STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

THURSDAY, SEPTEMBER 9, 2021
1:33 P.M.

HELD VIA VIDEOCONFERENCE
AND
VIA TELECONFERENCE

REPORTED BY: KATHRYN S. SWANK
CSR NO. 13061

KATHRYN S. SWANK, CSR (916) 390-7731
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**Item 8. Administrative Matters (Continued)**

**B. Contracts Over $1 Million**

1. Interagency Agreement with the California Department of Community Services and Development
2. VMware Software License Agreement Renewal
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**Item 9. Executive Officer's Time**

**Item 10. Board Members' Time**

**Item A. Closed Session**

Adjournment

Reporter's Certificate

---oo0oo---
**APPEARANCES**

(All participants appeared via videoconference and teleconference.)

**BOARD MEMBERS**

**BETTY YEE**  
State Controller  
(Chairperson of the Board)

**YVETTE STOWERS**  
Deputy State Controller

**ANTONIO VAZQUEZ**  
Chairperson  
Board of Equalization

**GAYLE MILLER**  
Representative for Keely Bosler, Director  
Department of Finance

---o0o---

**STAFF**

**SELVI STANISLAUS**  
Executive Director

**CRISTINA RUBALCAVA**  
Board Liaison

**JOZEL L. BRUNETT**  
Chief Counsel

**SHANE HOFELING**  
Deputy Chief Counsel

**MICHAEL BANUELOS**

**ELLEN CLEMENTE**

**WENDY CRAMER**

**ERIN DENDORFER**

**MATT FEASTER**
APPEARANCES CONTINUED

STAFF (CONTINUED)

JEANNE HARRIMAN
CHRISTOPHER HICKS
BILL HILSON
ROMAN JOHNSTON
ANNETTE KUNZE
TOM LO GROSSMAN
THI LUONG
RYAN MURAMOTO
CRISTINA RUBALCAVA
CRAIG SCOTT
MANAV SUSHIL
LEAH THYBERG
JACKIE ZUMAETA

---o0o---

PUBLIC PARTICIPANTS

JASON FOX, CalCPA

---o0o---
SACRAMENTO, CALIFORNIA

THURSDAY, SEPTEMBER 9, 2021 1:33 P.M.

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CHAIRPERSON YEE: Good afternoon. And welcome on this day of Thursday, September 9th, 2021. This is the date of our statehood for the State of California. And I just want to welcome our Board Members and the public to the meeting of the Franchise Tax Board.

This is the scheduled time for the Board meeting. And would the Board Liaison please call the roll to determine if a quorum is present.

MS. RUBALCAVA: Good afternoon.

Member Vazquez.

MEMBER VAZQUEZ: Present.

MS. RUBALCAVA: Member Miller.

MEMBER MILLER: Here.

MS. RUBALCAVA: And Chair-Controller Betty T. Yee.

Yee.

CHAIRPERSON YEE: Here.

MS. RUBALCAVA: Thank you.

CHAIRPERSON YEE: Thank you.

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

If you are able, please stand and join me in the
Pledge of Allegiance.

(Pledge of Allegiance was recited in unison.)

CHAIRPERSON YEE: Good afternoon and welcome to the Franchise Tax Board's virtual Board meeting.

As FTB continues to follow all appropriate federal, state, and local guidance for public gatherings, my fellow Board members and I are attending this Board meeting remotely, and FTB staff is following social distancing best practices.

The public has a right to comment on each agenda item. For today's meeting, members of the public may comment via telephone at 1-844-921-4185 with the access code of 9323145.

Please be aware, there is a short delay between the web live stream and the live event. If there are in members of the public wishing to speak on an item, you may speak when that item is called and you will have three minutes to address the Board.

If there are any members of the public wishing to speak on an item and you are using a translator or translator service, you will have six minutes to address the Board.

All speakers will be asked to identify yourself for the record.
Members, the first item is approval of the minutes. We have the minutes of the June 3rd, 2021, Board meeting before us.

Is there any member of the public wishing to speak on this item on the teleconference line?

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time.

Please continue.

CHAIRPERSON YEE: Thank you very much.

So is there a motion for approval of the minutes?

MEMBER MILLER: I move approval, Madam Chair.

MEMBER VAZQUEZ: So moved.

CHAIRPERSON YEE: Okay. Very well.

We have a motion by Member Miller; a second by Member Vazquez to approve the minutes.

Without objection, such will be the Board's order.

Let's proceed to Item Number 2, which is a presentation on the Diversity, Equity, and Inclusion Team, and a proposed Board resolution presented by Ellen
Clemente, Chris Hicks, and Roman Johnston.

This is an action item, Members, and we will now hear from the staff for the presentation.

MS. CLEMENTE: Good afternoon. Thank you, Madam Chair, and good afternoon, Board Members.

It is a pleasure to be here with you today. I am Ellen Clemente, Franchise Tax Board's Equal Employment Opportunity Officer, and one of the sponsors of FTB's Diversity, Equity, and Inclusion Team.

With me today is my cosponsor, Christopher Hicks, Director of FTB's Statewide Collections Bureau; and DEI Team Member Roman Johnston, Assistant Chief Counsel with FTB's Legal Division.

We will be briefing you on the vision, role, and recent accomplishments of FTB's Diversity, Equity, and Inclusion, DEI, Team.

Diversity and inclusion are critical to FTB's mission, workplace, and all Californians. A diverse and inclusive workplace ensures that FTB reflects the communities we serve and enables us to better understand and serve all Californians.

The history of FTB's diversity and inclusion efforts can be traced back to the early 1990s. From 1993 to 2004, FTB held an annual Diversity Celebration event to support and promote the diverse cultures and
individualities of our employees.

Other past efforts include the Bring It! diversity campaign, where employees volunteered to share their personal experiences, background, or life lessons that helped them be their best and bring their best to FTB.

Our current and ongoing DEI opportunities include:

A Multicultural Food and Arts Fair, sponsored by our Mission and Values Team every three years, to showcase the various heritages at FTB through cultural food, and art exhibits and musical and dance performances;

In-house diversity awareness training, where attendees explore the benefits of an inclusive workplace, learn techniques to uncover and reduce unconscious bias, and tips for promoting a respectful work climate;

Recruitment events at various colleges and community job fairs to attract a diverse candidate pool;

And leadership programs, such as the Enterprise Coaching and Mentoring Program and Growing Leaders at All Levels, which promote the adoption of new and varied perspectives and help build more diverse managerial skill sets throughout FTB.
In 2020, the DEI Team was created as part of FTB's ongoing commitment to embracing the diversity of our employees. This team is organized under the leadership and guidance of the Organizational Development Action Committee, and builds upon prior DEI activities by developing internal programs, training, and safe environments that promote diversity, equity and inclusion.

Our vision of a diverse and inclusive workforce is one in which employees from a variety of backgrounds, cultures, and personal experiences are welcomed and can thrive in support of FTB's mission and goals. As Selvi often says, our employees are our most valuable resource.

The diversity of our employees and their unique ideas inspire innovative solutions to further promote a strong organization and our mission to help taxpayers file tax returns timely and accurately, and pay the correct amount to fund services important to Californians.

There are several statewide DEI efforts which FTB is either taking part in and/or looking to do in the future. Some of the current statewide DEI efforts include the California Innovation Playbook for Government Change Association's 2021 Leadership Training
Cohort. This cohort consists of a statewide cross section of executives and trainees across all levels of employment. Cohort 2021 found the State of California needs to build an authentic, inclusive, and diverse forum for its workforce in order for the workforce to collaborate efficiently and effectively across the state's 237 agencies, departments, boards, and commissions. FTB was honored to have five employees participate in this year's training cohort.

The Capitol Collaborative on Race and Equity, also known as CCORE is a movement and learning community of California state entities to plan for and implement activities that embed racial equity approaches into institutional culture, policies, and practices.

Additionally, the California Department of Human Resources offers diversity and inclusion training courses for supervisory and nonsupervisory state employees.

FTB's DEI team widely shares these training opportunities with management and staff. And here at FTB, we have the motto of "leaders at all levels."

These statewide efforts further equip our management and staff with the latest strategic approaches to be successful DEI leaders.

Thank you, Madam Chair and Board Members, for
your time.

My cosponsor Christopher Hicks will now speak to you about the role, accomplishments, and projected activities of our DEI team.

MR. HICKS: Thank you, Ellen.

Again, my name is Christopher Hicks and I am the Director of the Statewide Collection Bureau. My pronouns are he/him/his.

Before I show the vision, role, and recent accomplishments of FTB's Diversity, Equity, and Inclusion Team, I would like to provide context for our commitment to DEI. In order to successfully integrate DEI into all aspects of FTB's workplace culture, the DEI team adopted inclusion, diversity, equity, accountability, and leadership, or "IDEAL" as a guidepost for implementing short- and long-term programs. By adding the words "accountability" and "leadership" to the founding principles of inclusion, diversity, and equity, we have reaffirmed and championed FTB's commitment as a public sector leader in DEI.

Further, FTB's strategic plan pairs well with the spirit of the team's efforts and positions us to meet the demands required of a large employer of choice like FTB.

FTB's strategic plan's strong organization goal
reads, in part:

1. Increase employee engagement and job satisfaction by continuing to assess and enhance culture, focusing on diversity and inclusion, valuing employees as individuals and celebrating employee achievements;

And, 2. Recruit and retain a high performing workforce that leverages our state's rich diversity and promotes inclusion.

The DEI team's 14 members are a subset of FTB's diverse population and bring varied perspectives and life experiences to the team. I guess you can say we're inclusive. We are an interdepartmental team of rank-and-file staff, supervisors, and managers. Most of all, we all have a passion for DEI.

The team members work in collaboration with internal partners and programs to highlight the intersection of diversity across a broader spectrum. For example, the DEI Team partnered with the Wellness Program Coordinator, who is a DEI team member, to promote a noontime mental health seminar. In addition, we work closely with the Disability Advisory Committee as an ally to bring awareness to the needs and contributions of persons with disabilities.

The team established an electronic mailbox to

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allow FTB staff to actively engage with our efforts by providing feedback and suggestions. Equity and inclusion are everyone's responsibility.

Now I would like to share the work the team has undertaken since its inception. Awareness is essential to developing empathy for diverse cultures and groups. The DEI team published diversity awareness articles to our internal FTB net.

For example, we published articles to spotlight Black History, Gender Equality and Women's History, Asian American Pacific Islander Heritage, and the LGBTQ+ community. These articles highlight the contributions and celebrations around these groups. The articles informed the FTB readers about the important facts that Juneteenth was celebrated in the African-American community since 1865; Patsy T. Mink was the first Asian American woman and first woman of color to serve in Congress; and that Stonewall is now a National Monument and the only national park site specifically dedicated to the LGBTQ+ civil rights movement.

The team has had the honor of responding to several requests to attend staff meetings to provide a DEI presentation. These opportunities allow the team to introduce ourselves, share our mission, and provide a forum to solicit input and ideas to develop DEI
initiatives.

These requests validate that equity and inclusion is exciting and valued throughout the department, and we are excited to present at more such meetings. The team plans to incorporate a DEI presentation into FTB's new employee orientation to establish DEI as an expectation and introduction to FTB's culture.

We want to make DEI easy to navigate and accessible. With that in mind, we launched a web page as a one-stop portal for all things DEI. Staff have the ability to review the diversity articles and quickly assess DEI training resources. We're in the process of completing a DEI toolkit to make the website more comprehensive by adding work aids to help supervisors create and maintain a culture of equity and inclusion.

California is home to various diverse populations. The DEI team leads efforts and partners with statewide resources to ensure our workforce is representative of those we serve. As a result of fostering a represented workforce, maintaining our core values, and improving our policy effectiveness, we will continue to improve the quality of our public services.

The DEI team is committed to evaluating best practices to ensure our policies are free of bias, the most inclusive, and actively embedded into our daily
operations, because DEI is an action word.

Diversity and Inclusion Expert Verna Myers captures our sentiment in a quote that says, "Diversity is being invited to the party. Inclusion is being asked to dance."

Supporting a work environment rich with diverse resources will ensure we are able to meet the needs of our state. There's value in diversity.

Finally, to memorialize FTB's commitment to DEI, we drafted a resolution for your consideration. Roman Johnston, a DEI team member, will present it as we seek your approval and support of the DEI Team's efforts.

Thank you. And Roman will present the resolution before concluding with your questions and comments.

Roman.

MR. JOHNSTON: Good afternoon, Madam Chair and Board Members.

My name is Roman Johnston and I am the Assistant Chief Counsel of the Business Entity Tax Bureau and a member of the DEI Team.

It is my pleasure to present to you the DEI resolution for your consideration. I will now read the text of the resolution:

WHEREAS, the Franchise Tax Board recognizes that practicing mutual respect for qualities and experiences
that are different from our own, and ensuring
individuals of all backgrounds, identities, abilities,
perspectives, and beliefs have an equal opportunity to
belong, achieve, and contribute to their communities,
creates an organization that promotes and sustains the
values of diversity, equity, and inclusion;

WHEREAS, the Franchise Tax Board celebrates the
diversity of our employees, who serve to promote a
strong organization and inspire innovative solutions and
further FTB's mission to help taxpayers file tax returns
timely and accurately and pay the correct amount to fund
services important to Californians;

WHEREAS, the Franchise Tax Board desires to
create a culture that embraces and reflects California's
diversity by developing programs, training, and safe
environments that promote diversity, equity, and
inclusion; and

WHEREAS, in accordance with the Franchise Tax
Board's new 2021 to 2025 Strategic Plan, which provides
that FTB will "Increase employee engagement and job
satisfaction by continuing to assess and enhance
culture, focusing on diversity and inclusion, valuing
employees as individuals, and celebrating employee
achievements" and "Recruit and retain a high performing
workforce that leverages our state's rich diversity and
promotes inclusion," a Diversity, Equity, and Inclusion, DEI, Team was created. The DEI team's mission is to contribute to a caring community by reinforcing and strengthening FTB's commitment to a diverse, equitable, and inclusive workforce, in which employees from a variety of backgrounds, culture, and personal experiences are welcomed and can thrive in support of FTB's mission and goals; and

RESOLVED that the Franchise Tax Board hereby formally recognizes its commitment to promote a workplace environment and a culture that promotes diversity, equity, and inclusion, and in which employees from a variety of backgrounds, cultures, and personal experiences are welcomed and can thrive in support of FTB's mission and goals.

