

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 10/20)

Fiscal Year 2022-23	Business Unit 7730	Department Franchise Tax Board	Priority No. 006
Budget Request Name		Program	Subprogram

Budget Request Description  
 Section 41 Workload Expansion

**Budget Request Summary**

The Franchise Tax Board (FTB) requests \$643,000 General Fund and 4 permanent positions in 2022-23; \$582,000 General Fund in 2023-24; \$728,000 General Fund in 2024-25; and \$717,000 General Fund in 2025-26 and on-going. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

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

Project No.

Project Approval Document:

Approval Date:

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

Prepared By Susan Maples	Date	Reviewed By Thi Luong	Date
Department Director	Date	Agency Secretary	Date

**Department of Finance Use Only**

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

PPBA	Date submitted to the Legislature
------	-----------------------------------

## A. Budget Request Summary

The Franchise Tax Board (FTB) requests \$643,000 General Fund and 4 permanent positions in 2022-23; \$582,000 General Fund in 2023-24; \$728,000 General Fund in 2024-25; and \$717,000 General Fund in 2025-26 and on-going. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement.

## B. Background/History

Existing state and federal laws provide various tax credits and other tax benefits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These benefits are generally designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

In 2014, SB 1335 introduced Section 41 into the Revenue and Taxation Code (R&TC). This legislation required any bill, introduced on or after January 1, 2015, that would authorize a personal income or corporation tax credit, to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the credit. In 2019, AB 263 expanded Section 41 reporting requirements to include all tax expenditures. A tax expenditure is defined as a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state. As a result of AB 263, beginning on January 1, 2020, data must be collected on any new tax expenditure bills in order to provide a standard method for the Legislature to periodically evaluate whether tax expenditures are providing the intended benefit to the State and its taxpayers.

As the department which receives tax information, most new bills now direct the FTB to provide relevant data to a designated entity, such as the Legislative Analyst's Office, to evaluate the benefits of the tax expenditure and complete the Section 41 report. Additionally, FTB could be the responsible entity to evaluate the tax expenditure as to its stated goal and issue a Section 41 report. Section 41 reports include analysis of data and baseline measurements to be collected and remitted in each year the tax expenditure is in effect. This allows the Legislature to measure the change in performance indicators which ultimately shows the goals, purpose, and objectives of the tax expenditure are being met.

As FTB's research bureau, ESRB engages in the following activities. These workloads often require staff to produce multiple iterations of analysis based on questions and feedback from stakeholders.

1. Evaluates data based on returns filed with the FTB and provides revenue estimates to the legislature on potential bills and special requests.
2. Provides summary data to the Department of Finance (DOF) and Legislative Analyst's Office (LAO) to support financial projections, and accruals for the State's budget process.
3. Supports the department by producing revenue projections for the Summary of Federal Income Tax Change Report and the Tax Expenditure Report.
4. Provides Section 41 reports as mandated annually to the legislature on several tax expenditure matters.

## Analysis of Problem

Resource History  
(Dollars in thousands)

Program Budget	2016-17	2017-18	2018-19	2019-20	2020-21 THRU P06	2021-22
Authorized Expenditures	4,766	4,833	5,316	5,732	6,024	6024
Actual Expenditures	4,711	4,999	5,055	5,641	2,722	0
Revenues	-	-	-	-	-	-
Authorized Positions	44.0	44.0	45.0	45.0	46.0	46.0
Filled Positions	40.5	42.1	38.8	42.0		
Vacancies	3.5	1.9	6.2	3.0	46.0	46.0

### C. State Level Consideration

This new requirement for all tax expenditure legislation to identify performance measures is mandatory. FTB's ESRB is responsible for evaluating or providing income tax data pursuant to this new law. The relevant data is either used by the FTB or the Legislature's designated subject matter expert to issue a Section 41 report to determine whether the tax expenditure is meeting, failing to meet, or exceeding their specific goals, purposes, and objectives.

FTB Strategic Plan Considerations: This proposal also supports the following FTB Strategic Plan Goals:

Goal 2: Effective Compliance states "Fairly administer the law to ensure taxpayers file and pay the correct amount."

- Strategy 2.2: Improve data, information, and knowledge sharing with the tax community and government partners.

Goal 4: Operational Excellence states "Optimize our processes, products, services, and resources to better serve our internal and external customers."

- Strategy 4.1: Manage budgeted resources at the enterprise level and use performance metrics to meet short- and long-term business needs.
- Strategy 4.2: Validate and utilize data, as authorized, to make decisions and improve business operations.

