STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

THURSDAY, MARCH 19, 2020
9:30 A.M.

GERALD GOLDBERG AUDITORIUM
9646 BUTTERFIELD WAY
SACRAMENTO, CALIFORNIA

REPORTED BY: KATHRYN S. SWANK
CSR NO. 13061

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APPEARANCES

BOARD MEMBERS

BETTY YEE
State Controller
(Chairperson of the Board)

ANTONIO VAZQUEZ
(Via teleconference)
Chairperson
Board of Equalization

GAYLE MILLER
(Via teleconference)
Chief Deputy Director, Policy
Department of Finance

YVETTE STOWERS
Deputy State Controller, Taxation
State Controller's Office

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STAFF

SELVI STANISLAUS
Executive Director

DAWN CASEY
Board Liaison

SHANE HOFELING
Assistant Chief Counsel

MICHAEL BANUELOS

MATT FEASTER

MANDY FITHIAN

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

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

MS. CASEY: Member Vazquez.

MEMBER VAZQUEZ: Present.

MS. CASEY: Miller.

MEMBER MILLER: Present.

MS. CASEY: Chair-Controller Betty Yee.

CHAIRPERSON YEE: Here.

Thank you very much.

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

Before we take the Pledge of Allegiance, have you join me in the Pledge of Allegiance, let me just welcome Member Miller from the Department of Finance, who is joining us by phone, as well as our new member, Member Vazquez, who is the chairman of the Board of Equalization, also joining us today by phone. Welcome to both of you.
At this time, let me please have you stand and join me in the Pledge of Allegiance.

(Pledge of Allegiance was recited in unison.)

CHAIRPERSON YEE: Thank you very much.

First, let me just say thank you to Selvi Stanislaus, our Executive Officer for the Franchise Tax Board, her entire team. We are all aware of the concerns surrounding COVID-19 and the importance of taking appropriate measures to protect public health. In this regard, the Franchise Tax Board is following the guidance of state and local authorities for social distancing measures and large public gatherings. And in line with that guidance, we have created social distancing space for those on the stage here in the auditorium and for the audience who are joining us here today as well.

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

The first item, Members, is approval of the minutes. We have before us the minutes of the December 3rd, 2019, Board meeting and the Taxpayer Bill
of Rights hearing.

Is there a motion?

MEMBER MILLER: Move approval.

CHAIRPERSON YEE: Okay. We have a motion by Member Miller to approve the minutes.

I will second that motion.

Without objection -- Member Vazquez, I think you are probably abstaining from this?

MEMBER VAZQUEZ: Yes. I was just going to let you know that, to the best of my knowledge, they looked accurate, but I wasn't actually at the meeting, so I guess it's probably most appropriate to abstain for now.

CHAIRPERSON YEE: All right. Very good.

With Member Vazquez abstaining, the minutes are approved.

Thank you.

Item Number 2 is a PowerPoint presentation on the health care mandate. And let me ask our project directors to come forward. We have Mandy Fithian and Matt Feaster, who are going to be presenting this item.

Good morning.

MS. FITHIAN: Good morning. Hi. My name is Mandy Fithian, and I am actually joined by Matt Feaster.

We are the project directors --

CHAIRPERSON YEE: I'm going to ask you to pull
right up to that microphone so we can hear you better.

MS. FITHIAN: Better?

CHAIRPERSON YEE: A little bit.

MS. FITHIAN: A little.

CHAIRPERSON YEE: You have to be right up --

MS. FITHIAN: Let's see if we can adjust. Is that better?

CHAIRPERSON YEE: That's much better.

MS. FITHIAN: Okay. Thank you.

So good morning again. My name is Mandy Fithian and I'm joined by Matt Feaster. We are the project directors for the Minimum Essential Coverage Individual Mandate, or the Health Care Mandate Project.

I'm the technical director, and I work in the Technology Services Division; and Matt is the business director, and he works in the Filing Division.

Today we're excited to update you on the accomplishments our teams have had over the last few months, and we'll share what we have coming up in the next year.

As a quick refresher of the program itself, Governor Newsom signed SB 78 in July 2019 that created the Minimum Essential Coverage Individual Mandate. To reduce the burden on California residents, the program is very similar to the Affordable Care Act program, the
federal program.