We respectfully request that you adopt the resolution to formally recognize the Franchise Tax Board's commitment to promote a workplace environment and culture that promotes diversity, equity, and inclusion, and in which employees from a variety of backgrounds, cultures, and personal experiences are welcomed and can thrive in support of FTB's mission, values, and goals.

And now, I will turn our presentation back to Christopher.
Thank you.

MR. HICKS: Thank you, Roman, and thank you, Board Members, for allowing us to present our DEI Team and resolution to you today. This concludes our presentation. We would be happy to answer any questions you may have.

CHAIRPERSON YEE: Thank you very much for the presentation, Ellen, Chris, and Roman.

Let me turn to our members to see if you have any questions or comments.

MEMBER MILLER: Madam Chair.

CHAIRPERSON YEE: Yes, please.

MEMBER MILLER: No questions. But just such a great presentation, and I hope you will share what you learn with the rest of state government, who I think is -- you know, we are all really working on these issues and hopefully we will all do more than just get asked to the dance. I love that.

So -- and when you are ready, Madam Chair, I am happy to move approval.

CHAIRPERSON YEE: Great. Thank you, Member Miller.

Member Vazquez.

MEMBER VAZQUEZ: Just a quick comment and a quick question as well. One, I just wanted to thank you all,
especially the staff that gave us a great presentation. And I am pleased to see, you know, the constant evolution of this program to improve our workforce, especially as to are we engaging -- you know, I'm looking at the public and our stakeholders and our partners.

My only question would be, moving forward, I guess what challenges did we face or did you folks face in working up this program and whether there are some lessons to be learned to hopefully take us to the next level?

MS. CLEMENTE: I will be happy to take on that question. Thank you, Member Vazquez.

CHAIRPERSON YEE: Yes.

MS. CLEMENTE: So as we indicated earlier in the presentation, the DEI Team is a relatively new team here at Franchise Tax Board. We have been busy at work planning education and awareness programs and other efforts to roll out the program with the ultimate goal of integrating DEI into the fabric of our department.

We have not yet met significant challenges to our efforts, but we are mindful of sensitivities around these issues and will be working to mitigate any such challenges as we move forward in what will be an ongoing and multiyear process.
Do you have any follow-up to that?

MEMBER VAZQUEZ: Just a quick follow-up to that. And I'm assuming, or I'm asking, I guess, have we received any feedback, I guess, from not only general staff, but I'm thinking of our partners to improve -- to make any necessary improvements moving forward?

MS. CLEMENTE: Yes. I will be happy to answer that as well.

So we are open to and we seek all forms of feedback. So far, the feedback from the staff and partners has been very positive.

From its inception, the DEI Team immediately started to draft awareness articles and started making presentations to FTB's divisions and bureaus. The DEI Team will continue to increase the awareness of diversity, equity, and inclusion, and reinforce the concept that different experiences strengthens the FTB enterprise.

To help us do this, we will be developing an internal DEI survey, and the survey will help us, one, see how well we are doing with integrating DEI into FTB's workplace culture; and two, it will also help us identify any areas in which we can improve our DEI program.

CHAIRPERSON YEE: Thank you very much, Ellen.
And thank you, Member Vazquez and Member Miller, for your comments.

I particularly want to just call out just the significance of, you know, the incorporation of accountability and leadership over, you know, the DEI program, which I think really is a way to ensure that we continue to see improvements in the program and be able to measure just how we're doing along the way.

I will say that building on what's already been done at FTB, which has had a fairly strong culture, I think, of inclusion is really a great place to start, where we have had so many of the FTB team members, you know, just really celebrate it for many, many years through the events and other activities at the -- at the organization. So very, very pleased to see that.

And I also want to congratulate you on the resolution. I particularly appreciated just tying all of this to really speak to how we support carrying out the FTB's mission and goals; that this isn't just an internal, you know, kind of feel-good effort, but that it really is about how we really build the most inclusive, welcoming workplace that obviously inures benefits to our customers, and that -- that would be the taxpayers of California.

So thank you very much for referring to that.
I'm going to now see if there are any -- is any member of the public wishing to speak on this item from the teleconference line.

PHONE MODERATOR: Thank you.

Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time.

Please continue.

CHAIRPERSON YEE: Thank you very much.

So at this time, I think, Member Miller, would you like to make a motion?

MEMBER MILLER: Yes. May I move approval, please.

CHAIRPERSON YEE: All right. We have a motion by Member Miller to approve the resolution.

Is there a second?

MEMBER VAZQUEZ: I will second.

CHAIRPERSON YEE: Seconded by Member Vazquez.

And without objection, such will be the order.

Thank you very much for the presentation. Really excited and look forward to just how this program
continues to build out.

Thank you.

MS. CLEMENTE: Thank you.

CHAIRPERSON YEE: All right. Members, our next item is Item Number 3, and this is a presentation on the tax gap. It is a tax gap update. And this will be presented by Craig Scott and Ryan Muramoto, and this is also an informational item.

Good afternoon, Craig and Ryan.

MR. SCOTT: Yes. Good afternoon, Madam Chair and Board Members. It is nice to be here with you today. I am Craig Scott, a Deputy Chief Counsel in the Legal Division. And with me is Ryan Muramoto, the Bureau Director of Technical Resource and Services Bureau in the Audit Division.

Today we would like to share with you how the Franchise Tax Board is monitoring and addressing the California tax gap.

The tax gap is the difference between the amount of taxes legally owed and what is voluntarily paid. There are three components of the tax gap, which are the underreporting tax gap, which is the underreporting of income or revenue and/or the overreporting of expenses on a timely filed return; there's the underpaying tax gap, which is the amount of tax reported on a timely
filed return, that is not timely paid; and the nonfiling
tax gap, which is the tax not paid by those who do not
file a return on time.

Improving compliance is central to FTB's mission
to help taxpayers file timely and accurate tax returns
and pay the correct amount to fund services important to
Californians.

To fulfill this mission, FTB adopted strategic
goal number 2, Effective Compliance. This goal is to
fairly administer the law to ensure taxpayers file and
pay the correct amount.

As the fifth largest economy globally, and with
this past year, FTB's efforts to help taxpayers file
timely and accurate returns and pay the correct amount
of tax has probably never been more critical. Because
improving compliance is central to FTB's mission, FTB
created the Compliance Action Committee, or CAC, to
place governance around this important issue. CAC is
the implementation leader for our department's strategic
goal of effective compliance and provides the department
with a structure and process for addressing the tax gap.

FTB takes a collaborative approach in addressing
enterprise-wide initiatives through the use of teams
such as CAC. Members of CAC are from all divisions in
the department to ensure FTB approaches this issue from
an enterprise perspective.

We refer to taxpayers who voluntarily and timely report and pay their taxes as being on the blue path. California has maintained a reasonably high and steady voluntary percentage of compliance, with 81 percent of California taxpayers being on that blue path in the 2018/2019 fiscal year.

The IRS's most recent study of the federal tax gap was release in 2019, based on an examination of 2011 through 2013 federal tax returns. That study indicated the estimated net federal tax gap is $381 billion. FTB then takes what the IRS has done when estimating the federal tax gap and then extrapolates those numbers to California's economy after making adjustments specific to California.

After looking at the IRS study for the 2001 tax year, we estimated California's tax gap for the 2004/2005 fiscal year was approximately $6.5 billion.

FTB's most recent study for the 2018/2019 fiscal tax year, based on the IRS's report released in 2019, indicates that California's estimated tax gap is approximately $24 billion.

Dollar-wise, the tax gap has increased. This is because, as the economy has grown, so has the dollar amount of the tax gap. But the California percentage of
compliance has remained relatively consistent over the years, and it is this number, the percentage of compliance, that we should be and are focusing on.

Now, I would like to turn it over to Ryan to discuss some of the specific ways we are focusing on California's tax gap.

MR. MURAMOTO: Thank you, Craig. Good afternoon, Madam Chair and Board Members. My name is Ryan Muramoto, and I am the Bureau Director of the Technical Resource and Services Bureau in the Audit Division.

FTB approaches the tax gap through a four-prong approach, starting with the collection of data, which then drives taxpayer education and outreach to encourage self-compliance, followed by campaigns to focus on opportunities to achieve more compliance with minimal intrusion, and, then, as a last step, implement compliance efforts to reduce the tax gap.

The first step in our strategic approach to effective compliance includes a strategy to improve the accuracy of returns. We do this by educating taxpayers we have identified with potential areas of noncompliance in their filing history.

As we reported to the Legislature in the Taxpayer Bill of Rights annual report, we are focused on using existing data, data 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 filed tax returns 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 those taxpayers potentially impacted.

By employing these strategies, based on available data, we can proactively contact taxpayers to provide them with helpful information versus a reactive approach following our normal audit procedures, which includes an audit of their filed tax returns.

As we stated, strategic goal number 2 is to fairly administer the law to ensure taxpayers file and pay their correct amount. We help to implement this goal by making it easier for taxpayers to understand their tax obligations.

Our second step involves proactively using the gathered data to provide targeted education and outreach to taxpayers to help them self-comply with their tax return filing and payment responsibilities.

Effective education and outreach can directly influence taxpayer behavior and lead to increased compliance.

The various CAC compliance teams use the data and
compliance proposals to educate and inform the public on how they can best self-comply. These efforts include but are not limited to providing updates to FTB's public web pages to add self-service options, developing a gig economy web page, improving our notices so they are clear and informative, providing direction and public newsletters, such as "Tax News" to our external partners, speaking at tax conferences, and participating in Voluntary Income Tax Assistance training.

Education also includes training our staff to improve the customer experience as we work with taxpayers to ensure compliance with the tax laws. For example, all public facing staff in our contact centers, public service counters, and collection programs receive extensive initial training, on-the-job training, and ongoing training with programs tailored to the specific needs of each business area.

In addition, we have created the Pathways to Excellence Portal. This portal maps out multiple paths for audit issues that promote technical learning through a combination of coursework, experiences, and collaborative opportunities, along with developing soft skills to provide for the comprehensive development of audit staff.

The third step in this governed process is to
evaluate our education and outreach efforts and then focus on opportunities to achieve more compliance with minimal intrusion. These efforts include education letters and pilot projects that seek to identify compliance gaps and solutions. This effort is designed as a campaign for taxpayers to conscientiously evaluate their tax return data and correctly file the next return.

It is important to note that we consider this an educational campaign to ensure taxpayers have all the information to make a well-informed decision prior to filing their tax returns.

Educational letters are purposely designed to be a less intrusive contact with the taxpayers instead of opening an audit. This way, we help nudge taxpayers so they can self-comply. This strategy not only benefits the state, but the taxpayers as well. We have sent nudge letters to address itemized deductions, corporate miscellaneous expenses, California-like-kind exchanges, and corporate nonfilers.

We also sent welcome letters to newly licensed cannabis businesses. This letter directs them to our public website where they can access resources and applicable forms.

Other outreach activities including online
cannabis-related events and working with industry trade
groups.

The final step is to implement projects to
achieve compliance and reduce the tax gap. These
compliance measures are necessary to ensure a fair tax
system for all California taxpayers.

This stage also includes measuring the results of
each compliance strategy. By way of examples of current
compliance measures, beginning January 2nd, 2020, the
validation process for the head of household filing
status moved from the audit program to Return Analysis
for tax years 2019 and later.

What's new is that the head of household filing
status validation process now happens upfront in Return
Analysis. When we deny the head of household filing
status, we notify the taxpayer immediately after
processing the return. This change allows FTB to assess
the proper amount of tax and issue more accurate refunds
earlier in the return process.

Additionally, the taxpayer knows if they made a
mistake much earlier in the process and can remedy the
possible filing status error without further compliance
measures.

Another example involves our e-Levy and
e-Garnishment programs. A new law enacted in 2020
allows FTB to electronically serve earnings withholding orders and related notices or documents, thereby assisting FTB's collection efforts and freeing up resources for other compliance efforts.

In terms of the Top 500 list, if taxpayers do not voluntarily comply, the Top 500 balance due accounts are posted to our website. Since its inception, the Top 500 program has collected over $1 billion.

I will turn it back to Craig to discuss some future compliance efforts.

MR. SCOTT: Thanks, Ryan.

As we look at the current tax gap and consider how to employ our resources going forward, we are directing our efforts to reduce the burdens on taxpayers. We are also focusing on noncompliant taxpayers through several compliance efforts.

For example, our Enterprise Data Revenue 2, or EDR2 project, will capture more state and federal return information. The project will also bring in additional third party data and new technology that will enable us to identify potential compliance issues earlier and assist taxpayers in resolving these issues using enhanced self-service options.

If we contact payers earlier, they can remedy verified errors on their returns when their tax...
information is still available and without further contact from FTB.

