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STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

FRIDAY, SEPTEMBER 23, 2022
1:34 P.M.

GERALD GOLDBERG AUDITORIUM
9646 BUTTERFIELD WAY
SACRAMENTO, CALIFORNIA

Reported By: CARLI N. MCKENNY, RPR, CSR 14086

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INDEX

ITEM NO.		PAGE
	Open Session	6
	Pledge of Allegiance	6
Item 1.	Approval of Minutes Minutes of the June 9, 2022, Board Meeting - Board Approval Revote	7 88
Item 2.	Proposed Updates to FTB Board Resolutions Board Approval	8
Item 3.	Administrative Matters	27
	A. Contracts Over \$1 Million -- Board Approval	
	1. Cisco Maintenance Renewal	
	2. VMware Software License Agreement Renewal	
	3. IBM Passport Advantage Software Renewal	
	4. Uninterrupted Power Supply and Power Distribution Unit	
	B. Facilities Action Item -- Board Approval	
	1. Santa Ana Field Office	
	C. 2023/24 Budget Change Proposals - Board Approval	
	1. Enterprise Date to Revenue (EDR2) Phase 2	
	2. Return Processing Technology Support	
	3. Essential Service and Stakeholder Support Gaps	
	4. Digital Workflow Management	
	5. Security and Access Management	
	6. High Speed Printer Refresh	
Item 4.	Digital Currency Payments Staff Report	42
Item 5.	Fraud Prevention Efforts Staff Report	56
Item 6.	Legislative Matter	71
	A. Legislative Recap-Staff Report	

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

INDEX
(Continued)

ITEM NO.		PAGE
Item 7.	Executive Officer's time Executive Officer's opportunity to Report on Matters of interest to the Board	81
Item 8.	Board Members' Time Board Members' Opportunity to raise other matters of interest	88

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1
2
3
4
5
6
7
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A P P E A R A N C E S:

BOARD MEMBERS

BETTY YEE
State Controller
(Chairperson of the Board)

ANTHONY EPOLITE
Deputy State Controller - Taxation

MALIA COHEN
Chairperson
Board of Equalization

GAYLE MILLER
Representative for Joe Stephenshaw, Director
Department of Finance

--oOo--

STAFF

SELVI STANISLAUS
Executive Director

VICTORIA RAMIREZ
Board Liaison

JOZEL L. BRUNETT
Chief Counsel

SHANE HOFELING
Deputy Chief Counsel

ERIN DENDORFER

MICHAEL BANUELOS

THI LUONG

YVONNE CRANKFIELD

JON KOSIEWICZ

STACY SMITH

SCOTT REID

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APPEARANCES
(Continued)

STAFF

DENIS ARMSTRONG

--oOo--

PUBLIC PARTICIPANTS

BART BAER

--oOo--

1 FRIDAY, SEPTEMBER 23, 2022

2 SACRAMENTO, CALIFORNIA

3 --oOo--

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5 CHAIRPERSON YEE: Good afternoon. The time is
6 now 1:34 and this is the scheduled time for the meeting
7 of the Franchise Tax Board. Let me turn to the board
8 liaison to please call the roll to determine if a quorum
9 is present.

10 MS. RAMIREZ: Member Cohen?

11 (No response.)

12 MS. RAMIREZ: Member Miller?

13 MEMBER MILLER: Here.

14 MS. RAMIREZ: Chair Controller Betty Yee?

15 CHAIRPERSON YEE: Here.

16 Thank you very much. At least two members are
17 present. There is a quorum and the Franchise Tax Board
18 is now in session. At this time, let me ask that all of
19 you to please stand if you are able and join me in the
20 Pledge of Allegiance.

21 (Pledge of Allegiance performed in unison.)

22 CHAIRPERSON YEE: Good afternoon again. Welcome
23 to the Franchise Tax Board's board meeting.

24 The public will have a right to comment on each
25 agenda item. If there are any members of the public

1 wishing to speak on an item, please come forward when
2 that item is called and you will have three minutes to
3 address the board. For today's meeting, members of the
4 public who wish to comment via teleconference, please
5 call 844.291.4185. Again, 844.291.4185, and enter the
6 access code 6598443, access code 6598443. Please be
7 aware that there is a short delay between the web live
8 stream and the live event.

9 If there are any members of the public wishing
10 to speak on an item and you're using a translator or a
11 translator service, you will have six minutes to address
12 the board. All speakers will be asked to identify
13 yourselves for the record.

14 The first item, members, is the approval of the
15 minutes, which we do have minutes of the June 9, 2022,
16 board meeting. Let me just turn to Member Miller.

17 Any questions or comments on the minutes.

18 MEMBER MILLER: Nope.

19 CHAIRPERSON YEE: Okay. Seeing none, let me now
20 ask if there is any member of the public who wishes to
21 address the board on this item in person or on the
22 teleconference line. We will first take members of the
23 public on the phone line and then call on any member of
24 the public in person.

25 PHONE MODERATOR: Members of the public on the

1 phone lines, if you would like to place yourself in the
2 queue for public comment, as a reminder, you may press
3 1, then 0 at this time.

4 (No response.)

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

7 CHAIRPERSON YEE: Thank you very much. Any
8 members of the public who wishes to address the board in
9 this auditorium?

10 Seeing no members of the public approaching the
11 board, this item is properly before us. Is there a
12 motion for approval of the minutes?

13 MEMBER MILLER: Move approval.

14 CHAIRPERSON YEE: Thank you, Member Miller. A
15 motion by Member Miller. I will second that motion.
16 Without objection, such will be the order. Thank you.

17 Item No. 2 will be a presentation on proposed
18 updates to the Franchise Tax Board's Board Resolutions
19 by -- presentation by Erin Dendorfer. This is an action
20 item being presented for board approval. Let me turn to
21 Ms. Dendorfer for the presentation.

22 Good afternoon.

23 MS. DENDORFER: Thank you. Good afternoon,
24 Chair Yee and members of the board. I'm Erin Dendorfer
25 and I'm a Tax Counsel IV in the Legal Division,

1 Technical Resources Bureau. I will be presenting
2 proposed updates to board resolutions for your board's
3 consideration and approval. The legal division
4 performed a review of the operational board resolution
5 and would like to present potential updates to four
6 resolutions for your consideration.

7 As you know, board resolutions memorialize
8 operational policies that apply to FTB. I will briefly
9 summarize each of the resolutions we propose to update
10 along with the proposed changes to those resolutions.
11 One of these proposals would implement a dollar
12 threshold at which the FTB would be required to provide
13 a Certificate of Mailing. The other three proposals
14 would modify the dollar thresholds at which the FTB is
15 required to seek board approval for a specified action.
16 These adjustments reflect the change of the time value
17 of money between the time the resolutions were
18 originally adopted and today.