FTB is committed to supporting its customers and strategic goals.

### D. Justification

R&TC Section 41 is a new mandatory workload that ESRB does not have the resources to address. When Section 41 was initially enacted, reporting requirements were limited to tax credits. However, recent legislation has expanded the requirement to include all tax expenditures. Tax credit data is easier to collect as it is generally reported as a line item on the tax return, and the data is captured by FTB during return processing. Data for other tax expenditures, such as deductions, is more difficult to collect. Individual deductions are rolled up into other line items and not reported on their own because that level of calculation is not

## Analysis of Problem

necessary for return processing. In these instances, ESRB must build a data capture interface and related databases to store the data. The data is then manually keyed in order to generate reports.

In the legislative analysis of AB 263, FTB noted no departmental costs are associated with AB 263 as the bill adds requirements for future bills. At that time, FTB did not have adequate information to predict the significance of this future workload. However, now that approximately 10 tax expenditures have been enacted that require some form of data collection, analysis, distribution to subject matter delegates or the drafting of a report by FTB, these mandated activities are supporting the need for additional resources. In addition, it is anticipated that with each session the Legislature will pass at least four new tax expenditure bills encompassing R&TC Section 41 requirements that will require FTB to collect and distribute data to a delegate responsible to draft the Section 41 report or FTB will be required to draft a report.

Since enactment of Section 41, FTB has absorbed several hundred hours of staff time annually to complete the one or two reports required. With this workload increasing, and other workloads within the bureau also increasing, FTB is no longer able to absorb these hours that we have historically been able to do. Current resources struggle to meet all commitments of the business area. Therefore, FTB is requesting resources in this BCP to fully fund Section 41 work.

Currently, the R&TC Section 41 reporting requirements are being completed by a cross-sectional informal team composed of resources from the units responsible for data gathering and coding, the IT statistical modeling section, and the unit responsible for data analysis and report writing. These staff are currently reporting to different managers who are responsible for the coordination of these activities as well as other mandatory workloads, creating difficulty in the continuity of process. Additionally, FTB has dealt with a deficient span of control issue for a supervisor in this business area. This has hindered ESRB management team from remaining agile in addressing the fast paced operational efforts of the team and has hindered staff from receiving the necessary attention they should receive from a supervisor to ensure they can excel in their current position and be ready for future opportunities. With the continued workload increases, ESRB is no longer able to cover this deficit with other management team members. To ensure adequate management coverage, and for efficiency, ESRB is in the process of realigning its current structure to formalize a data studies team with existing and new resources. This realignment includes two new supervisors who will work together to create the Section 41 reports. The Administrator II will work closely with the IT Supervisor II to define and manage the availability, gathering, and perfecting of data so the IT Supervisor II can oversee the preparation, perfection, and maintenance of the data for use in the analysis and reporting. Both supervisors are critical for this workload, as the Section 41 workload over the last several years has left ESRB struggling to manage this type of workload which spans multiple sections.

### Information Technology (IT) Supervisor II – One permanent position

The incumbent will supervise the increased staffing resources and oversee the bureau wide process of the Section 41 workloads. The IT Supervisor II will plan, organize, and direct staff activities and establish goals and priorities. The position will oversee and manage the activities of the data studies team to ensure the data, analysis, and reports are produced accurately, efficiently, and timely. The position will act as supervisory level liaison to other IT areas and stakeholder managers within the department who we will be working with to obtain the necessary data. This position will ensure strong leadership and coordination necessary to support data gathering, analysis, and report drafting.

### Administrator II (AD II)

The incumbent will act as supervisor for the data entry and data analyst staff in the Revenue and Data Analysis Section (RDAS). The AD II will supervise the increased staffing resources and

## Analysis of Problem

oversee the collection, validation and completeness of all data captured and collected to meet the needs of Section 41 reporting and will also rectify the existing span of control deficit. The AD II will develop a work plan and schedule to meet the various deadlines of these mandated reports. The incumbent will create realistic milestones and deadlines to insure that the data is captured and validated in time to create the reports by the legislated deadline. The incumbent will also update management and stakeholders on the status of data collection.

### Research Data Specialist II (RDS II) – One permanent position in 2022-23; One permanent position in 2024-25

The RDS II positions are needed to analyze the bills that require reporting under R&TC Section 41 and will work in coordination with the IT Specialist I to determine the data points necessary to collect in order to properly report on the impacts of the proposed legislation. Once the bill is passed, in the most complex cases, new forms may need to be developed to capture the necessary data and this position would be responsible to coordinate these requirements with staff that develop FTB tax and e-file schematics.