The new data and current data, coupled with new EDR2 analytic capabilities, will help FTB contact the right taxpayers at the right time and enable them to self-comply.

IRS Commissioner Chuck Rettig recently stated that compliance is higher when income, particularly business income, received by individuals is subject to withholding. FTB also sees better withholding as a key to improve tax compliance. Our Withholding Unit is currently working through its Education and Outreach Team to encourage withholding compliance within the escrow and property management communities.

They are also working on changes to the Form 593 that they anticipate will increase compliance for like-kind exchange transactions.

And, finally, the unit is working on regulatory changes to encourage more compliance of passthrough entity withholding.

Through these efforts we discussed today, you can see that FTB is committed to providing excellent customer service and having a tax that is fair and benefits all California taxpayers.

At this time, Ryan and I would be glad to address
any questions you may have about our presentation and the California tax gap.

CHAIRPERSON YEE: Thank you very much, Craig and Ryan, for the comprehensive presentation.

Members, let me turn to you to see if you have any questions or comments.

MEMBER VAZQUEZ: Yes, Madam Chair.

CHAIRPERSON YEE: Yes.

MEMBER VAZQUEZ: First, I would just like to just reiterate, once again, my appreciation to the staff's hard work on putting together this presentation, especially this PowerPoint presentation today. And I understand the importance of this. You know, obviously, you know, there's such a huge gap in terms of potential revenue here.

And given, you know, our situation here with, now -- I guess I think it's more important now, given the post pandemic, to educate taxpayers regarding their options to meet their tax obligations.

So I guess my first question would be, as I see, and you mentioned in your presentation, the significant increase in the tax gap. You know, it's about -- it's a little over $17 billion, 04/05 to 2018/2019. And it's my understanding, I guess the anticipated gap in 2021 is probably going to grow, and I was just wondering what
you folks anticipate that number to be and what can we do to mitigate it?

I know you came across in your presentation with, I guess, this four-prong approach, hopefully to help part of that mitigation, but it seems to just keep growing and growing every three or four years.

MR. SCOTT: I can take that question.

As we stated, the increase in the dollar amount of the tax gap is really a result of the significant growth in California's economy. There was a similar growth in the dollar amount of the federal tax gap, and that growth was likewise as a result of the expanded economy. But as we stated, the percentage of compliance in California has remained consistent over the years, despite the growth in the dollar amount -- the tax gap -- which is also true at the federal level.

We currently do not have numbers for 2021 at this time, but the IRS has noted that they intend to restate the tax gap next year, and, according to the Tax Gap Commissioner, the new number would likely approach $1 trillion at the federal level. FTB will perform another review once those numbers are released.

And as far as the mitigation efforts that we will use to address the tax gap going into the future, they are really all the efforts that we highlighted today in
our presentation: The data, the education and outreach, and the campaigns. Those things that Ryan went over.

MEMBER VAZQUEZ: And I guess my last part of my question would be, I'm also a little concerned, you know, about the tax obligations incurred during this pandemic. And especially I'm thinking of the small businesses in particular and their options when they have incurred a tax liability, but are unable to meet or pay those liabilities because of the stay-afloat, you know, measures and policies that we have, you know, during this whole pandemic.

MR. SCOTT: So I can take that one as well.

When we are contacted by taxpayers that are in these situations, we ensure that we listen and respond appropriately. We advise our collections staff that even though the collection moratorium has been lifted, the pandemic, as we all know, and its effects on the economy and taxpayers still continue. So our staff knows that it's important to listen to the taxpayer when they contact us and make the best decision in light of their situation.

Some of the -- depending on the taxpayer's situation, some of our collections staff can delay, modify, or release levies and garnishments; they can set installment agreements; they can allow for skipped
installment agreement payments; they are allowed to
delay collection on accounts as warranted; they are able
to abate penalties when reasonable cause has been
demonstrated; they are able to place individual
taxpayers into hardships as warranted; and offer
extended payment plans for business entities; they can
allow for extensions to respond to audit requests for
information with concurrence from Audit, of course; and
they also make taxpayers aware of their current tax year
return filing and payment extensions to continue that
effort to provide good customer service.

CHAIRPERSON YEE: Thank you, Member Vazquez.

MR. SCOTT: Does that answer your question?

MEMBER VAZQUEZ: Yes.

CHAIRPERSON YEE: Thank you, Member Vazquez, very
much.

Member Miller, any questions or comments?

MEMBER MILLER: I'm so sorry. My internet just
went out.

I do have just two questions. That was a great
presentation.

I have two, sort of, questions around -- one is
just around machine learning. And I know that a lot of
states are -- did you already ask that question, Madam
Chair? I'm sorry.
CHAIRPERSON YEE: No. No. I'm not even going to
go there because I think I know where you are going.

MEMBER MILLER: All right. I really -- I
sincerely apologize.

So just around whether or not you have ever
looked into any kind of machine learning or artificial
intelligence to actually prompt us to see about some of
the potentials and what we can learn from various
returns. And then I have one additional question about
kind of the nudging letters you are sending.

MR. SCOTT: I think a component of the EDR2
program that is happening, going on now, started in
July, will be part of the modeling that we'll be doing
and certainly some of the machine learning. So we
anticipate some benefits to help the tax gap through the
implementation of our EDR2 program.

MEMBER MILLER: Great. Thank you.

I would -- I would love to see a little bit more
of that. I think because we base our tax gap data on
the IRS, and the IRS is obviously -- just like we're
hearing from the President and the Treasury Secretary, I
think the IRS has been so woefully underfunded that
they -- and their audits have been decidedly with lower
income people, I think that that is sort of the
information that we are seeing coming out as we really
try and increase the ability to audit at the IRS.

So I would just love to make sure, as we do this, it's not just a -- we're not always necessarily aligning ourselves with the IRS, as they kind of get back up and running and get extra staff. So I think that's important.

And then just with the nudge letters, I think that sounded really great just in terms of (videoconference malfunction) --

CHAIRPERSON YEE: Member Miller, you are cutting out a little bit. Member Miller, we can't hear you. (videoconference malfunction). Member Miller, you are cutting out a little bit. Maybe try turning off your video and see if we can hear you through the audio.

MEMBER MILLER: It is better now? I'm sorry.

CHAIRPERSON YEE: It is better. Restate your question, please. Didn't get a good part of it.

MEMBER MILLER: I'm sorry. Just around the nudge letters. If there are -- if there are ways in which you can prioritize those in which you are nudging for voluntary compliance.

I don't know if you have given that any consideration, Mr. Scott.

MR. SCOTT: Yeah. I think that's a big purpose of our nudge letters. There -- as Ryan indicated, they
are education letters, really, in focus, and so it is to help taxpayers know what the correct tax report, how to report it, help educate them, because I think a lot of times it's because they don't understand their tax obligations and, you know, the tax laws can be complicated.

And so a good part of our work is -- and it is important -- is to educate taxpayers, and those nudge letters/education letters do work towards that goal.

MEMBER MILLER: Great. Thank you very much.

CHAIRPERSON YEE: Great. Thank you, Member Miller, for the questions.

Mr. Scott and Mr. Muramoto, I have a couple of questions.

One is, to Ms. Miller's point about extrapolating our -- the magnitude of our tax gap from the IRS information. And, certainly, to Mr. Vazquez's question about the growth and the tax gap from 2004/2005 to 2018/2019.

Certainly, it's been due to the growth of the economy, but I'm also wondering how much the change in the nature of California's economy has contributed to the growth in our tax gap as well. I didn't know if you had a flavor for that or how that should be accounted for.
MR. SCOTT: You know, we break it down into underreporting, underpayment, and nonfiling. And I don't know if we have broken it down further into the aspects of the economy.

Certainly, I think when -- when the growth in the economy is more in the nonwage area --

CHAIRPERSON YEE: Yeah.

MR. SCOTT: -- which is easier to track, it's a little more difficult. And so that could have some impact on the growth of the tax gap.

CHAIRPERSON YEE: Okay. And then your education and outreach efforts, I was curious. Are we -- are you primarily targeting individual taxpayers, or is there a practitioner component to the education and outreach program as well?

MR. MURAMOTO: I can take that, Craig.

MR. SCOTT: Go ahead, Ryan.

MR. MURAMOTO: The nudge letters, they are both sent to both individuals and businesses as well.

CHAIRPERSON YEE: Okay. And I guess I'm thinking about, you know, our partners in compliance in terms of our tax practitioners. Are they involved in the program at all, either as recipients of our education and outreach or as resources for information for taxpayers and their clients?
MR. SCOTT: We do work to educate our partners in filing correct tax returns and we do that. We have "Tax News." We keep our web page up to date to provide the most current information we can, particularly with the number of changes in laws that we have seen recently. So, yes, we do work with our practitioners as well.

CHAIRPERSON YEE: Okay. Okay. So the categories you outlined, like the like-kind exchanges and others just seems to me it might be more suited to trying to recruit our tax practitioners to be helpful in that regard.

MR. SCOTT: Yes. Exactly.

CHAIRPERSON YEE: Okay. Good.

And then my last question really has to do with the experience -- the taxpayer experience during this pandemic and to the extent that many of our in-person resources have been curtailed.

Can you talk a little bit about just other thoughts or innovative ways about how we're reaching out to taxpayers for them to be able to learn about how to become compliant?

MR. SCOTT: Ryan, do you have something on that with respect to SB 1409?

MR. MURAMOTO: Yeah. You know, we are engaging in a study in the direction of Senate Bill 1409. The
study and recommended options that would be able to
identify potential opportunities that could provide
further assistance of this nature. So that report is
due to the Legislature January 1st, 2022.

CHAIRPERSON YEE: Okay.

MR. MURAMOTO: And we are deep in the information
gathering stage on this study. Simplified filing
efforts and enhancements to VITA that are part of the
issues we're gathering information on.

CHAIRPERSON YEE: Okay. All right. I appreciate
that. Thank you.

So let me see at this time if there is any member
of the public who wishes to speak on this item.

PHONE MODERATOR: Thank you. Ladies and
gentlemen on the phone lines, if you would like to place
yourself in the queue for public comment, as a reminder,
you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are
queuing up at this time. Please continue.

CHAIRPERSON YEE: Thank you very much.

Mr. Scott, Mr. Muramoto, thank you. Member
Vazquez, please.

MEMBER VAZQUEZ: Madam Chair, one last one. As I
was listening to your comments -- and then you kind of
touched on it a little bit in your presentation, staff, on the VITA program, which I think is a great program. And I was just wondering if there's an opportunity or if -- are we looking to possibly expand that or increase that? Because as I'm thinking about giving the folks -- especially during this pandemic, I think that's one of the key tools, I think, especially in reaching a lot of the low-income folks or the small mom-and-pop businesses that are struggling with their responsibilities.

MR. MURAMOTO: Yes. We are considering expanding that, for that project with the SB 1409. Let me see.

MEMBER VAZQUEZ: Thank you.

MR. MURAMOTO: Yeah.

CHAIRPERSON YEE: Yeah. And I think what I would add to that is maybe thinking about -- I think one of the things we don't sometimes think about is just, you know, all of the partnerships that we have, particularly with our nonprofit community-based organizations that really have lost a lot of capacity during the pandemic. And so how do we rebuild that? Maybe rebuild it differently with different tools.

And so I hope that when we do the report, that we're kind of getting to that level of just how do we reach, as Mr. Vazquez says, you know, those communities that have traditionally been hard to reach and also
probably are going to need that touch by the trusted
sources in the community.

So if we could kind of think down to that level
for the report, I think that would be helpful, just in
light of the reality of just losing so much of the
community-based capacity over the past 18 months.

MR. MURAMOTO: And to add to Member Vazquez's
question, this fiscal year, FTB has received additional
resources to support VITA functions across the state.

CHAIRPERSON YEE: Yes.

MR. MURAMOTO: This funding was provided as a
part of the package to also provide grant funding to
community-based organizations for outreach in engaging
in free tax preparation activities.

CHAIRPERSON YEE: Yeah.

MR. MURAMOTO: So further discussion on these
grant funds and the related VITA resources are expected
in the next legislative session.

CHAIRPERSON YEE: Okay. Okay. And I know -- I
mean, everybody has been looking at that outreach
because it's -- I think it's in all of our interests to
be sure that those who are eligible for any of, you
know, the -- particularly the recently enacted programs
are availing themselves of them.

And I don't -- I think the metrics for how we've
been measuring the -- or assessing the outreach that's been done in the past, I think, has not been the most thorough, and I would also point to the California Policy Lab's, you know, study of what's been happening with the outreach programs as well.

So I guess what I'm really saying is, I hope our report can be expansive in terms of really being innovative about how we can better serve. Always room for improvement. And I think what's happened over the past 18 months has really demanded that we think differently about how we reach particularly hard-to-serve communities.

MR. SCOTT: Great. Thank you.

CHAIRPERSON YEE: Thank you both.

Any other questions, members?

(No response.)

CHAIRPERSON YEE: Okay. Really appreciate the thorough presentation.

MEMBER MILLER: Madam Chair, if I --

CHAIRPERSON YEE: Member Miller, I'm sorry.

MEMBER MILLER: No. I'm sorry. I'm sorry about this.

Just on -- on your point about that, I think in that study, we also have long been looking at ways to also sort of autopopulate, especially of recipients of
the EITC and if -- and hopefully there won't be a need for other stimulus program. But programs like that, I know the team are looking into that with the other departments in state governments. So any opportunities for coordination within that study, I just wanted to add if we could make sure to see that perhaps back in a Board meeting in the future.