19 I will start with the resolution regarding
20 Certificates of Mailing for Notices of Action. For
21 background on this proposed change, I'll provide some
22 detail on what a Notice of Action is. When an FTB audit
23 discovers a discrepancy between what a taxpayer paid and
24 what was owed, the FTB issues a Notice of Proposed
25 Assessment, or NPA, if the tax payer owes additional tax

1 penalties or interest. Within 30 days, a taxpayer can
2 file a protest to dispute the NPA. Upon resolution of a
3 protest, an NOA is issued. The NOA either affirms,
4 revises, or withdraws the audit decision.

5 The existing resolution was adopted in 1988 and
6 requires that all NOAs for protested deficiencies be
7 mailed using a Certificate of Mailing. As you know,
8 customer service and taxpayers' due process rights are
9 some of the most important considerations for FTB. The
10 proposed change does not impact those rights or a
11 taxpayer's right to argue that they did not receive a
12 Notice of Action.

13 This proposal, by establishing a threshold,
14 would reduce staff resources spent on issuing
15 Certificates of Mailing, but would otherwise not change
16 any other process, such as ensuring that we are using
17 the best address and that all items are mailed timely
18 and securely. The change would require Certificates of
19 Mailing for Notices of Action in the amount of \$100,000
20 or greater. It would not impact the taxpayer's existing
21 rights.

22 The next proposed update to the -- is to the
23 resolution regarding out-of-state travel. The existing
24 resolution requires board approval of out-of-state
25 travel in excess of \$50,000 per budget year. The

1 threshold does not apply to travel necessary for
2 specific case representation or audits. The resolution
3 explains that specific case representation includes
4 legal collection and personnel proceedings.

5 The proposed change would increase the threshold
6 to \$100,000 and would require board approval for travel
7 exceeding that amount. The proposal would also add
8 certain mission-critical tasks that require out-of-state
9 travel to the existing tasks that do not require
10 approval from the board.

11 In the last decade, new security and information
12 standards -- excuse me -- information protection
13 standards have been established at the federal and state
14 levels. As a result, the necessity for out-of-state
15 travel has increased to ensure that out-of-state offices
16 meet the new requirements and for ongoing compliance
17 with those new requirements.

18 In addition, this change would include travel
19 needed for staff to support performing specific case
20 representation and audit, including IT support, security
21 updates, and general administration relating to having
22 employees occupy a building. Also, the out-of-state
23 field offices require support typical of any state
24 office, such as human resources, facilities, health and
25 safety, and work site security.

1 FTB staff based here regularly travel to perform
2 services at FTB's out-of-state field offices. The
3 proposed change to the resolution would not include
4 travel for these tasks in the determination of any
5 reporting requirement exceeding the threshold.

6 The next resolution we are proposing to amend
7 relates to contracts for materials, services, and
8 supplies. The current resolution requires the executive
9 officer to seek board approval before initiating
10 procurement activity that would result in the award of a
11 contract exceeding \$1 million.

12 Today, most contracts in this category that come
13 before the board are for renewing or extending licenses
14 and are essential to FTB's day-to-day functions. FTB is
15 thankful for the board's support on these items to
16 ensure we are able to protect our ongoing business
17 operations.

18 The proposed change to this resolution would do
19 three things. First, it would replace the \$1 million
20 threshold and instead require the executive officer to
21 obtain board approval for contracts that would exceed
22 \$2 million. Second, it would require the executive
23 officer to provide written notice to the board for
24 procurement activity that would result in the award of
25 contracts greater than \$1 million but less than

1 \$2 million.

2 Consistent with current board practice, if any
3 member of the board has concerns with an item, the item
4 could be brought before the board as a formal agenda
5 item. Over the last five years, ten contracts would
6 have fallen within these dollar amounts. Under this new
7 proposal, information about those contracts would have
8 been provided to the board in writing rather than at an
9 oral presentation before the board.

10 Finally, these proposed changes would also
11 replace outdated references to agency names that have
12 changed since this resolution was adopted in 1998.

13 The last resolution that we propose to amend is
14 regarding FTB's settlement authority. Currently, the
15 Attorney General's office, or AG, represents the FTB in
16 all matters of litigation. During the course of
17 litigation, the AG and the taxpayer may agree to a
18 settlement. After the AG has recommended settlement,
19 the FTB comes to the board to seek approval of that
20 settlement.

21 The existing resolution requires the executive
22 officer to seek review and approval of these tax
23 litigation settlements in which the taxpayer asks for
24 \$250,000 or more in tax and interest or that involve a
25 legal principle having a substantial -- substantial

1 implications for taxpayers or the State.

2 The proposed change would also do three things.
3 First, it would amend the dollar threshold at which the
4 executive officer is required to seek board approval to
5 \$500,000. Second, it would require the executive
6 officer to provide written notice to the board for tax
7 litigations settlements for \$250,000 or more and less
8 than \$500,000. And also consistent with current board
9 practice, if any of the member of the board has concerns
10 with an item, the item could be brought before the board
11 as a formal agenda item.

12 Finally, the proposed change to this resolution
13 would modify the requirement to be dependent on the
14 total settlement amount instead of the amount the
15 complaint seeks in settlement.

16 And that was a brief overview of the proposed
17 changes to resolutions for your consideration, and I
18 would be happy to answer any questions you may have.

19 CHAIRPERSON YEE: Thank you, Erin, for that
20 presentation.

21 Members, questions or comments on the
22 resolutions?

23 MEMBER COHEN: Good afternoon, everyone.

24 CHAIRPERSON YEE: Member Cohen, please.

25 MEMBER COHEN: Thank you. Question: Are

1 you taking comments on all four?

2 CHAIRPERSON YEE: I'll take comments on all
3 four, but for purposes of the questions, how about just
4 identifying the resolution and you can -- concerned
5 with.

6 MEMBER COHEN: Sure. Sure. Thank you very
7 much.

8 Thank you for the presentation. I appreciate
9 it. I actually just had a couple questions for -- just
10 for clarification. Okay.

11 So one of the things that I try to do is always
12 to be consistent with my process of processing
13 information and then the votes that I'm taking, and I
14 did have a couple questions just about the -- about the
15 increase of -- hold on a minute -- the Certificates of
16 Mailing for Notices of Action, the first resolution that
17 you were discussing, and you made a presentation on.

18 What really spurred this change, this policy
19 change? Was there an incident or something that
20 triggered this recommendation or --

21 MS. DENDORFER: No.

22 MEMBER COHEN: -- an annual review? I just want
23 to know what the ideology, what the thinking was behind
24 it.

25 MS. DENDORFER: It was just one of the

1 opportunities that FTB saw to kind of streamline the
2 process a little bit more and save some State resources
3 that are spent on sending these notices -- or providing
4 Certificates of Mailing. And just as background, the
5 Certificate of Mailing is just proof that something was
6 mailed, not actually proof that something is received.
7 So yeah, it was just -- it was just a conservation of
8 resources.

9 MEMBER COHEN: Okay. And then the second one,
10 the out-of-travel State approval, there is a carve-out
11 that specifically excludes travel for audit and specific
12 case representation. What is the rationale behind that
13 carve-out?

14 MS. DENDORFER: That carve-out is actually in
15 the existing resolution, and I -- part of that is
16 because we do have out-of-state offices and FTB performs
17 audits in other states, and it's also a conservation of
18 resources to have auditors located in other states that
19 are able to travel more easily to taxpayers that are
20 located out of state as well.