Once data collection requirements are determined, this position would communicate that information to both the data capture unit and the IT Supervisor II to ensure the IT Specialist I has the information needed to set up the necessary data connections, databases, etc., to ensure we can access the data.

Once data is accessed by the IT Specialist I, the RDS II would be responsible to review the data output to ensure it provides relevant information needed to perform an analysis of the expenditure. Working with the IT Specialist I, this data would then be organized in a usable format for reporting. This could also include aggregation of data, removal of personally identifying information (PII), or suppression due to disclosure rules. These positions would be responsible for the analysis of the data and the written report, including creating graphs and charts that support the data.

### Information Technology Specialist I (ITS I) – One permanent position

The IT Specialist I will be responsible for building and maintaining the connection to the raw data sources within the enterprise. In coordination with the RDS II, the IT Specialist I will also be responsible for the following tasks:

- Develop the data capture interface and databases to enter and store the data locally within ESRB
- Perform the extraction, transformation, and loading (ETL) of data from the sources to the local database in order to key and perfect the data
- Utilize statistical analysis software (SAS) to analyze, classify and prepare the captured and perfected data for use by the report writer (RDS II)

Without the additional positions ESRB would not have the resources needed to timely and accurately build, capture, and provide data to a designated entity responsible to analyze the data and draft a report for the legislature, or for FTB to analyze various data points to produce the written reports required by R&TC Section 41 without impacting current mandatory workloads.

## E. Outcomes and Accountability

It is the responsibility of FTB to provide the relevant data to a designated entity for the purpose of issuing a Section 41 report or to issue a Section 41 report to the Legislature as required by the due date in the bill for that provision.

The management of resources and fiscal oversight received from this proposal will be the responsibility of the Chief Financial Officer.

## Analysis of Problem

### F. Analysis of All Feasible Alternatives

Alternative 1: Approve the FTB's requests for \$643,000 General Fund and 4 permanent positions in 2022-23; \$582,000 General Fund in 2023-24; \$728,000 General Fund in 2024-25; \$717,000 General Fund in 2025-26 and on-going.

This alternative would ensure the ESRB has the resources it needs to fully comply with existing mandated R&TC Section 41 requirement allowing the legislature to evaluate the effectiveness of tax credits and to address a span of control deficit in supervisory roles. These resources will permit FTB to provide the relevant data to a designated entity or issue a Section 41 report to inform the Legislature on decisions impacting Californians.

Alternative 2: Approve the FTB's requests for \$643,000 General Fund and 2 permanent positions and 2 two-year limited-term positions in 2022-23; and \$582,000 General Fund in 2023-24; and \$316,000 General Fund in 2024-25 and on-going.

This alternative would allow ESRB to address its span of control issues and could allow us to further understand and support the workload metrics over time. However, on an ongoing basis, this option would not provide the resources sufficient to allow FTB to code and capture the information or to analyze the data and produce reports FTB is responsible for on the performance measures or specific outcomes of the tax expenditure legislation. The work to understand and interpret the data may not be sufficient to determine if the tax expenditure met the specific goals as intended or to provide information to responsible entities to prepare a report to the legislature. FTB will also not have the resources to produce multiple iterations of analysis based on questions and feedback from the legislature.

Alternative 3: Do not approve this request. Each legislative session will likely increase the number of Section 41 reports entities will be required to complete. If this resource request is denied, ESRB will not have the resources to pull the data or timely complete reports mandated by law. FTB may also not be able to provide the statistical data necessary to the legislature or to other state agencies such as the LAO to determine whether or not the tax expenditure is meeting the goals as intended.

### G. Implementation Plan

- June 2022 – All documents to establish the permanent positions are prepared and approved by the FTB Budget Officer and forwarded to Department of Finance.
- June 2022 – Department of Finance notifies FTB of positions approval.
- July 2022 – Permanent positions are established and FTB begins hiring.

### H. Supplemental Information

None

### I. Recommendation

FTB recommends Alternative 1: Approve the FTB's requests for \$643,000 General Fund and 4 permanent positions in 2022-23; and \$582,000 General Fund in 2023-24; \$728,000 General Fund in 2024-25; and \$717,000 General Fund in 2025-26 and on-going ensuring the ESRB has the resources it needs to fully comply with each new bill containing the mandated R&TC Section 41 requirement.

BCP Fiscal Detail Sheet

BCP Title:

BR Name:

Budget Request Summary

Personal Services