over the years and all of the
support that our agency and our programs have from the
board. I really appreciate it. It makes it easy for us
to do our job.

I want to also thank Selvi and the GC chiefs for
all the support for our filing season programs, the many
projects. Like you said, always looking for
enhancements. Looking for things to improve or
sometimes things to take away, so, you know, not when --
when it's past its prime.

I want to thank my peers, my filing peers, my
enterprise peers. Thank you for the partnerships, the
collaboration that we have had over the years. And,
really, just all of our staff and all of our leaders at
FTB. We really are one. We get it done. And really
put teamwork as -- as the number one thing. So thank
you.

I will miss -- I will miss our wins, our
challenges, the journeys along the way, and the life
moments that we experienced.

So moving forward, just want to -- really quickly
on my family. So my wife Patrice is here, my amazing
bride of, also, 33 years.

ACTING CHAIRPERSON STOWERS: Stand up, Patrice.
MR. WILSON: She's my BFF, my retirement partner. We have plans and many goals and journeys in mind, including helping people, helping animals, travel as much as possible, relax often, and, you know, spend time with our parents, our sisters, and their families, and our much loved daughters, Melissa and Emily.

So thank you, FTB.

(Applause)

ACTING CHAIRPERSON STOWERS: Can we get a photo? Selvi, would you join us?

(Applause)

ACTING CHAIRPERSON STOWERS: At this time, the board is going to go into closed session to discuss pending litigation. The board will remain here, in the auditorium, for closed session, so we respectfully request for the audience to exit the auditorium.

Thank you.

(Closed session was held from 2:55 p.m. to 3:14 p.m.)

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(Member Gayle Miller was present after closed session.)

ACTING CHAIRPERSON STOWERS: The board met in closed discussion and discussed pending litigation.
We are adjourned.

(Proceedings concluded at 3:14 p.m.)
CERTIFICATE OF REPORTER

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of June 2019.

\(/s/\) Kathryn S. Swank  
KATHRYN S. SWANK, CSR  
Certified Shorthand Reporter  
License No. 13061
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