21 MEMBER COHEN: Okay. So that -- those are the
22 two primary questions that I had.

23 I have got some statements if I may --

24 CHAIRPERSON YEE: Sure.

25 MEMBER COHEN: -- before we take a vote, if I

1 may. Thank you.

2 CHAIRPERSON YEE: Yeah.

3 MEMBER COHEN: So as a member of the Franchise
4 Tax Board, I've been a consistent proponent for maximum
5 services to taxpayer and maximum transparency. I think
6 we all talk about that often, and we predicate our
7 business on those principles. The Certificates of
8 Mailing for Notices of Action, also known as NOAs, I'm a
9 little concerned, and hear me out.

10 So the Franchise Tax Board, the Mission
11 Statement clearly states that our mission is to help
12 taxpayers file timely and accurate tax returns and pay
13 the correct amount to fund services important to
14 Californians. And so what concerns me is that the first
15 proposal to eliminate, in a way, by Certified Mail just
16 sends, like, a message that those that are able to
17 afford a lawyer and a lobbyist and are able to basically
18 have business that exceed \$100,000, their -- their
19 business is more important, therefore worthy of a
20 notification.

21 And I'm concerned that we are sending a message
22 to everyday taxpayers such as myself, and perhaps some
23 of you that are in this room, that -- that it is just
24 not -- a less -- takes a less of a precedence, less
25 importance. Certified Mail, quite honestly, serves as a

1 visual -- right? -- that this is not junk mail, open it.
2 And I'm just concerned that -- that taxpayers who may
3 owe smaller amounts of taxes and interest, that they
4 deserve the same amount of notification as taxpayers
5 with larger obligations to receive.

6 So I just wanted to go on the record. I'm not
7 trying to sway people's votes or anything, but I wanted
8 to express my -- my rationale, because I will be voting
9 against the resolution, and I wanted to be on the record
10 just so you could understand where I am coming from.

11 The second one, for the out-of-state approval --
12 and again, standing in line with our foundational
13 principles that this board operates with transparency,
14 and our goal is to maintain public trust and confidence.
15 And I believe the second proposed update for the board
16 resolution -- and this is the one to raise the threshold
17 of approval from travel from 50,000 to 100,000 to make
18 our operations less transparent, I'm a little
19 uncomfortable with this one.

20 And the reason why I'm uncomfortable with that,
21 because I just feel like it is inconsistent with some of
22 our commitments to be transparent and maintain public
23 trust. When things are coming before us, it allows more
24 transparency. People are able to hear our decisions,
25 hear our thought process, and then be able to follow our

1 decision.

2 And the third one -- the third one is -- is a
3 contract for procurement and activity of in excess of
4 \$1 million. And again, this is much in the same spirit
5 of the last one. By restricting the board's approval
6 requirement for contracts between 1 million and \$2
7 million, the board members -- I think we would be
8 depriving ourselves of the responsibility of examining
9 the performance metrics of procurements between
10 \$1 million and \$2 million in a publicly-noticed forum.

11 Again, these FTB meetings are also a way that we
12 inform the public of our work, and so that is why I am
13 just hesitant to support the resolution that would
14 restrict, in my opinion, another -- an opportunity to be
15 transparent.

16 And then finally, this is the tax litigation
17 settlement authority. Again, I believe that this
18 proposal review -- reduces our -- our -- our oversight
19 authority of tax litigation settlements, which again, I
20 believe is essential to the part of our -- to part of
21 our duties.

22 So I want to say that I'm not going to be
23 supporting this, and this is not a reflection of the
24 hard work of the board staff or of the executive staff.
25 This is certainly -- based on the presentation you have

1 done, your complete competencies, you have made
2 intelligent and informed conclusions. But I am just
3 going to be voting no on the resolutions and wanted to
4 just acknowledge the hard work that has been presented
5 before us. Thank you.

6 CHAIRPERSON YEE: Thank you, Member Cohen.

7 Any other member comments or questions?

8 Okay. Let me see if there are now members of
9 the public who wishes to address the board on this item.
10 Let's first take members of the public on the phone line
11 and then followed by any members of the public in person
12 on this item.

13 PHONE MODERATOR: Members of the public on the
14 phone lines, if you would like to place yourself in the
15 queue for public comment, as a reminder, you may press 1
16 and 0 at this time.

17 (No response.)

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

20 CHAIRPERSON YEE: Thank you very much. Let me
21 first thank you for the presentation.

22 Thank you, Member Cohen, for your comments.

23 You know, what I will say is having served on
24 this board for a number of years now, many of these
25 resolutions are before us just because they have not had

1 a chance to be reviewed to be updated for, frankly, the
2 cost of doing business. And so -- but as Erin mentioned
3 in her presentation, anything that any of us sees, as a
4 member of this board, can also be brought forth as a
5 matter of discussion publicly. So the diligence and
6 scrutiny over these is on us.

7 But I do think the staff will recognize that
8 some of these haven't been changed for actually a couple
9 of decades. So to be able to kind of be caught up with
10 the 21st century is actually nice.

11 But also, I think with respect to transparency,
12 I think that's all of us just exercising that to the
13 highest degree, so that's on us. That's on our -- the
14 way that we ask questions, the way we scrutinize these
15 proposals when they come before us. I know Mr. Banuelos
16 will be talking to us about some contracts today, and to
17 the extent that we have questions and really want to use
18 this opportunity during this board meeting to continue
19 our diligence on them, I think that's totally
20 appropriate.

21 So I agree with you with respect to always
22 upholding the highest level of transparency and
23 accountability, but we also have a business to run.
24 I -- it is a little frustrating to not be able to kind
25 of just understand that the cost of doing business has

1 gone up and we are limited in terms of just the
2 efficiency of what we can do to keep up with, you know,
3 the workload that we have before us. So I will be
4 supporting these resolutions.

5 And at this time, let me just see if there is a
6 motion to approve the resolutions.

7 MEMBER MILLER: I move approval -- oh, I'm
8 sorry.

9 CHAIRPERSON YEE: Excuse me. I'm sorry. Let me
10 see if there is any public comment in the auditorium
11 here.

12 MR. BAER: Hello. Madam Controller --

13 CHAIRPERSON YEE: Yes.

14 MR. BAER: -- thank you. I'm Bart Baer, now
15 Chief Tax Counsel with the California Taxpayers
16 Association, recently retired from Deloitte. And I was
17 just saying now that I'm on a fixed income and working
18 part time, \$100,000 threshold for the Certificate of
19 Mailing on Notice of Action, if I did have deficiency on
20 something, is a fairly big amount. So if something
21 happens in the mail and do not get the notice and miss
22 other steps, I should be taking to continue to challenge
23 the assessment, that's a problem.

24 One question I had was, you know, for smaller
25 taxpayers, what would be the process for monitoring the

1 actions by the protest hearing officer, but for -- but
2 for receiving the notice? I mean, if there were a
3 glitch, is there a way for the taxpayer to kind of
4 monitor that? Just -- I'd like to better understand
5 that.