CHAIRPERSON YEE: Absolutely. Thank you, Member Miller. Terrific.

Great. Thank you both very much for the presentation.

MR. SCOTT: Thank you.

MR. MURAMOTO: All right. Thank you.

CHAIRPERSON YEE: All right. Members, we are now moving on to Item 4, which is a presentation on the COVID-19 state and federal tax relief.

This is a presentation that will be made by Erin Dendorfer and Matt Feaster, and this is also an informational item.

Good afternoon.

MR. FEASTER: Good afternoon, Madam Chair, and Board Members. And thank you very for your time today.

My name is Matt Feaster, and I'm an Assistant Bureau Director in the Filing Division here at FTB.

I'm presenting today with Erin Dendorfer from our
Legal Division. In our roles at FTB, we've been members of several of the FTB teams assembled to implement the COVID relief provisions that have impacted FTB. These teams have gone above and beyond to implement some new programs and address late-in-the-year federal changes.

Early on in the pandemic, FTB created a COVID-19 FAQ web page to provide answers to commonly asked questions as a result of federal law changes. FTB updated and added information to this page as new federal and California law changes were enacted.

Today we'll be giving a high level overview of several federal and state legislative changes that affected California taxpayers during the pandemic. These laws aim to provide direct relief to individuals and businesses.

Erin will start with the federal laws that affected California tax administration and will give an overview of California's legislative response to those federal law changes. Next, we'll talk about other new programs that California enacted to provide relief to taxpayers. And then I will discuss measures that FTB implemented in response to federal law changes that made tax filing easier for California taxpayers this year.

MS. DENDORFER: Thank you, Matt.

I will first introduce a few of the federal laws
that we'll be talking about throughout this presentation. Last year, one of the initial federal laws enacted to provide relief during COVID was the Coronavirus Aid, Relief, and Economic Security Act, which is known as the CARES act. This act included several provisions that have become familiar during the past year and a half, including the unemployment insurance expansion, federal stimulus, and the Paycheck Protection Program, or PPP.

Last December, Congress also enacted the Consolidated Appropriations Act of 2021. This act is commonly known as the CAA and, among other things, it clarified provisions of the PPP program.

This past March, Congress passed the American Rescue Plan Act, and this law included a federal gross income exclusion for a portion of unemployment income for certain taxpayers. This late change had an impact on some California taxpayers, and Matt will discuss FTB's response in a little bit.

One of the first measures that California enacted in response to federal law changes was regarding retirement loans. The CARES Act modified some rules applicable to loans from qualified retirement plans for COVID-19-related distribution. It also increased the dollar amount of loans not treated as distributions for
certain loans and delayed the repayment date for
outstanding loans by one year.

Last year, California enacted AB 276 to conform
to these provisions.

The CARES Act also created the PPP, which is a
program that provides forgivable loans, called covered
loans, to businesses for certain business expenses.
Covered loans forgiven under the PPP are excluded from
federal gross income. And after the PPP was enacted,
the IRS provided guidance explaining that business
expenses paid for with forgiven covered loan amounts
would not be deductible.

Last year, California conformed to the gross
income exclusion for covered loan amounts forgiven under
the PPP in Assembly Bill 1577. AB 1577 included a
provision that required the reduction of deductions and
credits for amounts upon which the exclusion was based.

After AB 1577 was enacted, Congress included a
provision in the CAA to provide that business expenses
paid for with covered loan amounts are deductible. So
last year, in response to Congress clarifying the
treatment of deductions, the Legislature enacted AB 80,
which, for eligible taxpayers, partially conformed to
the deductibility of business expenses paid for with
covered loan amounts.
For outreach on this, FTB's COVID-19 web page includes a link to specific information on the PPP program, and this information was updated when changes to California's conformity occurred.

FTB also published "Tax News" articles addressing these PPP conformity measures.

The Economic Injury Disaster Loan program, or EIDL, was also included in the CARES Act and provides low interest loans with a 30-year repayment period and no payments due during the first year. Under this program, loan applicants were able to request advances of up to $10,000 that would be forgivable.

Under the CAA, the EIDL program was expanded to provide advance grants to businesses located in low-income communities. These targeted advance grants are also forgivable and excluded from gross income.

AB 80 included conformity to the gross income exclusion and additional tax benefits for forgiven loan amounts -- or grant amounts and targeted EIDL advances.

The CAA also allocated $25 billion in rental assistance funds to states to assist qualified households who are unable to pay rent, utilities, home energy costs, and other housing expenses due to the pandemic. California is administering the funding under the State Rental Assistance Program.
AB 81 and SB 91, which were both enacted earlier this year, generally allow an income exclusion for rent forgiven by a landlord or rental assistance funds received. Because this change was operative for the 2020 taxable year, FTB worked quickly to update the tax return instructions so taxpayers had the most up-to-date information for filing their 2020 tax returns.

California also enacted several new laws that were not connected to federal programs. One of these was SB 1477, which is known as the Main Street Small Business Tax Credit. Eligible small businesses could receive up to $100,000 in credits. The amount of credit is $1,000 per each increase in full-time employees.

Under this law, eligible qualified small business employers could apply for a tentative credit reservation from the California Department of Tax and Fee Administration. And, at that time, could elect to apply the credit to their sales and use tax liabilities.

The tentative credit reservation period closed on January 15th, and CDTFA administered the tentative credit reservation process and allocated over $53 million in credits to nearly 10,000 taxpayers.

FTB worked quickly to public -- publish "Tax News" articles, provide detailed information on our website, and get guidance out for how to claim the
credit through forms and instructions.

In addition, FTB's Public Affairs team advertised the credit through social media when the tentative credit reservation window opened. FTB also worked closely with a knowledgeable team at CDTFA to administer the credit, and we look forward to working with them again to administer Main Street Part II.

Just recently, on July 16th, the Governor signed AB 150, which included several tax-related provisions, including a Part II of the Main Street Tax Credit. The provisions are similar to the first Main Street credit, but this new credit is available for more qualified small business employers, specifically those who had 500 or fewer employees as of December 31st, 2020, and to some who started business in 2020.

In addition, the credit amount for each qualified small business employer was increased to $150,000, but this amount will be reduced by the Main Street Part I credit.

CDTFA is again administering the tentative credit reservation process which will open on November 1st and will end November 30th of this year or an earlier date if the allocation limit is reached.

The amount available for Part II, which includes the unallocated credit from the first credit, is
approximately $116 million, and FTB and CDTFA have already updated their websites and will work on further outreach as the tentative credit reservation window gets closer.

AB 150 included another credit that will be available to California eligible employers that employ people experiencing homelessness. The goal of the credit is to encourage employers to hire and retain individuals from the homeless population, who have been found to face systemic barriers to employment.

For taxable years beginning on or after January 1, 2022, and before January 1, 2027, qualified taxpayers that employ eligible individuals can receive a credit in the amounts shown on the screen, not to exceed $30,000 per taxpayer, per taxable year.

FTB will administer the tentative credit reservation process that will be subject to an annual cap of $30 million plus any unallocated credit amounts from prior years.

FTB has started working on implementation and has already created a web page for this credit. The site will be updated with credit reservation information for taxpayers who will begin requesting reservations at the beginning of next year.

Another provision of AB 150 increased the
California Competes tax credit allocation for the 2021/22 fiscal year, to encourage business operations in the state. The allocation was increased from $180 million to $290 for that year, to review the awarded contracts, to determine if companies have met the milestones outlined in their contract.

In SB 87 and SB 151, which were also enacted, provide grants to qualified small businesses and micro businesses. FTB will review the grants and the collection of any recaptured grants. These bills also contain provisions to exclude these grants from gross income for certain taxpayers.

And now I will pass it back to Matt to talk about California's stimulus programs.

Mr. Feaster: Thank you, Erin.

The Golden State Grant Program provides one-time grant payments of $600 to CalWORKS participants and recipients of other state benefits to provide relief to low-income Californians impacted by the COVID-19 emergency. The grant program was administered by the state Department of Social Services, or CDSS. It was enacted at the same time as the Golden State Stimulus Program that is administered by FTB. Because both programs reach some of the same individuals, FTB has
worked closely with CDSS to coordinate messaging and
direct recipients with questions to the proper
department in order to receive the assistance they need.

And that brings us to California's State Stimulus
Programs, commonly known as GSS I and GSS II. These
programs are separate from the federal stimulus programs
that were enacted under the federal legislation
discussed earlier.

Under GSS I, eligible individuals will receive a
$600 or $1,200 payment. Eligible individuals who have
not filed their 2020 returns yet can still receive a GSS
I payment if they file by October 15th, 2021.
Individuals who apply for an ITIN by October 15th, but
do not receive their ITIN by that date, will have until
February 15th, 2022, to file their return.

FTB worked quickly to update its website to
provide information to taxpayers. FTB assisted
thousands of individuals directly through its call
centers and live chat service. We also worked with
external stakeholders and nonprofit groups to develop
GSS outreach materials and worked with groups such as
the California Bankers Association and the tax software
and preparation industries to help ensure a smooth
process for individuals to receive payments.

To date, FTB, in coordination with the State
Controller's Office, has issued around $4.2 million payments totaling approximately $2.6 billion. This accounts for 99 percent of eligible recipients that have already filed tax returns.

Even more Californians will qualify for the most recently enacted stimulus under GSS II because the income threshold is now $75,000 for all eligible individuals. The amounts vary depending on factors such as filing status and whether an individual has dependents and generally range from $500 to $1,100.

Within just 24 hours of the Governor's signature on the bill, FTB's GSS II website was active and included the details for how to qualify. As a part of this guidance, FTB developed an estimator to help individuals determine the amount they may be eligible for. The estimator alone received nearly 60,000 visits in the first couple days that it was active and continues to be a popular link on FTB's web page. FTB continues to assist individuals directly through its call centers and live chat service.

In addition, based on returns already filed, FTB has identified approximately 9 million individuals who are eligible for this payment.

FTB, again in coordination with the State Controller's Office, has started implementing the much
larger GSS II program and has already started issuing payments to eligible taxpayers. To date, FTB and SCO have successfully completed the first release of GSS II payments, which included approximately 600,000 payments, totaling $354 million.

For the 2020 tax year, the IRS extended the filing due date of personal income tax returns and payments to May 17th, 2021. Similar to the 2019 tax year extension, FTB conformed to the IRS due date change. This extension of the filing date allowed all taxpayers extra time to prepare and file as well as pay their 2020 tax return. However, unlike in 2020, neither estimated payments nor business entity tax returns were impacted by the date change. Those items remain due on their traditional dates as prescribed by statute.

Finally, if a prior year statute of limitations was due to expire on April 15th, 2021, it was also extended to May 17th, 2021. In addition to implementing system and procedural changes to make this happen, we created robust web content about the changes to help California taxpayers stay up to date on changes and provided them with the information they needed in order to meet their tax obligations at the proper time.

Finally, another key item for FTB this year was federal legislation, the American Rescue Plan Act,
signed by President Biden during the filing season in March. It allowed taxpayers to exclude a portion of their unemployment income for the 2020 tax year on their federal return, thereby reducing their federal adjusted gross income.

FTB quickly stood up a team to address the issue as it relates to California tax filing. As California already excludes unemployment income from taxable income, this item's impact was felt in the area of tax creates that use the federal AGI as a criteria to determine eligibility.

Key here were the Earned Income Tax Credit, or CalEITC, the Young Child Tax Credit, and Golden State Stimulus. Many taxpayers in the EITC income bracket were impacted by this federal change.

In addition to our internal work to begin addressing this item, we quickly created targeted and specific web content for taxpayers to educate them on all of the changes and how they may be impacted, as well as how to proceed depending on their individual facts and circumstances as they related to this federal change.

We identified over 600,000 taxpayers whose accounts we can proactively adjust using the information they submitted on their 2020 tax return prior to the
federal bill being signed. We are correcting those tax returns without any additional or further action on the part of the taxpayer and will issue refunds for additional credit amounts to those who fall into this group.

Additionally, we identified over 400,000 taxpayers who did not initially claim the CalEITC on their 2020 tax return, but may now be eligible to receive the credit. We are sending this group of taxpayers a notice in the mail, explaining the federal changes and providing instructions for a streamlined process to claim the CalEITC if they are now eligible. CalEITC eligibility can also extend into the Young Child Tax Credit and the GSS in many cases.

All of this is fantastic for low-income Californians, and we are excited to be able to assist these individuals. As these claims are received, we are processing them and issuing refunds as appropriate.

This concludes our presentation today. We would like to take this time to say thank you again very much for allowing us to share this information with you. At this time, we would be happy to answer any questions you may have.

CHAIRPERSON YEE: Thank you very much, Matt and Erin, for the thorough presentation.
And, first, let me just say a huge thanks to the
entire FTB team. So many of these changes had to be
implemented without the usual runway that we have to put
new programs in place, and I just really appreciate the
tremendous work to be sure that we have these up and
running for many of our Californians who are depending
on these programs.

I also just want to thank Governor Newsom for
just the quick response to the needs of so many
Californians who were struggling during the pandemic and
certainly to our administration back in Washington as
well.

I think all of us take a certain amount of pride
in knowing that we can have a hand on just hopefully --
just making the burdens of daily life a little bit
easier for so many Californians during these past 18
months. So really, really very grateful.

Members, any comments or questions?

MEMBER VAZQUEZ: Yes, Madam Chair.

CHAIRPERSON YEE: Yes, Member Vazquez.

MEMBER VAZQUEZ: First of all, ditto. I think
you are right on point with your comments.