Effective January 2020, all California residents must obtain and maintain qualifying coverage for the entire year. Individuals may qualify for an exemption to the mandate or financial assistance with paying monthly premiums for insurance. In absence of the exemption or qualifying coverage, individuals will be subject to a penalty.

So we're actually partnering with Covered California to make this program successful. Covered California is responsible for administering financial assistance or the subsidy program. And they are also granting exemptions during the coverage year. Their program is actually in full swing, as they are actively enrolling California residents in health coverage now, and they are granting exemptions. Their general open enrollment period recently ended, and they are now in their special enrollment period.

Franchise Tax Board will grant exemptions, we will assess penalties, and we will reconcile the subsidy through the tax return processing that's going to start in 2021 for the 2020 coverage year or calendar year.

Since the -- the topic -- this topic was last presented to you, our teams have been working very hard to get the word out about the program, to give
California residents every opportunity to get coverage and avoid the penalty. We've engaged in a number of marketing and outreach efforts, including news releases, social media campaigns, videos, "Tax News" articles, and speaking events.

We participated jointly with Covered California on two news conferences where Controller Yee represented Franchise Tax Board. Thank you so much for that.

We continue to work closely with Covered California to combine marketing and program alignment. We have actually -- they have been great partners to work with, and we look forward to continuing our strong partnership as we launch FTB's portion of the program this next year.

In November, we hosted a very successful stakeholder meeting where we invited industry partners here, to our main campus, to discuss implementation and have them share ways they thought we could make our program more successful. We learned a lot from that effort.

And in late December, we added some fresh and more robust web content. And in January, we completed contact center staff training so our agents are informed and fully aware of the health care requirements so that they can answer any questions individuals may have
should they contract us.

And, finally, as a component of the web update, we introduced our online penalty estimator. This estimator allows individuals to calculate how they may be -- how much they may be required to pay for their tax household, should they not have coverage in the 2020 year.

So as you can see, on the screen, individuals can enter some basic information about the individuals in their tax household, tell us how many months they lacked coverage, and the estimator does all the hard work by calculating the monthly penalty and providing a final amount of the entire tax household for the entire year.

Now, I'm going to hand it over to Matt, and he is going to explain what we learned from the Taxpayers' Bill of Rights hearing and how we plan to make -- what accomplishments we plan over the next year.

MR. FEASTER: Hello, Board Members and good morning.

As Mandy said, my name is Matt Feaster. I am in the Filing Division and currently serving as the business director on the Health Care Mandate Project.

First I would like to update you on our recent efforts to address concerns that were raised back in December at the Taxpayers' Bill of Rights Hearing. The
first concern was initiated by the tax practitioner community, that there was a general lack of awareness among their client base about the mandate, specifically the penalty for not having qualifying health insurance. Upon hearing this, we intensified our efforts to create new content and deliver a message with the proper information about potential penalties for not having health care in the year 2020.

We have used social media, direct mailing of 2.1 million letters to households with our partners at Covered California, automated messaging on our customer service phone lines, and educated our Volunteer Income Tax Assistance partners. As Mandy mentioned earlier, Controller Yee also partnered on two news conferences with Covered California Director Peter Lee.

We have developed new and robust web content and created the new penalty estimator tool. We are currently working to find new and creative ways to deliver the message about the need for California residents to secure coverage. These efforts will continue through the remainder of the tax season.

The second concern raised at the Taxpayer Bill of Rights Hearing was also from the tax preparer community. They were unsure how to assist their clients and advise them on what to do in order to comply with the mandate.
We understood completely, and agreed with their concerns. Because we had to prioritize the work of this project into an order that addressed the most critical needs first, we had been unable to firm up the roles these stakeholders would play in this process and what they would look like. We knew we had to act quickly to give them the runway they needed to do their jobs correctly and serve their clients.

Some of our efforts to assist in this area were education and outreach to paid tax preparers and our partners in the Voluntary Income Tax Assistance program; leveraging our contacts with the Employment Development Department to share with their customers, the employer and employee communities; and also working with tax software companies on how to present information to their customers, that would be helpful to them in educating them about the mandate and their requirements under it.