6 But I do think that we think that, you know,
7 there is all kinds of evidentiary problems when there
8 has been a mailing and there isn't any proof of it. I
9 have dealt with that in my own practice. And so I would
10 encourage that we continue to keep the status quo on
11 this notice process. Thank you.

12 CHAIRPERSON YEE: Thank you very much.

13 Erin, can you comment with respect to the cases
14 that are below 100,000?

15 MS. DENDORFER: Definitely. There are cases
16 below \$100,000, definitely. But I do want to just bring
17 up a slight distinction. There is a Certificate of
18 Mailing process and a Certified Mail process. So the
19 Certificate of Mailing process just establishes that a
20 document was mailed. It does not actually document that
21 it was received. The Certified Mailing process would do
22 that.

23 So when we were looking at this process, it
24 is -- excuse me. So a Certificate of Mailing is a tool
25 that establishes that the NOA was mailed, and it doesn't

1 actually take away any of the rights of a taxpayer to
2 dispute whether something was mailed or not. So whether
3 it is included with the mailing or not, it doesn't
4 affect the taxpayer's rights.

5 But FTB, just when we looked at this, we thought
6 it would be in the State's best interest to retain the
7 evidentiary tool that we use to establish that something
8 was mailed in the higher-dollar-value cases, and for
9 administrative ease and just conservation of staff
10 resources, remove it for the lower-dollar value. But it
11 is more of an evidentiary tool that FTB has to show that
12 FTB mailed something. It doesn't show that anything was
13 received.

14 MEMBER COHEN: May I ask what is the cost
15 savings?

16 MS. DENDORFER: The cost savings are not that
17 significant. It is under \$1,200.00, I think over the
18 last three years.

19 MEMBER COHEN: Okay. Thank you.

20 MS. DENDORFER: I'm sorry. That's in one year.

21 MEMBER COHEN: So we are changing the policy for
22 an item that doesn't have significant cost savings?

23 MS. DENDORFER: That's the actual cost of the
24 mailing, and that doesn't include the staff resources
25 that are required to go through that process.

1 MEMBER COHEN: I see. Do you know that figure
2 for the staff resources?

3 MS. DENDORFER: I do not have that figure handy,
4 but we can look into that and provide it.

5 MEMBER COHEN: Thank you.

6 CHAIRPERSON YEE: This is an issue that has --
7 when the Board of Equalization did have the jurisdiction
8 of hearing Franchise Income Tax appeals -- was an issue
9 that came up with respect to just evidence of these
10 mailings having been made by the Franchise Tax Board.

11 So -- and I think part of these resolutions is
12 to try to at least set an expectation of when we would
13 be utilizing these Certificates of Mailing so that, for
14 these higher-dollar cases, that expectation is set. As
15 Erin stated, it does not indicate whether the notice has
16 been received, but it at least establishes that for the
17 State.

18 And I -- I agree that we are trying to provide
19 the highest level of taxpayer service. We also have the
20 interest of the State to protect, as well, so that is a
21 balance. But that was just to raise up that that was an
22 issue that came up frequently during our -- our tax
23 appeals.

24 MEMBER MILLER: If I may, Madam Chair.

25 CHAIRPERSON YEE: I'm sorry?

1 MEMBER MILLER: If I may.

2 CHAIRPERSON YEE: Yes, please, Member Miller.

3 MEMBER MILLER: Thank you. Just on that -- on
4 that point about the balance of the State resources, I
5 think there is three things we are protecting:
6 taxpayers, always, first, and then making sure that --
7 that while we are protecting taxpayers, we are
8 consistent with expectations and what they can expect --
9 and I think the Franchise Tax Board actually does a
10 really good job letting taxpayers know what is coming --
11 and then also State resources, so that we are using our
12 resources in a way to the biggest benefit so that -- and
13 I do think that, in fact, to the counsel from Cal Tax's
14 point, I actually think that is what serves taxpayers
15 best is when we have consistent rules that are easy to
16 understand and easy to follow, and I think that's what
17 we are doing here. And I agree that these are -- these
18 have been a long time coming in terms of the changes we
19 are making.

20 So when you're ready, Madam Chair, I'm happy to
21 move -- are you doing it separately or may I move all
22 four resolutions at once?

23 CHAIRPERSON YEE: Why don't we -- are you going
24 to be -- Member Cohen, are you going to be looking to
25 vote en masse on these or --

1 MEMBER COHEN: Yes, we can vote -- I'm voting
2 them down. We can bring them together.

3 CHAIRPERSON YEE: Okay. So we'll take them up
4 together, Member Miller.

5 MEMBER MILLER: Great, thank you. And when
6 you're ready for that, I'll move approval.

7 CHAIRPERSON YEE: Okay. I will entertain that
8 motion, then.

9 It has been moved by Member Miller to approve
10 the four resolutions before us. I will second that
11 motion. Let me just ask for roll call, please.

12 MS. RAMIREZ: Member Cohen?

13 MEMBER COHEN: No.

14 MS. RAMIREZ: Member Miller?

15 MEMBER MILLER: Aye.

16 MS. RAMIREZ: And Chair Controller Betty Yee?

17 CHAIRPERSON YEE: Aye.

18 That motion carries. The resolutions are
19 approved. Thank you very much.

20 So next, members, we will move on to Item No. 3.
21 These are administrative matters. First, we will have
22 Michael Banuelos present the contracts over a million
23 dollars and a facility action item, both of which are
24 action items, and we will have, then, Thi Luong will
25 present the 2023-'24 budget change proposals. And I

1 know, Member Miller, you will be abstaining from those.

2 So Michael, you're on deck.

3 MR. BANUELOS: Okay. Good afternoon, Madam
4 Chair and board members. My name is Michael Banuelos,
5 and I'm the director of the Franchise Tax Board's
6 Procurement Bureau. I'm here today to present four
7 proposed contracts over \$1 million for the board's
8 approval. I'm also going to present one facilities
9 action item. First, I will present the contracts, and
10 then I will present the facilities action item.

11 Our first request seeks approval to renew our
12 maintenance agreement for Cisco hardware and software
13 products. FTB's network is comprised of multiple Cisco
14 products, ranging from telephones, network switches,
15 routers, firewalls, voice and video equipment, and
16 security equipment. Many critical public-facing
17 applications, including MyFTB, Web Pay, and CalFile rely
18 on our network.

19 Without this maintenance agreement, we would be
20 unable to maintain our critical network infrastructure.
21 Our existing agreement expires in October of 2022, and
22 we are pursuing a one-year agreement for approximately
23 \$1.2 million.

24 Our second request seeks approval to renew our
25 license agreement for VMware software products. VMware

1 is a software utilized to virtualize and run over 1600
2 FTB servers and provide desktop functionality to our
3 employees. FTB's external-facing services -- electronic
4 and paper filing, bank deposits, e-mail, and
5 authentication systems -- rely on the software under
6 this contract. Our existing contract expires in
7 December 2022, and we are anticipating a one-year
8 agreement estimated near \$1 million.