But I would just also like to thank -- and,
actually, it was great to hear that the Franchise Tax
Board takes and has taken so many steps to minimize the
effects during of the -- you know, during the shutdown.

But with all these programs, I am certain there are some taxpayers that, you know, may fall through the cracks, and I'm just wondering if there's a way or if we have identified some possible ways that we could assist, and maybe in the assistance, I'm assuming it may need -- you may need, as you have been doing all these programs, you know, possibly more resources to make sure that we minimize those folks that could possibly -- potentially fall through the cracks.

Because as I'm listening to all of this, I mean, it's all great stuff, but I'm sure, you know, like I think we mentioned earlier, there's just so many of these small low-income where mom-and-pop operations that probably are not -- are not even aware of the services that we're providing.

And I was wondering -- and especially as you are getting calls from a lot of these folks, you know -- and we receive them in our office. As a matter of fact, just this last week, where people are calling in and many of them don't have -- for example, in our case, they don't understand that, you know, certain things are no longer under our jurisdiction at CDTFA so we're trying to explain that to folks.

And I'm assuming Franchise Tax Board gets a lot
more just general questions that maybe go -- are
supposed to go under EDD or other departments.

And I'm wondering if staff, your staff, is
trained or is going to be trained to be able to refer
these folks so they are not going through all these
hoops and trying to, you know, get the runaround in the
process of trying to get some assistance with their
issue.

MR. FEASTER: Yeah. I can take that question.
It's a great question, Member Vazquez.

As you know, FTB is thoroughly trained to answer
questions as they related to state income tax filings
and the programs that we administer to support that
process. And as a part of that, staff are given
significant training and resources on when, how, and
where to direct contacts from taxpayers who need
assistance, that can only be provided by another
department, such as you mentioned EDD.

One of the significant barriers that we face in
helping to answer those questions and not having to
direct folks is our staff's lack of an in-depth
understanding of these other departments' complex
programs and laws. But we certainly do our very best to
ensure that folks who contact us get the best direction
that we can give them, based on the facts and
circumstances of their individual situation.

MEMBER VAZQUEZ: And I appreciate that.

And I'm wondering, you know, especially with our expertise that we have, are we able to share -- or are -- I'm assuming we are. But how effective has it been to share some of that information with our -- you know, to some of the other taxpayer groups that are out there to -- so they can assist their clients properly?

MR. FEASTER: You know, we do -- actually do, you know, quite a bit of outreach with the tax preparer community. And one of the things that we do -- you know, we work directly with the trade media and directly with the tax practitioner community and our stakeholders there to ensure that they have all the information needed in order to serve their clients by educating them about the changes that are in place, what we're doing, and in order to ensure that they are able to help their clients and their stakeholders meet their obligations, not just during the pandemic here, but ongoing into the future.

MEMBER VAZQUEZ: Thank you.

CHAIRPERSON YEE: Thank you, Member Vazquez.

Member Miller, any questions or comments?

MEMBER MILLER: No, thank you.

I also wanted to echo your support and
congratulations to the FTB team. I think the legacy
they have in terms of helping people really will know no
bounds.

But also, Madam Chair, I really wanted to thank
your team. I think what the Controller's Office did in
concert with the FTB was really, really phenomenal and I
think, really, it was everything from not only ensuring
immediate direct deposits, but making sure we had the
right paper on hand so we can get checks to people right
away. It was really, really remarkable to see so many
people coming together and working together.

So thank you to you and to your team's support,
really, for a solid 18 months in making sure that we get
all this out the door to folks.

CHAIRPERSON YEE: Thank you, Member Miller.

Really appreciate that and I know my team does as well.

Just from an order of magnitude, I have to say
that the GSS payments alone constitutes a year over year
20 percent increase in the number of payments that shoot
by my office. So it's a huge workload, but I have to
tell you, the amount of pride by our print and mail
shop, everyone involved, audits, the whole team, has
just been nothing short of remarkable.

This is really transformative in making a
difference in so many people's lives.
So thank you very much.

Let me just turn now to see if there is any member of the public who wishes to comment on this item.

PHONE MODERATOR: Thank you.

Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time. Please continue.

CHAIRPERSON YEE: Thank you very much.

Erin and Matt, thank you so much for the presentation and just really, really appreciative of all the great work.

Okay. Members, we will now move to Item Number 5 and this is the presentation on the Mission and Values Team. This is an update from the team, and we will be hearing a presentation from Jackie Zumaeta and Manav Sushil. Good afternoon.

MS. ZUMAETA: Good afternoon, Madam Chair and Members of the Board. My name is Jackie Zumaeta, and I'm an Assistant Chief Counsel in the Legal Division and also the incoming chair of the Mission and Values Team.

With me this afternoon is Manav Sushil, who is
the current chair of the Mission and Values Team and a
Compliance Representative in the ARM Division.

Today we would like to introduce you to the
Mission and Values Team and tell you a bit more about
what we do and the events that we hold to create a
positive work environment for our staff by promoting
FTB's values.

MR. SUSHIL: What is Mission and Values and what
do we do? We are part of a team comprised of about 25
members across FTB's seven divisions. The team plans
and organizes fundraisers, sponsors employee
appreciation events, and delivers presentations across
the enterprise to achieve the goal of creating a
positive and rewarding work environment for our staff.

FTB's five values are lead with integrity and
inspiration, bring our best, deliver excellent products
and services, contribute to a caring community, and
become experts at what we do.

MS. ZUMAETA: Our largest fundraiser is the
silent action, which occurs annually in the summer and
is an excellent opportunity to bid on items donated by
the section managers, including personal mentoring
sessions, team building events, and more.

An example of a fundraiser mixed with an
appreciation event is the Cookie Kudos fundraiser, which
we pivoted into Card Kudos during the pandemic. During this event, employees are able to recognize one another for exhibits FTB's values by purchasing cookies or greeting cards with Starbucks gift cards to send to their colleagues through this event.

Another fundraiser that we organized is the greeting card fundraiser in which the team collects artwork from FTB families to create greeting cards for sale each year in December. Each design showcases the artist's hard work and creativity and spreads cheer around the holidays.

On this slide, you can see an example of the greeting cards that have been sold in years past.

The fundraisers all support the Goldberg Scholarships, employee appreciation events, and holiday programs that the Mission and Values Team facilitates.

MR. SUSHIL: The Goldberg Scholarship is an annual event named for our former Executive Officer. It was established over 25 years ago to encourage staff to continue their education. Scholarships are awarded to employees who embody our five values and continue their academic growth for the benefit of FTB.

In past years, we've awarded up to three employees a scholarship of $1,000 each. Funds for the Goldberg Scholarship are raised entirely through Mission...
and Values fundraisers, like the silent auction and the
greeting card sale. The generosity of everyone at FTB
allows us to continue supporting the Goldberg
Scholarship, which is our proudest contribution.

The year, we awarded $1,000 scholarships to three
recipients: Gi Nam, Yocelyn Robles, and Annette
Thomure, who are pictured on this slide.

MS. ZUMAETA: We also coordinate several employee
appreciation events each year: The annual values
campaign encourages everyone to demonstrate FTB's values
and allows employees to recognize team members who
demonstrate one or more of FTB's five values.

Employees can also recognize team members outside
of this campaign throughout the year by going on to our
internal FTB website and sending an e-card to their
colleagues.

In the summer, we hold an appreciation event for
our staff. In years past, we handed out ice cream to
staff members in the building lobbies, and during the
pandemic, we handed out tumblers filled with goodies to
staff who had been working in the office throughout the
pandemic. Our field offices are included in these
events as well.

You can see part of the tumbler construction team
and the finished products on this slide.
This slide shows an example of the Mission and Values calendar created and distributed to employees each year since 2016.

Finally, we also hold the Card/Cookie Kudos event that we previously discussed.

MR. SUSHIL: During the holidays, the Mission and Values Team brings a warm and cheery atmosphere to our offices for our employees. We decorate the office with holiday decorations and have several holiday-themed events.

A program near and dear to our hearts is the CHiPS for Kids Toy Drive every December to help collect new, unwrapped toys. This program brightens the holiday season for underprivileged children in our community and allows FTB employees to spread the holiday spirit. You can see a photo of our team with CHP offices collecting the toys before the pandemic, on this slide.

The annual Holiday Program is a fun-filled event held in December with performances by the FTB choir, the kids from FTB's childcare center, the Poppy Patch, and talented FTB staff and family. And you can see a photo of our Poppy Patch kids singing a holiday song in festive surroundings, pre-COVID. Our very own Santa, a retired FTB employee, and his elves make an appearance to bring holiday cheer as well. It's a truly memorable
During the pandemic, we made a holiday video that was distributed online to wish everyone the happiest of holidays in a safe and socially distant manner.

MS. ZUMAETA: The Mission and Values Team also sponsors the Multicultural Food and Arts Fair once every three years. The fair is a celebration of our multicultural workforce that includes performances, food tasting, and exhibits from around the world. You can see several photos on this slide depicting performances and our executive officer tasting some of the food offerings. The Multicultural Fair is a great opportunity to learn about each other's culture and celebrate our diversity. We are looking forward to hosting the event again in 2022.

MR. SUSHIL: The Mission and Values Team also delivers presentations across the enterprise. These presentations include monthly new employee orientations and various workshops and ceremonies throughout the year to promote FTB's values and the events that Mission and Values sponsors. This slide features me speaking at the virtual large team awards ceremony and a past Mission and Values chair speaking at an outdoor ceremony, pre-COVID.

In closing, as you have heard in this
presentation, the Mission and Values Team is so proud to be able to have the opportunity to recognize our fantastic employees and to contribute to making FTB an amazing place to work.

Thank you for listening to our presentation today. We would be happy to take any questions.

Thank you.

CHAIRPERSON YEE: Thank you very much, Manav and Jackie, and congratulations on your leadership of the committee. And welcome, Jackie. We look forward to working with you.

Are there any questions or comments, Members?

Member Vazquez.

MEMBER VAZQUEZ: Yes. No questions. Just a comment, and it's really just a thank you. Thanks to staff. I mean, listening and especially reviewing the slide presentation here of all the amazing things you are able to accomplish.

One that really hits me is one that I have always tried to encourage, especially as we're looking at workforces and to advance them is your scholarship program to make sure these folks can advance and get into career paths. You know, they may have started with you at the low end, but hopefully, through that process, they could become managers or directors or possibly at...
some point even be the new CEO.

But kudos. Kudos you and to the staff for all the hard work you have done.

MS. ZUMAETA: Thank you very much.

MR. SUSHIL: Thank you.

CHAIRPERSON YEE: Thank you, Member Vazquez.

Member Miller, any comments?

MEMBER MILLER: Nothing for me. Just to echo Mr. Vazquez's points about just how phenomenal it is to see such great joy coming from the team at FTB.

CHAIRPERSON YEE: Great. Thank you.

I wanted to add, maybe one other element under this. And that is, what happens during tax filing season?

I know when -- before the pandemic, we had many of our seasonal employees or intermittent employees come and really help with the workload that I -- I always enjoyed going out and listening during filing season and just the -- the promise and the positivity of just so many of those workers in terms of seeing themselves in a more permanent position at FTB and all of the support they get to look at, you know, opportunities, I think, is something that should be uplifted as well.

And, obviously, celebrating Tax Day is also a very, very nice occasion. So I thought I would make
mention of that.

Let me move and see if there are any members of the public who wish to speak on this item.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time. Please continue.

CHAIRPERSON YEE: Thank you.

Members, I'm just going to take a point of personal privilege and maybe just take a five-minute break. We have a couple of, I think, what I anticipate to be a little bit more lengthy matters coming up. So why don't we -- actually, why don't we take ten minutes. Return at 3:15.

Great. Thank you.

(Break taken: 3:04 to 3:16 p.m.)

CHAIRPERSON YEE: Members, our next item is item number 6. This is our legislative update presentation, and this will be made by Annette Kunze and Wendy Cramer.

Good afternoon.

MS. KUNZE: Good afternoon. It's nice to see you today and thank you for having us.
So over the next few minutes, we'd like to give a legislative update. My name is Annette Kunze and I'm the Legislative Director for the Franchise Tax Board. And today I'm joined by Wendy Cramer, the Assistant Legislative Director.

And so today we will share highlights on bill activities such as chaptered bills, including legislative proposals that made it into bills and were enacted this session. We'll also briefly share information on other items of legislative interest such as our upcoming stakeholder meetings in the fall.

So, so far this year, approximately 20 bills impacting the Franchise Tax Board have been chaptered, and some of these bills were already highlighted earlier in this meeting, but we would like to share some more information as well now.

In addition to the provisions previously discussed, such as the Main Street Part II and the Homeless Hiring Credit, Assembly Bill 150 included a few other provisions. Some of the other changes included the addition of what is commonly referred to as a state and local income tax workaround. This law allows for an additional elective tax to be paid by certain passthrough entities in an amount of 9.3 percent for the tax years '21 through '25; and then a corresponding
credit is allowed to the owners to claim on their tax returns. The credits are nonrefundable and include a five-year carryover.

Many of these states, including California, considered these elective taxes after the IRS issued Notice 2020-75 in November of 2020.

In addition, the Donated Fruit and Vegetable Credit and the Historic Building Preservation Credit were both extended.

And, finally, Assembly Bill 150 requires the California Department of Health Care Services to share data with the Franchise Tax Board for purposes of identifying people who may be eligible for the California and Federal Earned Income Tax Credits.

The data would be used to develop a plan to remove barriers and to increase the relationship and coordination among state agencies to inform individuals that are eligible for these credits.