Our hope is that all of these efforts, along with things yet to come, will be very helpful in moving these groups along, in terms of their knowledge and understanding of the new mandate and how it directly impacts them.

Next, I would like to talk with you about some next steps and upcoming items that we think may interest
you.

First, we plan to do joint outreach with Covered California during the 2020 tax season. This could include more joint mailing efforts, social media campaigns, co-branded videos, FTB promoting their special enrollment period, as well as other items. These efforts will help to continue to spread the word about the mandate and the need for coverage.

Second is our upcoming technical stakeholder meeting on March 23rd, 2020. We are hosting this meeting to allow all of our IT partners for our information reporters to come and hear a high-level overview of how we currently plan to implement their portion of this project and how they feel about that. We want to hear what's working for them on the federal side and what's not. We want to know about their pain points and things they might like to see us do or not do. We want to solicit their input and hear their concerns about any of the components of the project that touch their operations so that we can build the best products and services to make their jobs and ours as easy as possible. We are very much looking forward to this session.

After the stakeholder meeting, we will take our already laid plans, perfect them by incorporating
stakeholder feedback, and then publish our technical requirements documents to the public in April. This technical documentation will be the blueprint for our information reporters to use to build the components of their systems to interface with ours, to share with us who has health coverage that meets the requirements of the mandate. These documents are a key cornerstone of the process, and the IT work cannot be done without them.

Another key cornerstone of our process is the new tax forms, which must be created to support the mandate. Wherever possible, we use federal forms to attempt to lighten the burden on our information reporters and make things as close as possible to the federal program.

However, due to small differences between their program and ours, we had to create some forms for California purposes. Our forms team is working diligently to develop forms, and we intend to share drafts with the public in June 2020. This is very exciting and another key milestone for implementing this project.

Finally, legislative implementation wouldn't be complete without the excellent work by our partners in the Legal Division here at FTB. Legal has spent countless hours to draft and review their regulatory
package that will accompany the statutes which govern this new program. These regulations will help us secure the details of the program and how we will administer it through the tax return filing process, providing critical guidance to taxpayers. Due to their speedy and thorough work, we anticipate these regulations to be ready for the public ahead of our April 15th tax filing deadline.

So as you can see, much has been happening here at FTB in regard to health care, and there is still much to be done. Our teams continue to move this new program forward, and we look forward to receiving our first tax returns under this new program in just about one year from now.

In closing, we would like to thank you very much for your time and attention and let you know that we would be happy to answer any questions you may have at this time.

CHAIRPERSON YEE: Thank you, Matt and Mandy, for the thorough presentation.

Let me turn to Members Vazquez and Miller to see if you have any questions or comments.

MEMBER VAZQUEZ: Just a comment. My comment is, I'm familiar with the tremendous outreach efforts -- you know, the TV ads, social media context, letters of
events, and etc., that the FTB has been making in
coordination with, you know, Covered California to
educate the public. And I just want to shout -- just
give you a thank you for all that hard work, and it
looks like you are hitting your goals.

CHAIRPERSON YEE: Great. Thank you. Thank you,
Member Vazquez.

Let me also just add my thanks, first to those
who came before us during the Taxpayer Bill of Rights
Hearing. In some ways, the comments we received during
that hearing created a little bit of a roadmap for us in
terms of what needed to be done, and, obviously, it's
been a all-hands-on-deck effort on the part of the FTB,
with many of our divisions involved.

I also want to thank Covered California. This
has been really a true partnership, and one of the
things that I am hopeful of is that we will see
enrollment spike. And, really, during this time, when
we're thinking about everyone's health and well-being,
that we are seeing many more Californians getting
covered. But also the work that they have done with
respect to just driving premiums down through better
plan design. Certainly the increased enrollment, I
think, is adding to that as well. So really just an
all-out terrific partnership.
I wanted to just also comment that in terms of this outreach that we’ve been doing, I hope it’s a model for other programs that we have. I don’t know that I have seen as much, I guess, just, recent activity. I mean, obviously, the penalties seem to be a driver in terms of getting people’s attention. And as I have said publicly, and I will say again, I love signing tax refunds. I don’t like assessing penalties.