9 Our next request seeks approval to renew our
10 software subscription and support contract for IBM
11 software products. IMB's Passport Advantage program is
12 one of IMB's programs geared towards larger
13 organizations. It keeps licenses, subscriptions,
14 upgrades, and technical support under a standard set of
15 agreements. Without this agreement, several of our
16 mission-critical applications, including our accounts
17 receivable collection and case management systems, will
18 be unavailable, thus limiting our ability to process tax
19 returns and serve taxpayers. The current contract will
20 expire in December 2022 and the estimated one-year
21 renewal is \$12.5 million.

22 Our final request seeks approval to conduct a
23 procurement to replace our uninterrupted power supply
24 and power distribution units in network closets located
25 in FTB's central campus and our field offices. These

1 are also commonly referred to as UPSs and PDUs. We have
2 a large investment in technology, and proper power
3 management is also a critical element in keeping our
4 systems running and providing service to taxpayers.

5 UPS and PDU equipment deliver power to FTB's
6 network and telecom devices in the case of a power
7 failure, and also protect our equipment from anomalies
8 such as power surges or voltage drops. If there's a
9 power failure, the UPS and PDU equipment allow our
10 telecom and network equipment to continue running long
11 enough for generators to engage or until a proper
12 shutdown can occur. If a proper shutdown does not
13 occur, there is the potential the devices may not
14 restore gracefully and may require manual intervention
15 or may even be damaged.

16 Our existing equipment is aged and coming to the
17 point where it will no longer receive vendor maintenance
18 and support. The estimated cost to replace our aging
19 equipment is approximately \$1.3 million.

20 At this time, I am respectfully requesting your
21 approval of these procurements and would be happy to
22 answer any questions you may have.

23 CHAIRPERSON YEE: Thank you very much, Michael,
24 for that presentation.

25 Questions or comments, members?

1 MEMBER COHEN: No questions.

2 CHAIRPERSON YEE: Okay. All right. Let me --
3 and you have a facilities item also, yes?

4 MR. BANUELOS: Yes, ma'am.

5 CHAIRPERSON YEE: Okay. Why don't you present
6 that as well.

7 MR. BANUELOS: The next item I am presenting for
8 your approval is a facilities action item related to our
9 Santa Ana field office.

10 Our Santa Ana field office houses audit staff as
11 well as accounts receivable management, also known as
12 ARM, staff. Each area has their own lease, and both
13 leases expire in June of 2023. We are seeking approval
14 to submit a request to Department of General Services to
15 explore options to move both units within the Santa Ana
16 area.

17 Currently, the Santa Ana field office has
18 approximately 53 audit staff. The audit suite is
19 impacted by overstaffing. There are 36 workstations for
20 44 auditors, and six offices shared by eight supervisors
21 and managers. In addition, we expect more redirected
22 positions to this location due to recruitment efforts.
23 The audit division would like to renew the lease at the
24 same facility but would like to look for a bigger space
25 commensurate with the number of staff.

1 The ARM office houses approximately 40 public
2 service and collection staff. ARM would like to explore
3 the possibility of co-locating with other similar State
4 agencies with public-facing services. If an adequate
5 space is not identifying -- identified, ARM would like
6 to renew -- will look to renew the lease in the current
7 facility. In working with DGS, we will consider
8 projections based on the State's telework policy,
9 recognizing the need based on office-centered and
10 remote-centered employees.

11 At this time, I am respectfully requesting your
12 approval to submit this request to DGS and would be
13 happy to answer any questions you may have.

14 CHAIRPERSON YEE: Thank you very much for that
15 presentation.

16 Questions or comments on this item, members?
17 No? Okay.

18 Let me stop here and see if there are any
19 members of the public who wishes to address these items.
20 This is Item 3A under "administrative matters," the
21 contracts over \$1 million, as well as Item 3B, the
22 facility action item related to the Santa Ana field
23 office.

24 We'll first take comments from members of the
25 public on the phone, followed by those in the room.

1 PHONE MODERATOR: Members of the public on the
2 phone line, if you would like to place yourself in the
3 queue for public comment, this is a reminder, you may
4 press 1, then 0 at this time.

5 (No response.)

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

8 CHAIRPERSON YEE: Thank you.

9 Any members of the public in the auditorium who
10 wishes to address the board on these items? Seeing no
11 one approaching the board, these items are properly
12 before us.

13 May I have a motion on them, please.

14 MEMBER COHEN: So moved.

15 CHAIRPERSON YEE: Okay. We have a motion by
16 Member Cohen to approve these items under 3A and 3B. Is
17 there a second?

18 MEMBER MILLER: Second.

19 CHAIRPERSON YEE: Second by Member Miller.

20 Without objection, such will be the order.

21 Thank you very much.

22 MR. BANUELOS: Thank you for your time and your
23 support.

24 CHAIRPERSON YEE: Next, we'll move to the
25 2023-'24 budget change proposals and let me turn to Thi

1 for that presentation. Good afternoon.

2 MS. LUONG: Good afternoon. Thank you so much.
3 My name is Thi Luong, Financial Management Director at
4 the Franchise Tax Board. I'm here today to share with
5 you and to seek your approval for FTB's six fiscal year
6 '23-'24 budget change proposals. I will provide a brief
7 overview of each proposal, and then answer any questions
8 you may have.

9 Our first proposal is for the Enterprise Data to
10 Revenue Phase 2, also known as EDR2. The start of
11 fiscal year '23-'24 will see FTB enter into the third
12 year of the EDR2 project. We will continue to build on
13 the foundation set by EDR for centralizing technology
14 solutions that support our key business functions. EDR2
15 will expand enterprise case management and modeling
16 services for audit, filing enforcement, and accounts
17 receivable functions, as well as expand customer service
18 tools.

19 Following the statewide process to support
20 funding for larger projects, an annual BCP is required
21 for new costs related to that year. This year's
22 proposal requests an augmentation of 135 million and
23 includes funding for 41 permanent and 31 limited-term
24 positions. The request also includes 116.5 million for
25 payment to the solution partners. Costs within this BCP

1 can be ongoing, limited term, or one time, as noted
2 within the BCP narrative.

3 During the third year, FTB is requesting
4 resources to support various stages of website
5 enhancements, modeling, enhanced data capture, data
6 management, and oversight functions such as independent
7 verification validation, quality assurance, and an
8 independent security assessment.

9 Our second proposal, return processing
10 technology support, requests 29 positions and
11 4.9 million, beginning in fiscal year '23-'24 and
12 ongoing, to maintain and improve existing
13 mission-critical applications and services that support
14 our return processing functions.

15 FTB's processes are underpinned by technology.
16 87 percent of FTB's tax returns are processed through
17 automation; 83 percent of FTB's personal income tax
18 collection accounts are resolved through automated
19 collections; and finally, 80 percent of FTB's tax return
20 payments are electronic.