Senate Bill 137 made changes to the Government Code to clarify the amount of real estate, fraud fee, and lien release fees that can be charged to state agencies. And this change provides clarity and certainty to state agencies, counties, and taxpayers as to the specified need to be charged.

And now I will turn it over to Wendy.
MS. CRAMER: Thank you, Annette.

Next I will discuss Senate Bill 144. This bill made several changes to the current Motion Picture Credit. It increased the funding for the existing credit for fiscal years 2021/22, and 2022/23, allowing the California Film Commission to allocate an additional $15 million in credits to television series that relocate to California and an additional $75 million in credits to recurring television series.

In addition, this bill creates a new credit for productions filmed at a certified sound stage that was recently constructed or renovated. The Film Commission is responsible for certifying that the sound stage meets the specified criteria, and they would also be responsible for allocating the $150 million in credits for productions filmed at these certified sound stages.

This bill also creates a diversity work plan requirement for taxpayers that receive allocations for the new Certified Sound Stage Credit. The work plan should include, amongst other things, the taxpayer's plan to achieve race and gender representation that is reflective of California's population.

The Film Commission will be -- will also be responsible for approving these plans, and upon certification of the credit, should the Film Commission
determine its taxpayer has met those goals or made a good faith effort to meet the diversity work plan goals, the credit percentage awarded to the production could be increased by up to 4 percent.

In addition to these chaptered bills we just discussed, we are happy to report that three of our Board-sponsored legislative proposals have already been chaptered this year.

Assembly Bill 1582 contained two of our proposals, the first relating to cash poor like-kind exchanges. This provision reduces the compliance burden on qualified intermediaries, the QI -- also known as a QI, by limiting the withholding obligation for -- to available funds in those situations where the QI does not receive sufficient funds from escrow. This results in the QI no longer being subject to a penalty should the transaction be cash poor.

The second provision in Assembly Bill 1582 relates to the due date change for the Taxpayer Bill of Rights Report. This provision extended the statutory due date for the Taxpayer Bill of Rights Annual Report, thereby allowing the FTB to include current year Board-approved legislative proposals in the report.

In addition, Assembly Bill 466, relating to sharing of data with the State Controller's Office,
would allow the FTB to provide to the State Controller's Office, on an annual basis, additional information collected from certain business entity income tax returns for purposes of administering their unclaimed property program.

We still have several proposals for which we have not yet found an author, but we will continue to seek authors in the second year of the two-year session. These proposals include items related to the Research and Development Credit, taxation of income from Incomplete Nongrantor Trusts, also known as ING Trusts, and one-time penalty abatement similar to the federal procedure.

We have received several inquiries on the ING Trust legislative proposal, so we shall see if the next year brings any authors.

We thank you for your continued support of our ideas, which is an essential piece of their journey, and, of course, we are very appreciative of the sponsoring authors who helped introduce these ideas into bills.

I will now turn it back over to Annette.

MS. KUNZE: Thank you, Wendy.

So now for a couple other items of interest we would like to share: First, we are currently planning
for our annual legislative proposal and conformity stakeholder meetings, and we anticipate having both meetings in mid-November and they will most likely be virtual meetings.

Internally, we're also preparing new legislative proposal ideas for your consideration at the upcoming December Board meeting.

We would also like to share that last year, we launched our conformity tool and we have since added some updates to it. So earlier this year, we released an update to the conformity tool to include the Consolidated Appropriations Act of 2021, and we're currently working on the addition of the American Rescue Plan Act with the goal of publication later this year.

And then, lastly, as mentioned earlier, outreach for the California Earned Income Tax Credit continues to be a topic of interest, and FTB is currently preparing the report required by Senate Bill 1409 from last year, which was also mentioned earlier, to identify ways to increase uptake in and reduce barriers to the federal and California Earned Income Tax Credit. And this report is due to the Legislature January 1st of 2022.

Thank you for your time today. That concludes our presentation, and, at this point, we would be happy to answer any questions.
CHAIRPERSON YEE: Thank you very much, Annette and Wendy, for the presentation.

Members, any questions or comments?

(No response.)

CHAIRPERSON YEE: No? Very well. Thank you. We will take that -- take the report and I look forward to the updates going forward. Thank you very much.

MS. KUNZE: Thank you.

CHAIRPERSON YEE: Oh, I'm sorry. Let me turn to the operator to see if there are any members of the public who wish to comment on this item.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time.

Please continue.

CHAIRPERSON YEE: Thank you very much. Great.

Thank you both again.

MS. KUNZE: Thank you.

MS. CRAMER: Thank you.

CHAIRPERSON YEE: All right, Members. Our next item is Item Number 7. And this is a presentation on
regulation matters. We have Leah Thyberg and Tom Lo Grossman to request permission to proceed to the formal rulemaking process for proposed Section 18662-7. This is the domestic pass-through domestic withholding, and proposed Section 25136-2 on the market-based sourcing regulations.

These are action items, but, first, let me have Leah present on the proposed Section 18662-7 regulation.

Leah.

MS. THYBERG: Thank you. Good afternoon, Madam Chair and Members of the Board. My name is Leah Thyberg and I am an attorney of the Franchise Tax Board. We are seeking the Board's permission to proceed with the formal regulatory process to adopt California Code of Regulations, Title 18, Section 18662-7, which I will refer to here as the "Proposed Regulation."

Additionally, we are seeking the Board's permission to proceed with the formal regulatory process to amend California Code of Regulations, Title 18, Sections 18662-0 through 18662-6, and 18662-8, which I will refer to here as the "Proposed Amendments to the Final Regulations."

Revenue and Taxation Code Section 18662 is the statute setting forth California's general tax withholding requirements. Subdivision (a) provides that
the FTB may, by regulation, require any person to
withhold an amount, determined by the FTB to reasonably
represent the amount of tax due, and to transmit the
amount withheld to the FTB at the time that it may
designate.

The proposed regulation would provide for three
major changes to domestic pass-through entity
withholding requirements: First, it would require
pass-through entities to withhold tax on a nonresident
owner's distributive share of pass-through entity income
rather than on distributions paid to a nonresident
owner; second, it would mitigate the imposition of
late-filing penalties in tiered pass-through entity
structures; third, it would require a pass-through
entity to withhold tax at the nonresident owner's
highest marginal tax rate rather than at a flat 7
percent tax rate.

The proposed amendments to the final regulations
would provide for three minor changes: First, they
would incorporate the language in the Proposed
Regulation relating to domestic pass-through entity
withholding to ensure consistency across all withholding
regulations; second, they would revise the final
regulations to more closely reflect language in the
Internal Revenue Code and Treasury Regulations relating
to withholding on foreign partners; third, they would clarify the rules -- withholding rules for trusts and estates.

The Proposed Regulation and the Proposed Amendments to the Final Regulations that are the subject of our request are set forth in the request for permission to proceed with the formal regulatory process and accompanying exhibits provided to this Board.

There has been significant engagement and collaboration with the public through two interested parties meetings and three notices seeking public comments on draft language. The initial drafts of the Proposed Regulation and Proposed Amendments to the Final Regulations and each revision of the Proposed Regulation were published to the public after multiple cross-divisional meetings and reviews within the department.

Accordingly, we request the Board's permission to proceed with the formal regulatory process to adopt the Proposed Regulation and to amend the Final Regulations.

I am happy to answer any questions you may have.

CHAIRPERSON YEE: Great. Thank you very much, Leah, and really appreciate the engagement of all the interested parties. And I believe that all are in agreement, so really appreciate the great work here.
Members, any comments or questions?

MEMBER VAZQUEZ: I would just echo your comments, Madam Chair.

CHAIRPERSON YEE: Okay. Thank you.

And let me just see if there are any members of the public who wish to speak on this item.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.

No members of the public are queuing up at this time. Please continue.

CHAIRPERSON YEE: Great. Thank you very much. I would just also note that both of these regulations will help with the tax gap issue as well that we talked about earlier. So very timely.

All right. Hearing none, is there a motion on this -- on this regulation and the proposed amendments?

MEMBER VAZQUEZ: So moved.

CHAIRPERSON YEE: Okay.

MEMBER MILLER: Second.

CHAIRPERSON YEE: Motion by Member Vazquez.

Seconded by Member Miller.

Without objection, such will be the order. So that is approval to move forward with the formal
regulatory process for Proposed Regulation 18662-7 and
the proposed amendments to Regulation 18662-0 through
18662-6 and 18662-8.

Thank you very much, Leah.

MS. THYBERG: Thank you.

CHAIRPERSON YEE: Okay. We will now move on to
the second regulatory matter, and that relates to
Proposed Regulation 25136-2 related to market-based
sourcing.

And here we will have Tom. Are you on deck?

MR. LO GROSSMAN: Yes. Good afternoon, Madam
Chair and Members of the Board.

CHAIRPERSON YEE: Thank you. Good afternoon.

MR. LO GROSSMAN: My name is Thomas Lo Grossman,
and I'm an attorney for the Legal Division.

We are seeking the Board's permission to proceed
with the formal regulatory process to amend California
Code of Regulations, Title 18, Section 25136-2. I will
briefly discuss why there is a need for the regulation,
what the proposed amendment does, and our process of
working with the public in developing the regulation.

The net income of businesses that do business
both within and without California is generally subject
to taxation by the State of California. This can occur
either through the corporate franchise tax or through
taxation of an individual's income where a net income
tax does not occur at the entity level. The portion of
the worldwide net income of such businesses that is
deemed to be California-sourced income is determined by
apportionment formula. For most businesses the
apportionment formula is based entirely on sales, with a
greater proportion of a business's net gains or losses
attributed to California if a greater proportion of its
sales are sourced to California.

Some industries and classes of transactions have
a sourcing rule specific and appropriate to that
specific industry or transaction. However, Regulation
25136-2, which formally assigns sales of other than
tangible personal property, functions as the default
rule for determining which of a business's sales should
be sourced to California. As a default rule, the
universe of transactions subject to Regulation 25136-2
is quite broad.

In the course of administering Regulation 25136-2
since the regulation was initially promulgated, staff
has learned that simplifying the rules is in the
interests of both taxpayers and the department as it
increases both compliance and administrability.

Staff has also learned from experience that for
certain industries, all parties are best served with
rules specifically tailored to that particular industry. This regulatory amendment project seeks to improve compliance and administrability both through simplification of the default rule and through creating specific rules for certain professional service industries.

The proposed amendments seek to improve compliance with and administrability of Regulation 25136-2 through simplifying amendments to the regulation.

The major components of the proposed amendments include: Addition of a rule for sourcing asset management services; addition of a rule for sourcing professional services; clarification of the rule for sourcing sales of securities; addition of a rule for government services; simplification of the cascading rules for sourcing generic services; and clarifications of the rules for using reasonable approximation as a sourcing methodology.

We have held six interested parties meetings and published six drafts of the proposed regulation language to the public on the FTB regulatory activity webpage.

At the first interested parties meeting, FTB staff and other interested parties discussed a number of topics related to the sourcing of sales of other than
tangible personal property.

At each of the following interested parties meeting, interested parties provided various feedback and suggested changes to each draft of the proposed regulatory language, which led to six iterations of the proposed regulation language. The latest draft of the proposed regulatory language, dated June 4th, 2021, is posted on the FTB regulatory activity page. These changes are reflected in the documents provided in your materials.

Again, we request the Board's permission to proceed with the formal regulatory process to amend Regulation 25136-2.

I am happy to answer any questions you may have.

CHAIRPERSON YEE: Thank you very much, Tom, for the presentation.

Members, questions or comments?

MEMBER MILLER: Madam Chair, just, you know, this has been, obviously, an issue for a really long time, and I think the work of FTB to really work with interested parties on these sourcing requirements are really, really important.

And just really do look forward to engagement on this issue because it's important that we get it right and I think has -- as you say, with the previous
regulation, as well, you know, big ramifications on not only on the tax gap but having kind of the integrity of our tax system.

So I just applaud the work that's been done and the iterations and look forward to more input from stakeholders, just to make sure that they understand how important this is to the State.

CHAIRPERSON YEE: Absolutely. Thank you, Member Miller. Couldn't agree more.

Member Vazquez, any comment before I turn to the public?

MEMBER VAZQUEZ: I would just agree. You know, I think it's a real key issue and I'm looking forward to that discussion here really soon.

CHAIRPERSON YEE: Okay.

MEMBER VAZQUEZ: Thank you to staff for bringing it back and giving us the updates.

CHAIRPERSON YEE: Great. Thank you.

Let me now see if there are any members of the public who wish to speak on this item.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.

And we'll go to the line of Jason Fox. Please go
ahead.

CHAIRPERSON YEE: Okay. Good afternoon, Mr. Fox.

MR. FOX: Hi. My name is Jason Fox. I'm Vice President of Government Relations for the California Society of Certified Public Accountants. And I would like to speak specifically to the market-based sourcing regulatory package.

To begin with, I want to echo and thank the FTB staff for working with us throughout the revision process, particularly for the proposed professional services rule on this regulation. It's a critical step towards providing the necessary clarity for professional service providers.

While the current version of the proposed regulations have greatly improved through the interested parties process, there are still some small but significant issues specific to the accounting profession that were not addressed in the last IPM.

As part of the six interested parties meetings, CalCPA sent a letter dated July 1 outlining some of these issues and some of the inconsistencies that will likely cause confusion and administrative challenges for many multistate accounting firms.

Specifically, the Proposed Regulation provides for the grouping of large volume of, quote,
substantially similar, end quote, professional services, but it is unclear what "substantially similar" means.