So this is hopefully going to be something that more people will pay attention to. And I’m just confident that we have touched every corner in terms of how we can reach people. So thank you for the great work.

Okay. Any other comments from members on this item?

(No response)

CHAIRPERSON YEE: Okay. Hearing none, we will be postponing Item Number 3, which is a presentation on the FTB Employee Engagement Survey. We will add that to the next Board meeting’s agenda. As well as Item Number 4, which is a presentation on the 2019 awards, as well as Item Number 5, which are the 2019 accomplishments.

I am hopeful that we can actually have more of the team at FTB be present and participating, even if remotely, so that we can appropriately, from the Board,
add our thanks and appreciation for all of the terrific work that continues to be done at this organization.

So with that, we're moving on to Item Number 6, which is Administrative Matters. And we have Michael Banuelos who is going to be presenting this item.

Good morning.

MR. BANUELOS: Good morning, Board Members. I will do a quick mic check. Can you hear me okay? Yes? Okay. I will move forward.

My name is Michael Banuelos, and I am the Director of the Franchise Tax Board's Procurement Bureau.

I'm here today to ask for the Board's approval to initiate procurement activities on one contract expected to be over $1 million. This request seeks approval to renew our software maintenance contract for Sybase software products. Sybase products are part of our core database software, which stores and provides access to data in our mission-critical systems, including our Accounts Receivable Collection System and Professional Audit Support System, also known as ARCS and PASS.

Our existing three-year contract, valued at $1.5 million, expires in June of this year. We are estimating another three-year contact, hopefully around the same price, 1.5 million, and we are planning to use
the Department of General Services Software Licensing Program to conduct a bid to enter into that contract.

At this time, I am asking for your approval and would be happy to answer any questions you may have about the contract.

CHAIRPERSON YEE: Great. Thank you, Michael.

Any questions or comments, Members?

(No response)

CHAIRPERSON YEE: Okay. Hearing none, is there a motion?

MEMBER VAZQUEZ: I will move adoption.

CHAIRPERSON YEE: Okay. We have a motion.

MEMBER MILLER: I will second.

CHAIRPERSON YEE: All right. We have a motion by Member Vazquez to approve the item, with a second by Member Miller.

Without objection, such will be the order.

Thank you.

MR. BANUELOS: Thank you for your support.

CHAIRPERSON YEE: All right. Next we have Item Number 7, which is the Executive Officer's time, and let me turn it over to Selvi Stanislaus.

EXECUTIVE OFFICER STANISLAUS: Good morning, Controller Yee, Deputy Chairwoman Stowers, Member Miller, and a warm welcome to our new member, Antonio
Vazquez. On behalf of our nearly 6,000 employees, I would like to welcome you to the Franchise Tax Board.

Member Vazquez, we are excited to have you on our Board. I know you bring more than 20 years of dedicated business and government experience, including strategic and long-term planning, business development, and municipal and legislative advocacy. Your enthusiasm and hard work to improve the quality of life for all Californians and our advocacy for open and responsive government and taxpayers' rights will help us to work diligently on behalf of our state.

As you all know, Governor Newsom declared a state of emergency on March 4 to help the state prepare for a broader spread of COVID-19.

I would like to talk about the tax relief FTB is providing to California taxpayers. Yesterday the Controller, as Chair of FTB, announced updated special tax relief for all California taxpayers. Due to the COVID-19 pandemic, FTB is extending the time to file and pay taxes until July 15, 2020, for all individual and business taxpayers.

This announcement supersedes last week's announcement, which extended the due dates for filing and payment to June 15. So this updated filing and payment deadlines includes 2019 tax returns, 2019 tax
return payments, 2020 first and second quarter estimate payments, 2020 LLC tax and fee, and 2020 nonwage withholding payments.

FTB is extending this relief to all California taxpayers. Taxpayers do not need to claim any special treatment or even call us to qualify for this relief.

Our hope is that this added relief will help Californians to focus on their health and safety during this difficult time. Along with providing some relief, this update will also give taxpayers a consistent deadline with the federal relief described in Notice 2020-17.