21 Over the past several years, FTB's technology
22 services division, TSD, has consistently been asked to
23 implement new changes and adopt new workloads in support
24 of FTB's return processing, through either legislative
25 change or other internal change requests. At the same

1 time, ongoing support and maintenance of FTB's systems
2 and services have also increased due to complexity in
3 fraud detection and validation needs, exponential growth
4 in the amount of data acquired and consumed, and
5 increased taxpayer demand for self-services.

6 As a result, TSD is experiencing critical
7 resource gaps impacting return processing workloads.
8 This augmentation will enable FTB to reduce the risk of
9 adverse impact to return processing workloads, enhance
10 our ability to react to change, and make return
11 processing easier.

12 Proposal three is essential service and
13 stakeholder support gap. This proposal requests \$2.5
14 million and 13 positions beginning in fiscal year
15 '23-'24 and ongoing, to enable the Franchise Tax Board
16 to engage in critical support functions for internal
17 services and external stakeholders.

18 Within FTB, there are multiple areas to support
19 core services for all of FTB. These business areas
20 provide expertise and services in the areas of revenue
21 estimation, budgeting, legislation, project oversight,
22 procurement, talent management, and equal opportunity
23 laws. Workloads in these business areas have continued
24 to grow in both volume and complexity over the last five
25 years.

1 Deficient staffing levels for support functions
2 prevent FTB from responding timely or adequately to
3 external and internal requests for services. FTB's
4 inability to complete critical support work efforts and
5 products could jeopardize key efforts of the
6 administration and impact FTB's ability to complete
7 essential work in the most effective manner. This
8 augmentation ensures FTB operations are strong and
9 allows for optimal service levels for all Californians
10 trying to comply with filing and payment obligations.

11 Next, the digital workflow management proposal
12 requests 2.8 million for two permanent positions, one
13 limited-term position, and software costs in fiscal year
14 '23-'24 to replace obsolete and custom-coded solutions
15 with a new enterprise-class low-code platform that will
16 reduce risk and improve service delivery for internal
17 and external customers.

18 FTB's current tools are a mix of outdated
19 technologies, solutions by various vendors, and in-house
20 custom-coded solutions. These disparate tools and
21 solutions create bottlenecks that slow the delivery of
22 services and result in the need for increased
23 operational support.

24 This augmentation will refresh and realign tools
25 to enable FTB to leverage prebuilt low-code solutions

1 with repeatable workflows. This will enable FTB to
2 sustain expected levels of customer service for internal
3 business users, and better position FTB to meet the
4 needs of external stakeholders with solutions that are
5 secure, quick to implement, and have lower ongoing
6 maintenance needs.

7 Proposal five is for security and access
8 management. This proposal requests \$1.8 million for two
9 permanent positions and software costs in fiscal year
10 '23-'24, and ongoing, to reduce security risks by
11 implementing a solution to add privilege access
12 management capabilities and improve login security by
13 implementing multifactor authentication into FTB's
14 public web applications.

15 Updating FTB's security and access management
16 tools will allow staff to effectively monitor the entire
17 network and provide insights into which users and
18 taxpayers have access to what data. It is the best way
19 to protect FTB's accounts, both internal and taxpayers',
20 from attacks by malicious parties who would attempt to
21 gain access to FTB's confidential and sensitive data.
22 Expanding the use of these security tools will also
23 bring FTB into compliance with current security
24 compliance requirements.

25 Our final proposal is for the high-speed printer

1 refresh, and requests \$2.2 million in fiscal year
2 '23-'24 and '24-'25 to replace two high speed print
3 systems and software that is used to print FTB's
4 notices, bills, and correspondence. The print systems
5 and software reach end of life in December of 2024 and
6 must be replaced. One of our current print systems was
7 implemented in 2005 and the other was implemented in
8 2015. Print systems are generally refreshed every seven
9 to ten years.

10 While FTB has implemented many paperless
11 options, FTB continues to provide printed notices,
12 bills, and correspondence to California taxpayers and
13 customers. The new print systems will enable FTB to
14 provide products and services to California taxpayers
15 and generate revenue for the State of California.

16 At this time, I would like to request your
17 approval of our proposal. Thank you for your time and
18 support, and happy to answer any questions you may have.

19 CHAIRPERSON YEE: Thank you, Thi, for the
20 presentation of the budget change proposals.

21 Questions or comments from members?

22 Member Cohen?

23 MEMBER COHEN: Yes, thank you. Overall, I'm
24 prepared to support the BCPs that are before us, but I
25 do have a question. This is regarding the security and

1 access management BCP that you went over.

2 In the entire document in the presentation, they
3 have a nice list of pros and cons, and I just wanted to
4 talk a little bit about some of the cons or some of the
5 things that are documented that you all -- the staff has
6 flagged as having some concerns.

7 The first one is FTB will not be able to
8 leverage modern security and access management tools to
9 mitigate emerging and evolving IT threats. So if I'm
10 reading this correctly, you're saying that if we do not
11 receive the BCP, this could potentially happen.

12 MS. LUONG: Yes, ma'am.

13 MEMBER COHEN: Okay, thank you. That's all I
14 really needed.

15 MS. LUONG: Okay.

16 MEMBER COHEN: Thank you. Just a clarification
17 on how to interpret this document.

18 MS. LUONG: Yeah, so if I may provide some
19 clarification on that.

20 The short answer is "yes." So FTB already has
21 many modern tools today, right? But in the case of our
22 privilege access management that we are speaking of
23 here, so some of our processes right now are automated
24 while others are manual. So by implementing a fully
25 automated solution, we are able to make sure that we are

1 on top of things even faster.

2 MEMBER COHEN: And these positions -- I think it
3 was 1.8 million for two full-time persons, right?

4 MS. LUONG: Uh-huh.

5 MEMBER COHEN: Does that also include healthcare
6 benefits or was that just salary? Is that the full
7 compensation package?

8 MS. LUONG: So our costing, it includes the
9 entire package. So it does include salaries and
10 benefits. And just to be transparent, the proposal also
11 includes the software cost.

12 MEMBER COHEN: Thank you.

13 CHAIRPERSON YEE: Thank you, Member Cohen.

14 All right. Let me turn and see whether there
15 are any members of the public who wishes to address the
16 board on the budget change proposals. First take
17 members from the public who are on the phone line, and
18 then followed by any members of the public here in
19 person.

20 PHONE MODERATOR: Members of the public on the
21 phone lines, if you would like to place yourself in the
22 queue for public comment, as a reminder, you may press 1
23 then 0 at this time.

24 (No response.)

25 PHONE MODERATOR: No members of the public are

1 queueing up at this time. Please continue.

2 CHAIRPERSON YEE: Thank you very much. Are
3 there any members of the public who wishes to address
4 the board on these items in the room here?

5 Okay. Seeing no one approaching the board, this
6 matter is properly before us for approval. May I have a
7 motion, please.

8 MEMBER COHEN: I will make that motion.

9 CHAIRPERSON YEE: Okay. Motion by Member Cohen
10 to approve the proposed -- the budget change proposals
11 as presented. I will second that motion.