And examples are, currently the draft regulation regarding this rule are inconsistent as to how broad or how narrow taxpayers should define "substantially similar" when grouping a professional service -- services together.

For instance, in one example, all tax services are combined as "substantially similar," but, in another example, separate tax preparation services are separated from tax controversy services. The lack of clarity on how to accurately apply these rules will create significant administrative challenges for the accounting firms and likely for FTB through the enforcement and compliance process.

In our letter, we suggest specific changes to address our concerns. So we would ask the FTB to consider incorporating those clarifications into the regulations or, you know, if it's the Board's pleasure to work with FTB staff on further modifications that would address those concerns.

So thank you for your time and consideration of this important issue for the accounting profession.

CHAIRPERSON YEE: Thank you, Mr. Fox, for coming forward.
Let me just see if I can get all of the public comment before we respond to them.

Are there other members of the public who wish to speak on this item?

PHONE MODERATOR: Thank you.

There are no further public comments in queue at this time.

Please continue.

CHAIRPERSON YEE: Great. Thank you very much.

Ms. Brunett, I see you on the line. Can you comment on the -- on Mr. Fox's suggestions about improving the proposed rule and also to address their concerns?

It seems to me, this is something that is probably worthy of another, kind of, fresh look at, and I'm certainly happy to state our willingness to continue to work with them, but it just seems to me that what we have done through six interested parties meetings is pretty substantial, that we should move forward with, that if you have any thoughts on that.

CHIEF COUNSEL BRUNETT: Sure. I will -- I will start, and then if Shane has any additional thoughts, I will let him jump in.

We received the letter as well, and we have had quite a bit of discussion here.
And in the formal regulatory process, we will definitely be looking at those suggestions and we'll be wanting to work with Mr. Fox on those, and, to the extent we can, make some additional changes, so we are giving that thoughtful consideration already.

And should your Board approve us to go forward with the formal regulatory process, we will work with them in that process on those comments and thoughts.

CHAIRPERSON YEE: Okay. That sounds great.

So Mr. Fox, if you are still listening, this is something that the staff is very willing to continue to work with you as this proceeds to the formal regulatory process. So why don't we leave that there.

I think there was -- if I recall, there was a particular concern about one of the examples in the proposed rule, that may, actually, have merit with respect to clarifying that now, before we proceed.

Ms. Brunett, do you have a thought on that? I think it was Example 3 in the proposed rule.

CHIEF COUNSEL BRUNETT: Yeah. Shane, did you want to respond to that one?

MR. HOFELING: You bet. I'd be happy to.

Yes, you are right, Controller. In looking at Example 3, we realized that it was unnecessarily narrow. And so we will revise Example 3 and expand that to make
it more broad when we submit the final version to the
Office of Administrative Law, if that is okay with you
and your Board.


Good.

All right. So -- so we will then look at --
Members, I would propose that we approve moving forward
with the formal regulatory process for Proposed
Regulation 25136-2 related to Market-Based Sourcing.

I will ask the Franchise Tax Board to revise
Example 3 in the proposed rule so it really reflects the
broader definition.

And then to ask that they further work with
CalCPA on the modifications to the proposed rule as it's
going through that process.

So I will make that a motion.

Is there a second?

MEMBER VAZQUEZ: I will second it.

CHAIRPERSON YEE: Oh, actually -- and we'll put a
pin on that while I see if there's any other comments --
(unreportable cross-talk) --

MEMBER VAZQUEZ: -- public comment.

CHAIRPERSON YEE: Yeah. Did you want to comment?

I'm sorry, Mr. Vazquez. You looked like you were going
to make a comment.
MEMBER VAZQUEZ: I was just going to say, you know, I was -- I'm glad that you incorporated the -- basically the little amendment to what we heard from the public, especially from Mr. Fox. It sounds like he's got some interesting, hopefully helpful, ideas that could make our policy a little bit stronger.

CHAIRPERSON YEE: Okay. Good. Thank you.

MEMBER MILLER: Madam Chair, just on that point. I am happy to support your motion.

I just want to clarify that we're not requiring an amendment at this time, based on those comments, just because we haven't had time to analyze them. It will just be something that the Board looks into it; is that correct?

CHAIRPERSON YEE: Yes. Yes.

MEMBER MILLER: Okay.

CHAIRPERSON YEE: And I think there was more of a willingness to revise Example 3 just because there's agreement about the narrowness of that. But with respect to the other concerns raised by CalCPA, those would be considered in the course of the regulatory process going forward.

MEMBER MILLER: Thank you very much for that.

CHAIRPERSON YEE: You are welcome.

All right. We have a motion and a second by
MEMBER VAZQUEZ: Yes. Do we need to listen to the public? I know you were going to ask public input on this.

CHAIRPERSON YEE: I think we heard from Mr. Fox. And I don't know if --

MEMBER VAZQUEZ: Oh, was that it? Okay.

CHAIRPERSON YEE: Yes. Uh-huh.

MEMBER VAZQUEZ: Okay. Thanks.

CHAIRPERSON YEE: All right. So without objection, such will be the order.

Thank you very much.

Members, we are on Item Number 8. These are administrative matters. We have two parts to this.

So first we will hear from Thi Luong and Jeanne Harriman. They will be presenting our 2022/23 budget change proposals. This is an action item. Followed, then, by Michael Banuelos who will be presenting the contracts over a million dollars for Board approval as well.

And I think, Member Miller, you won't be participating in the first item. Okay. Great. Thank you.

All right. So let's have Thi and Jeanne, if you are on board.
MS. HARRIMAN: Good afternoon. Thank you, Madam Chair, and hello to everyone, including other members of the Board.

My name is Jeanne Harriman. I am the Chief Financial Officer at Franchise Tax Board.

I'm here today with Thi Luong, the Director of the Financial Management Bureau, to present our fiscal year 2022/23 Budget Change Proposals for your approval.

With your support, we will provide a brief overview of each of the proposals and then answer any questions you may have. For 22/23 fiscal year, FTB has identified nine budget change proposals.

The first one is related to the EDR2 project. The start of fiscal year 22/23 will see FTB enter into the second year of that project effort. We will continue to build on the foundation set by EDR for centralizing technology solutions supporting key business functions across the enterprise. EDR2 builds on this platform by expanding enterprise case management and modeling services for audit, filing enforcement, and accounts receivable functions as well as expanding on customer service tools, including the taxpayer folder, externally known as MyFTB.

This proposal requests an augmentation of $150.9 million of the second year of the project. This
includes funding for 20 permanent positions, 23 and a half full-time equivalent limited-term positions, and 21 permanent intermittent positions. This also includes $132.5 million for payment to the Solution Partners.

Following the statewide process established to support funding for the larger projects, an annual BCP is required for new costs related to that specific year, much like you displayed in our current BCP. Costs within this BCP can be ongoing, limited-term, or one-time, as noted in the BCP narrative.

One additional factor I would point out is that this BCP does include a reference to prior recognized tax gap estimate of $10 billion.

With today's presentation to the Board of the restated tax gap estimate of $24 billion, this BCP will be now updated to reflect this new estimate. Updating this reference will not result in any changes to the resources requested.

During the second year of the project, FTB is requesting resources to support various stages of website enhancements, modeling, education and outreach campaigns, and enhanced data capture. We're also going to continue the functions associated with training, security, change management, HR matters, data management, as well as oversight functions.
The next proposal has to do with accessibility enhancements for our web and form products. This proposal requests 19 permanent and one two-year limited-term positions with relating funding, as well as additional funding as noted in the BCP for software.

These resources will allow FTB to continue to apply mandated accessibility standards on its website, web applications, tax forms, business forms, instructions, publications, and tax return displays.

Accessibility refers to the practice of making products, services, websites, and environments usable by all individuals. When you correctly design, develop, and edit services, 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 workload surrounding these products continue to grow and increase in complexity.

FTB has also utilized all software and other approaches recommended by statewide partners to manage accessibility issues. The recommended software products have been successfully used, and FTB is requesting funding within this BCP for these tools ongoing. FTB has not had reliable or sustainable success utilizing a vendor to meet other needs, primarily due to the
intersection of our tax forms with our tax return scanning environment. As a result, most of the additional resources in this BCP are requested so that we can engage in this important work with FTB staff. Without an increase in these permanent positions and funding, FTB may be unable to continue to incorporate accessibility standards to its most critical products, self-service channels, and applications.

Thi will now present the next two proposals.

MS. LUONG: Thank you, Jeanne, and good afternoon, everyone.

Proposal 3 is for the identity proofing and online fraud detection, which requests 17 permanent and one one-year limited-term position, beginning in fiscal year 22/23, with related funding. These resources are required to accommodate new workloads as well as growth within the Privacy, Security, and Disclosure Bureau.

Online fraud is on the rise and continues to be a pervasive issue across all industries. In addition to attempting to break through our security firewalls and systems, fraudsters are now attempting to unlawfully use information that they have illegally obtained to gain access to our online self-service tools, either to gain additional information or to engage in activities to generate a refund.
These three sources will ensure that FTB's systems continue to allow our authenticated taxpayers and tax professionals access, while making every attempt to ensure that fraudsters are not allowed in.

And Proposal 4 is for FI$Cal, which requests six permanent positions and five classification upgrades, beginning in fiscal year 22/23 with related funding.

In 2018, FTB implemented FI$Cal, California's statewide accounting, budget, cash management, and procurement system. FTB is fully committed to FI$Cal and have modified our processes to sync up with FI$Cal. However, the new system has brought a sustained increase in volume, complexity, and reviews. These resources will allow FTB to conduct accounting, procurement, budgeting, and resource management functions effectively and within mandated time frames.

I will now turn it back to Jeanne for Proposals 5 and 6.

MS. HARRIMAN: Thanks, Thi.

Proposal 5 supports FTB's Political Reform Audit program and requests 12 permanent and two three-year limited-term positions beginning in 22/23 with related funding.

Over the years, the Political Reform Audit program has continued to increase in complexity, as
additional disclosure and filing requirements, contribution limitations, and audit verification steps have been adopted or mandated. As a result of the increase in the size and complexity of the audits, FTB is unable to complete many of the mandated audits with current resources. These additional resources requested in the budget change proposal will allow FTB to complete the audits as mandated by the Political Reform Act.

Proposal 6 supports FTB's workload to accommodate the requirements of section 41. The Franchise Tax Board is requesting four permanent positions in 22/23 and an additional one position in 24/25 with related funding. This will allow the FTB to manage the increasing workload due to the volume of the bills with the Revenue and Taxation Code section 41 reporting requirement.

Section 41 was initially enacted in 2016 and required various annual reports for certain tax credits. In 2019, section 41 was expanded to include an annual report on all relevant tax expenditures. This workload expansion requires FTB to ensure relevant data is accessible and that the data is either used by FTB to prepare the required annual report or the information can be provided to another department, who is responsible for preparing that annual report.

These resources will ensure that FTB can
accomplish this workload timely and with the due
diligence necessary.

This will now discuss the remaining proposals.

Thank you.

MS. LJONG: Thanks, Jeanne.

Proposal 7 is the Infrastructure Project Refresh,
which requests $9.2 million over the next three fiscal
years to refresh a portion of FTB's network
infrastructure. FTB's programs rely heavily on the
network infrastructure to support our return processing
and compliance operations.

In fiscal year 16/17, FTB received approval and
funding to refresh our infrastructure in phases. It is
now time again for a second major refresh, as some
components are now reaching end of life and others are
experiencing capacity constraints. This funding will
allow FTB to refresh each component and ensure FTB can
successfully continue business functions with protection
from major outages and security breaches.

Proposal 8 is for the Enterprise Storage and
Fiber Channel Switch Refresh, which requests
$6.8 million in fiscal year 22/23, to refresh
end-of-life equipment and software within FTB's
enterprise storage system and storage area network
switches.
The current switches and software were installed in 2015 and must be replaced to prevent risk of failing and unsupported hardware, which would significantly impact FTB's operations. The refresh will provide updated hardware components, improve performance, and address the software security compliance.

Our final proposal, Proposal 9, is for the Microsoft Enterprise License Agreement, which requests $4.4 million over the next three fiscal years to establish a fully funded baseline for FTB's implementation of the State Master Agreement for Microsoft 365.

This package provides FTB with productivity, communication, and security software tools that are needed to carry out our revenue generating work and provide taxpayer assistance. This augmentation ensures that FTB can adequately fund these costs without modifying our existing operations.

And those are the nine Budget Change Proposals that we have presented for the fiscal year 22/23. Thank you so much for your time today and we would like to formally ask for your approval of these proposals, and we would be happy to answer any questions you may have.

CHAIRPERSON YEE: Thank you both, Thi and Jeanne, for the presentation.
Member Vazquez, any questions or comments?

MEMBER VAZQUEZ: I'm not a big techie, but I understand, you know, we need to, obviously, upgrade our systems. And I know these things are constantly changing, and the latest and the greatest, obviously, is happening as we speak. So I understand.

And I think it's -- to me, at least from what I'm reading and hearing, it sounds like it's the best use, at this point, to hopefully maximize our resources and our staff.

CHAIRPERSON YEE: All right. Thank you very much.

I had a question regarding the third BCP on identity proofing and online fraud detection, clearly becoming more and more of a problem. And just wanted to get a sense of whether, certainly being experienced in other parts of state government as well, or government generally, and whether there's a -- I guess, is there kind of a statewide approach to how we look at what we ought to be pursuing?

I mean, I'm just -- or is it just so specific in terms of, you know, each agency to agency, I guess is my first question.