So regarding operations at FTB, we are closely working with state officials to manage the impacts to our employees and our core business functions. We also have a robust continuity of operations and governance plans that we are now implementing to ensure we are protecting staff while still operating to assist taxpayers and timely process state tax returns, including refunds and deposits.

Now, I'm happy to share a few statistics that show a strong start to the 2020 filing season. As of the weekend of March 14th, we processed 7.9 million personal income tax returns, with 7.5 million of those e-filed; 6.1 million refunds, with an average refund of
$900; better still, 5.1 million refunds were deposited
directly in the taxpayers' bank accounts; 2.5 million
tax payments totaling 13.9 billion, with 53 percent made
electronically.

For perspective, if this tax season mirrors last
year, we can expect to see processing 7.5 million more
individual tax returns, issuing an added 4.01 million
refunds, 3.4 million via direct deposit, and also
receiving 2.5 million more payments, with nearly
50 percent being electronic payments.

So once again, I'm very proud of my employees and
the work they accomplish, especially during these trying
times.

Thank you, Controller.

CHAIRPERSON YEE: Thank you, Selvi, very much.

And this is always the -- the high stress time,
but I do want to applaud you and your team for
continuing to serve our California taxpayers and,
obviously, the work will continue. The operation will
continue as normal and -- while taking very careful
attention to protect the health and safety and the
well-being of our employees.

Thank you.

Members, the next item is Board Members' Time.

Let me turn it to -- over to Member Vazquez or Member
MEMBER VAZQUEZ: I just wanted to thank Selvi and her whole staff team. They were great when I went through the whole orientation and the tour last week, and it was real helpful just to get a feel for what goes on, the all the work they do, and it sounds like there's a real good energy, and the morale seems to be really strong among the workers, especially as we're walking through and visiting the job sites on the different floors.

It looks like she's doing a great job and has real good command of the staff and the production that's -- that's being generated by the FTB. So I just wanted to thank her for all her hard work and looking forward to working with her.

CHAIRPERSON YEE: Thank you, Member Vazquez. We're happy you are joining the Board and we'll be seeing much more of you here.

Thank you.

Member Miller, any comments?

MEMBER MILLER: Thank you, Madam Chair.

Just a quick thanks to Selvi especially and Jozel and the entire FTB team for their willingness to be flexible. And yourself, Madam Chair, in accommodating these extraordinary -- extraordinary times and helping
folks get a little bit of relief during this incredibly
difficult time. We're -- we're really grateful and
recognize how much work has to go into these extensions
and -- and notifying taxpayers, etc., so we're really
grateful, and thank you. All of you.

CHAIRPERSON YEE: Thank you. Thank you very
much.

Let me just conclude by saying that, you know, I
have to just call out Governor Newsom's leadership here
in California. I don't think it's lost on any of us
that he has been very visible, very present, very much
in tune with the experiences and realities of
Californians throughout this state, during this
emergency.

And California was really one of the first to
extend our filing and payment deadlines. Internal
Revenue Service actually followed on shortly after. But
this is all about how we are going to just receive the
leadership and the guidance that he's been putting forth
every day so that we can navigate through this crisis
together.

And to Member Miller and Member Vazquez, I know
you continue to do your work in your respective
agencies, to do that.

But, really, a message to the public: The State
of California is open for business. And I think, certainly, from my team at the Controller's office, we consider ourselves to be the -- the financial first responder. You know, people are hurting. And so we're going to continue to do our work to issue refunds and to be sure that Californians who are expecting refunds are getting them in a timely manner. Those who are waiting for disbursements from the State of California, those will continue to be processed on time as well. And all with the assurance to the public that we are safeguarding and putting first and foremost attention to the health and safety and well-being of our employees.

So with that, are there any comments from members of the public?

(No response)

CHAIRPERSON YEE: Okay. Seeing no members of the public coming forward, any other business to come before the Board, by members or staff?

(No response)

CHAIRPERSON YEE: Seeing and hearing none, this meeting of the Franchise Tax Board is adjourned.

Thank you all very much.

MEMBER VAZQUEZ: Thank you.

MEMBER MILLER: Thank you, everyone.

(Proceedings concluded at 9:56 a.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 15th day of April 2020.

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