12 Please call the roll.

13 MS. RAMIREZ: Member Cohen?

14 MEMBER COHEN: Aye.

15 MS. RAMIREZ: Member Miller?

16 CHAIRPERSON YEE: Member Miller is not voting on
17 these items.

18 MS. RAMIREZ: Chair Controller Betty Yee.

19 CHAIRPERSON YEE: Aye.

20 Thank you very much. That motion passes.

21 And thank you, Thi, for the presentation.

22 MS. LUONG: Thank you for your support.

23 CHAIRPERSON YEE: Thank you.

24 All right, members, Item No. 4 is our next item.

25 And this is a presentation on digital currency payments,

1 and this will be presented by Yvonne Crankfield as well
2 as Jon Kosiewicz. And this is an informational item,
3 members, so we are prepared to receive the presentation.

4 Good afternoon.

5 MS. CRANKFIELD: Good afternoon, Madam Chair and
6 board members. My name is Yvonne Crankfield, and I'm
7 the Assistant Bureau Director in the Processing Services
8 Bureau. And joining me is Jon Kosiewicz, the Assistant
9 Bureau Director in the Financial Management Bureau.

10 In our presentation, we will share an overview
11 of digital currency, our research on cryptocurrency, and
12 digital payment options for tax liabilities.

13 Digital currency is any currency, money, or
14 money-like assets primarily managed, stored, or
15 exchanged on digital computer systems, especially over
16 the Internet. Types of digital currency include
17 cryptocurrency, virtual currency, and central bank
18 digital currency. The focus of this presentation covers
19 cryptocurrency.

20 Cryptocurrency exists only in the digital
21 format, meaning there is no physical representation. It
22 was introduced as Bitcoin in 2008. Today, there are
23 more than 10,000 different cryptocurrencies worth an
24 estimated \$1.3 trillion. Cryptocurrency coins are
25 created through a process called "mining." These new

1 currencies use a decentralized recordkeeping technology
2 called "blockchain."

3 Blockchain technology is similar to an
4 accounting ledger or database; however, instead of being
5 stored on a single system, blockchain is stored
6 simultaneously on thousands of computer nodes worldwide.
7 A blockchain collects information in groups known as
8 "blocks." Each block in the chain contains records of
9 hundreds or thousands of transactions for the type of
10 cryptocurrency for that specific blockchain. When a
11 block is created -- excuse me -- when a block is
12 created, it has a storage limit. When it is filled, it
13 is closed. This block is now linked to the previous
14 block, forming a chain. These completed blocks on the
15 blockchain cannot be changed. The entire history of all
16 of the transactions can be reviewed on the blockchain.

17 Blockchain has a potential nonfinancial
18 application and can be useful in any application where
19 data security is essential, like vital records,
20 commercial business, supply chain, and property
21 transactions. However, blockchain can introduce new
22 challenges. For example, it could exclude individuals
23 who do not have Internet or computer access.

24 On March 9, 2022, President Biden issued an
25 executive order on ensuring responsible development of

1 digital assets, in which he called for a broad review of
2 digital assets including cryptocurrency. Last week, the
3 White House released its first-ever framework on what
4 cryptocurrency regulation in the U.S. should look like.
5 The framework follows the executive order and outlines
6 ways in which the financial services industry should
7 evolve to make transactions easier, as well as crack
8 down on fraud in the digital asset space.

9 On May 4, 2022, Governor Newsom issued executive
10 order N-9-22. Under this executive order, California
11 will begin the process of creating a regulatory approach
12 to spur responsible innovation while protecting
13 California consumers, evaluate how to deploy blockchain
14 technology for state and public institutions, and build
15 research and workforce development pathways to prepare
16 Californians for success in this industry.

17 This executive order is beyond the scope of this
18 presentation, but it is noteworthy to highlight the
19 State's goal to explore cryptocurrency blockchain
20 technology as we are continuing to study digital
21 currency payment options. We will continue to monitor
22 the outcome of these executive orders.

23 While awaiting federal and state guidance and
24 regulations, through our research, we identified
25 significant volatility that exists in this industry. We

1 would like to share some of our findings.

2 Cryptocurrency is not financially backed by the
3 Federal Deposit Insurance Corporation or similar body.
4 Since the beginning, the value of cryptocurrency has
5 continuously fluctuated with wilder swings than the
6 stock market. Most of the available cryptocurrencies
7 have values based on popularity and the level of effort
8 required for mining. However, some have values based on
9 other criteria, like the price of gold or silver. Some
10 are based on fiat currency, like the U.S. dollar or
11 Euro. Cryptocurrencies that have prices based on other
12 criteria are known as "stablecoins." For some,
13 stablecoins offer protection from volatility.

14 We found that having a cryptocurrency payment
15 option could impact people who don't have access to a
16 bank or companies who can't use banks to do business.
17 This includes unbanked and under-banked households as
18 well as businesses in cash-based industries. Both
19 unbanked and under-banked taxpayers might find
20 cryptocurrency an appealing payment option.

21 Benefits for these taxpayers could include
22 convenience and an alternative for those lacking
23 confidence in the banking industry; however,
24 cryptocurrencies can introduce challenges. For example,
25 cryptocurrency holders' exchange or conversion fees can

1 be high and unpredictable. It could exclude individuals
2 who do not have Internet or computer access, and an
3 undefined regulatory requirement may raise unknown
4 impacts.

5 The demographics of the under-banked community
6 could be influenced by income, education, age, race,
7 ethnicity, and income volatility among other factors.
8 We cannot measure the population of taxpayers who would
9 be able to use cryptocurrency as a viable payment option
10 for tax liabilities.

11 We reached out to other states through the
12 Federation of Tax Administrators to see what other
13 states are considering regarding the acceptance of
14 cryptocurrency for tax liabilities. We received a few
15 responses indicating they have no current plans or are
16 in the process of information gathering.

17 The State of Colorado began accepting
18 cryptocurrency payments this month on September 1st.
19 The State of Ohio accepted cryptocurrency for a brief
20 period and has subsequently discontinued acceptance. In
21 addition, the IRS does not currently accept digital
22 payments for tax liabilities.

23 I will now hand it over to Jon to discuss
24 digital payment options.

25 MR. KOSIEWICZ: Thank you, Yvonne.

1 FTB currently accepts credit card payments under
2 California Government Code Section 6162 and Revenue and
3 Taxation Code Section 19005, which authorizes the
4 acceptance of other payment devices. These code
5 sections could allow digital payment options without
6 additional legislation.

7 Accepting digital payments would require further
8 analysis and updates of FTB's complex accounting
9 systems, public education and communication, and
10 training of FTB staff. FTB would need to convert
11 digital payments into U.S. dollars before they could be
12 deposited into one of our approved bank accounts,
13 enabling taxpayers' accounts to be credited.

14 One way to convert cryptocurrency into U.S.
15 dollars is through a third-party solution. This would
16 be handled similar to how credit card payments are
17 processed today. Like credit card payments, any
18 transaction fee for conversion would be passed on to the
19 taxpayer. However, with cryptocurrency transactions,
20 these can vary depending upon the type of digital
21 currency being converted. Additional research is needed
22 regarding regulating third-party processors and digital
23 currency exchanges.