Then my second question is, do we ever consult with, for example, law enforcement or, you know, other
entities who really have to, you know, penetrate deeply
into, you know, these types of issues to see whether
there are recommendations for what we ought to be
pursuing?

MS. HARRIMAN: I can step in and help with that.

So the answer to most of the questions you asked
is, yes.

Let me start off by talking about, there is some
uniqueness, right? We have perpetrators attempting to
access our systems. But the behavior that they
typically display is common across many different
attempts --

CHAIRPERSON YEE: Right.

MS. HARRIMAN: -- that they make across systems.

So they may be attempting to create unique access points
through our systems, but we find them using tips and
tricks that are common across the security world.

That security world -- our security staff is
great, and they actually have numerous intersections
with state-wide chains and state-wide offices that are
combating security issues across the state.

So there's education, of course; there's tips
that are shared; there's alerts that are shared, all of
which enhances the effort at the state level and across
the Board, within Franchise Tax Board.
CHAIRPERSON YEE: Great. Thank you. Appreciate the response.

Okay. Let me move and see if there are any members of the public who wish to address any of the budget change proposals just presented.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time.

Please continue.

CHAIRPERSON YEE: Thank you very much.

So at this point, Mr. -- Member Vazquez, I'm happy to move approval of the nine BCPs presented.

Would you care to second?

MEMBER VAZQUEZ: I will follow your lead. Yes, I will second.

CHAIRPERSON YEE: Okay. Great. Thank you so much.

And noting Member Miller not participating, that motion carries.

Thank you very much.

MS. HARRIMAN: Thank you.
CHAIRPERSON YEE: All right. We will now -- let's see. Michael, are you on board?

MR. BANUELOS: I am. Yes, ma'am. I am here.

CHAIRPERSON YEE: All right. Great. Thank you.

Good afternoon.

MR. BANUELOS: Good afternoon, Madam Chair and Members of the Board. It's very nice to see all of you again.

My name is Michael Banuelos, and I'm the Director of the Franchise Tax Board's Procurement Bureau. So as is usual, my friends Jeanne and Thi get to request the funding through the BCP process, and then I get to come along and seek approval to spend those funds. So there's a tie-in there together.

I'm actually here today to present four proposed procurements that will result in contracts over $1 million for the Board's consideration and approval. With your permission, I will present the contracts and then would be glad to answer any questions that you may have.

CHAIRPERSON YEE: Great.

MR. BANUELOS: The first request is related to an interagency agreement with the California Department of Community Services and Development, also referred to as CSD. And it relates to outreach activities, which have
been mentioned previously in today's meeting.

In the fiscal year 21/22 budget, $15 million was included for outreach activities to maximize participation and claiming of the Golden State Stimulus I and II, the California Earned Income Tax Credit, the Young Child Tax Credit, and to increase awareness of individual taxpayer identification tax status eligibility. These outreach funds are targeted to nonprofit and community-based organizations.

In order to effectuate this, similar to past years, we plan on entering into an interagency agreement with CSD in order to leverage their existing grant processes. The total amount of agreement will be $15 million for the outreach funds plus CSD's operations costs to administer the grants.

I would like to note that the next three contracts I'm presenting are essentially maintenance contracts for tools that are already in use within FTB's technical environment.

So the first of these is a request to renew a license agreement for VMware software products. VMware is a software utilized to virtualize FTB's servers as well as provide desktop functionality. All of FTB's external-facing services -- electronic and paper filing, bank deposits, e-mail, and authentication systems --
rely on the software under this contract.

In addition, these tools are also necessary -- necessary to provide remote access to our employees, and this has been a critical resource as we increase our teleworking presence.

Our existing agreement expires in December of 2021, and we are anticipating a one-year agreement with an estimated value of approximately $1.1 million, and we plan on using the Department of General Services Software Licensing Program to conduct the procurement.

Our next request is for the Board's approval to renew our software subscription and support contract for IBM's software products. IBM's Passport Advantage is one of IBM's programs geared -- geared towards larger organizations. It keeps licenses, subscriptions, upgrades, and technical support under a common set of agreements.

Without this agreement, several of our mission-critical applications, including our accounts receivable, collection, and case management systems will be unavailable, thus limiting our ability to process tax returns and serve taxpayers.

The current contract will expire on December 31st, 2021, and the estimated one-year renewal is $12.5 million. If approved, we will work with the
Department of Technology on conducting the bid.

And last but not least, our final request seeks approval to renew our maintenance agreements for Cisco hardware and software products. FTB's network is comprised of upwards of 6,000 Cisco products, ranging from telephones, network switches, routers, firewalls, and security equipment. Without this maintenance agreement, we would not be able to maintain our critical network infrastructure, and that would be a significant operational risk to FTB.

Our existing agreement valued at $986,000 expires in October of 2021. We're currently pursuing a one-year agreement for approximately $1 million.

At this time, I'm respectfully requesting your approval of these efforts and would be happy to answer any questions you may have.

CHAIRPERSON YEE: Thank you very much, Michael. Members, any questions or comments on this item?

MEMBER MILLER: No questions.

MEMBER VAZQUEZ: I'm sorry. Go ahead. Go ahead, Gayle.

MEMBER MILLER: Oh, I'm sorry, Mr. Vazquez. Is it possible, Madam Chair, for me to recuse myself from the third contract?

CHAIRPERSON YEE: Sure. We will take that up
separately.

MEMBER MILLER: Okay. Thank you. I appreciate that. Thank you very much.

CHAIRPERSON YEE: Sure.

MEMBER VAZQUEZ: Madam Chair, just a quick question on the first part, on the outreach program.

CHAIRPERSON YEE: Yes.

MEMBER VAZQUEZ: Does that include staffing as well, or is it just enhancing resources to the current staff?

MR. BANUELOS: So are you talking -- do you mean enhancing -- for the -- for the local community-based organizations, the staffing on their end?

MEMBER VAZQUEZ: Yes. Yes.

MR. BANUELOS: You know, I believe it is. I can't say with a hundred percent certainty. But I'm pretty sure what we do is when we ask them, when we go out with essentially -- when CSD essentially goes out with a bid, we're looking more at activities that they are performing, making sure that the activities are not duplicated. And that we're not covering different areas. We wouldn't want to spend the same dollar covering two different areas. But, you know, I can't say with a hundred percent certainty, but that is something that we can follow up on.
MEMBER VAZQUEZ: I appreciate it.

MR. BANUELOS: Sure.

CHAIRPERSON YEE: Thank you, Member Vazquez. All right. Let me see if there are any --

MEMBER MILLER: I apologize. I misspoke. I need to recuse myself from the fourth contract.

CHAIRPERSON YEE: Oh, the fourth one? Okay.

MEMBER MILLER: Yeah. I apologize for that.

CHAIRPERSON YEE: No problem.

MEMBER MILLER: Thank you.

CHAIRPERSON YEE: Okay. Let me see if there are any members of the public who wish to speak on this item.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in queue for public comment, as a reminder, you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are queuing up at this time.

Please continue.

CHAIRPERSON YEE: Okay. Thank you. Ms. Brunett, I see you -- did you have a comment?

(No response.)

CHAIRPERSON YEE: Okay. Very well. Thank you.
So why don't we take these up in this order: I will make a motion to approve the Contracts 1, 2, and 3, the interagency agreement with the California Department of Community Services and Development; the VMware software license agreement renewal; and the IBM Passport Advantage software renewal.

I will move approval of these.

MEMBER MILLER: Second.

CHAIRPERSON YEE: Okay. A second by Member Miller.

Without objection, such will be the order. And then on the fourth contract, the Cisco maintenance renewal contract, with Member Miller not participating, I will move approval of that.

Mr. -- Member Vazquez, do you second?

MEMBER VAZQUEZ: And I will second that.

CHAIRPERSON YEE: Okay. Very well. We have a motion and a second.

Without objection, that contract is approved.

Thank you.

MR. BANUELOS: All right. Thank you for your time this afternoon and your continued support. I appreciate it.

CHAIRPERSON YEE: Thank you, Michael. All right.

Thank you.
Members, we now will move on to Item 9. This is Executive Officer's Time and we will hear from our Executive Officer, Selvi Stanislaus.

EXECUTIVE OFFICER STANISLAUS: Thank you, Honorable Madam Chair, and good afternoon, Board Members.

I first want to thank our staff for once again working tirelessly to put this Board meeting together. The exhibited great teamwork and flexibility to ensure the success of this virtual Board meeting.

I also would like to commend my FTB family on the exceptional service they continue to provide our customers during these challenging times. Throughout the pandemic, FTB has played an important role helping our fellow Californians. We are called upon to assist in administering two multibillion-dollar economic relief programs during this COVID-19 crisis, while also fulfilling our usual responsibilities of tax administration. I'm so proud of the way FTB employees responded to this significant task, a responsibility we take very seriously.

We have been able to deliver, as you saw, financial assistance in the form of Golden Gate stimulus payments to millions of Californians in need. The execution by our staff has been extraordinary, and this
experience has illustrated just how important the work we do at FTB truly is.

I also want to thank the tax reps, the Legislature, the Governor's Office, and all taxpayers for the receptivity and for continuing to work with us during this complicated tax season.

Our employees going above and beyond doesn't stop here. As you know, many Californians have been affected by wildfires spread across the state, some even devastating entire towns. FTB staff has attended Local Assistance Centers and provided assistance to survivors in many of the affected counties. These centers provide critical government services for residents who have been impacted by the fires.

Also, in an effort to provide relief to our taxpayers, FTB implemented a 60-day suspension of bills and notices for the counties affected by our Governor-declared state of emergency spurred by the fires. These suspensions involved quick decision making, execution, and coordination between various FTB departments.

I would also like to acknowledge all of our FTB employees, whether working in the office, like many of us here today, or teleworking, staff continues to provide excellent service to our taxpayers, and our
Managers continue to navigate them through the challenges we face due to the ongoing pandemic.

Thank you to all of today's presenters. We heard some outstanding presentations, and it's a testament to your dedication and the preparation you all put into your work. So this is the type of dedication I see from employees and my staff day in and day out here at FTB.

So finally, in closing, I also want to thank our Board members. Your continued support during these challenging times has been tremendous, not only to me personally, but to all of FTB. And to our Chair, the Honorable Betty Yee, your continued guidance and leadership has been instrumental in FTB's success. And I just want to express how much your support and leadership means to us. Thank you, Board Members, for your time.

CHAIRPERSON YEE: Thank you, Selvi, very much. And could not agree more, and echo your sentiments about the entire FTB team.

I want to just see if there are any members of the public who wish to speak on this item before us.

PHONE MODERATOR: Thank you. Ladies and gentlemen on the phone lines, if you would like to place yourself in the queue for public comment, as a reminder, you may press 1, then 0, at this time.
PHONE MODERATOR: No members of the public are queuing up at this time.

Please continue.

CHAIRPERSON YEE: Great. Thank you very much. Thank you very much, Selvi, for those comments. Members, we are now on item number 10. This is Board Members' Time, and I'm going to look to each of you for any comments you would like to make at this time.

Member Vazquez.

MEMBER VAZQUEZ: Just one quick one. And, yeah, I would like to echo the thoughts and, actually, the recommendations and kudos, really, that Selvi, our Executive Director, just mentioned to our staff. And I'm actually looking forward to the day where we can come together, because I was looking forward, right before COVID, to have gone out on a couple of these trips with you and with these mobile units, I understand you have, but I still haven't experienced it, so I'm hoping that's going to happen soon, where I could do this in person and help out with some of the outreach.

Especially I'm thinking about some of the low-income communities throughout the state of California, where, you know, we could always do better.
I know we do a great job, but I know it's always difficult to reach some of these folks, especially some of the mom-and-pops, and hopefully that will change soon.

CHAIRPERSON YEE: Okay. Thank you.

Member Miller, any comments?

(No response.)

CHAIRPERSON YEE: Okay. Great. Thank you.

First, let me just say, I think what was really so significant about today's meeting is not only just continuing to serve Californians during this very, very challenging time, but continuing to look internally to see how we can make continuous improvement across the enterprise and also building on the culture.

And I just am very thankful to the staff team, the staff leads, for continuing to place that focus, all of it to enhance our ability to carry out the mission and the important work of the Franchise Tax Board. So thank you all very, very much.

Before I move to open up time for public comment on this item, I would also to like to acknowledge the receipt of written public comments from Ms. Christine Grab that will be added to the record.

So let me just check and see, are there any members of the public who wish to speak on this item?
PHONE MODERATOR: Thank you. Ladies and
gentlemen on the phone lines, if you would like to place
yourself in the queue for public comment, as a reminder,
you may press 1, then 0, at this time.

(No response.)

PHONE MODERATOR: No members of the public are
queuing up at this time.

Please continue.

CHAIRPERSON YEE: Thank you very much.

Thank you very much, Members.

Our next item is the closed session item, so the
Board will be going into closed session at this time.
We will now be -- we'll return to this virtual platform
upon the conclusion of closed session. But at this
time, Members, let's move into closed session.

Thank you.

(Closed session was held: 4:12 p.m. to 4:35 p.m.)

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

And seeing no other business coming before the
Board, which -- this concludes the Franchise Tax Board
meeting for today. Thank you very much, Members, and
the public. We are adjourned. Take care, everyone.
MEMBER VAZQUEZ: Thank you.

CHAIRPERSON YEE: Thank you.

(Proceedings concluded at 4:35 p.m.)

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CERTIFICATE OF REPORTER

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

That I am a disinterested person herein; that the foregoing proceedings 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 20th day of September 2021.

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