24 There are regulatory and environmental factors
25 to consider with cryptocurrencies. Cryptocurrency

1 exchanges lack federal oversight, fall under the
2 regulatory scope of the Bank Secrecy Act, and must
3 register with the Financial Crimes Network, which means
4 that exchanges are subject to anti-money laundering and
5 know-your-customer rules.

6 The mining of cryptocurrency uses millions of
7 computers that require large amounts of energy.
8 According to the University of Cambridge, in 2020,
9 Bitcoin alone used over 132 terawatt hours of
10 electricity annually, which easily surpasses the annual
11 energy usage of Norway. The annual energy use for
12 mining Bitcoin alone resulted in nearly 40 billion
13 pounds of carbon dioxide.

14 While cryptocurrency continues to mature, we
15 will monitor and assess other state cryptocurrency
16 programs for taxpayer demand and participation. This
17 concludes our presentation, and I would be happy to
18 answer any questions you may have.

19 CHAIRPERSON YEE: Thank you both very much for
20 the presentation.

21 Questions or comments?

22 MEMBER COHEN: Oh, yes.

23 CHAIRPERSON YEE: Member Cohen, please.

24 MEMBER COHEN: Thank you very much.

25 Okay. You said September 1st of this year

1 Colorado started accepting cryptocurrency; is that
2 right? I heard that correctly? And you said another
3 state stopped accepting cryptocurrency. Which state was
4 that? I can't hear you.

5 CHAIRPERSON YEE: Ohio.

6 MEMBER COHEN: I'm hearing Ohio?

7 MS. CRANKFIELD: Ohio did have cryptocurrency in
8 place for -- I believe it's 2021.

9 MEMBER COHEN: For one year?

10 MS. CRANKFIELD: I think it was a little less
11 than a year.

12 MEMBER COHEN: Okay. And did they articulate
13 why they stopped it? What lessons learned they have
14 taken away from operating that space?

15 MS. CRANKFIELD: We have not identified the
16 lessons learned. I can share that I have read
17 information that they had less than a dozen participants
18 during that period of time, but we don't have the exact
19 reasons for the stoppage.

20 MEMBER COHEN: Do you know the profile of the
21 person or individual or entity that Colorado has
22 engaging? Now, granted it has only been a few weeks.
23 I'm just wondering if there is any other preliminary
24 information out there.

25 MS. CRANKFIELD: I'm not sure I understand the

1 question.

2 MEMBER COHEN: So you said that Ohio stopped
3 because there were only 12 entities that were utilizing
4 cryptocurrency, right?

5 MS. CRANKFIELD: What I said was Ohio stopped.
6 We are not sure of the exact reason, but we do
7 understand that there were less than 12 participants
8 during that time frame.

9 MEMBER COHEN: Okay. Got it. Thank you.

10 The next question I have is, based on the survey
11 you took -- right? -- you took an audit of what is going
12 on across the United States; do you have a
13 recommendation for the State of California?

14 MS. CRANKFIELD: I believe, given the current
15 information that we have in the developing federal
16 regulatory landscape right now, we are going to continue
17 to monitor and study to get more information to
18 determine if that is -- if there is a need to move
19 forward or -- just gather that information at this point
20 in time and then make decisions from there.

21 MEMBER COHEN: Okay. And I was curious, how did
22 this item get on the agenda? Was this --

23 CHAIRPERSON YEE: It was at my request.

24 MEMBER COHEN: At your request?

25 CHAIRPERSON YEE: Yeah.

1 MEMBER COHEN: Oh, okay. My questions are to
2 you, Controller. I love this topic. Thank you very
3 much. I love -- this is exciting to me because it is
4 very forward-thinking. Obviously, it is an incredibly
5 volatile space, and it is like the Wild, Wild West,
6 quite honestly, so I'm intrigued by the exploration of
7 it. I was curious to know what motivated you or why did
8 you put this on the agenda.

9 CHAIRPERSON YEE: There has been a lot of
10 interest, and frankly, there was a bill in the
11 legislature this last session by Senator Kamlager that
12 would have authorized any state department or agency to
13 accept cryptocurrency as legal tender, which gave my
14 office, the Controller's office, quite significant
15 pause. There are no GASB rules that currently govern
16 how we account for those types of payments. There was
17 nothing else in the bill that specified how those
18 payments would be received and processed.

19 I will say that I also have a -- an appointee on
20 the Fair Political Practices Commission, and that
21 commission has been receiving requests for allowing
22 the -- allowing political campaigns to receive payments
23 in cryptocurrency for many, many years. 2018, that
24 commission adopted an outright prohibition against those
25 types of payments because there wasn't enough

1 information and knowledge about cryptocurrency at the
2 time.

3 Those requests kept coming, and just this year,
4 a couple months ago in July, the commission did adopt a
5 regulation that now will allow political campaigns to
6 accept cryptocurrency. The contributions would be made
7 to a third-party exchange entity that would convert that
8 cryptocurrency, and that entity would also be
9 responsible for sourcing the identity of the
10 contribution, the source of the contribution. That
11 third party also has to be regulated -- regulated
12 entity, U.S. based.

13 And from my perspective, I think we are going to
14 watch that very closely to see just how those
15 transactions happen. I'm happy they are not going to
16 involve taxpayer dollars, frankly, because the State of
17 California can't afford to experiment in this area at
18 this point in time. But I wanted to put this on the
19 agenda because other states have started to take action.
20 I think part of the diligence that we do as a board is
21 to get out ahead of some of these issues with
22 informational items like this so that we can really have
23 our eyes open about the questions to be asked and
24 answered, but also to continue to monitor, as Yvonne and
25 Jon have said.

1 My personal feeling about this is that there is
2 a lot of attention to this. I actually think President
3 Biden has taken the right approach with his executive
4 order and all Federal Government to look how we look at
5 digital assets and its place in terms of what we do to
6 protect consumers, investors, at the same time not
7 inhibiting the technological developments that are
8 happening in this space, so -- and the Governor's
9 executive order essentially follows on to that.

10 So I think there will be a lot more activity in
11 this. I also serve on the boards of the two largest
12 public pension funds, neither one is invested in
13 cryptocurrency because of its volatility, and we have
14 all read the headlines of the past months about what has
15 happened to the value -- the underlying value of these
16 assets.

17 So a lot of interest, but I think with respect
18 to our narrow focus here about accepting tax payments in
19 cryptocurrency, as Ms. Crankfield suggested -- and I
20 would agree -- we will continue to monitor the situation
21 and certainly will be interested in the experience of
22 other states.

23 MEMBER COHEN: Thank you very much. So I -- I
24 think we can anticipate more study on this topic.

25 CHAIRPERSON YEE: Yeah, definitely.

1 MEMBER COHEN: Thank you. Thank you.

2 CHAIRPERSON YEE: Okay. Let me see if now there
3 are any members of the public who wish to address the
4 board on this item. Let me start with the members of
5 the public on the phone line and then call in any
6 members of the public here in this room.

7 Are any members of the public on the phone line
8 who wish to comment?

9 PHONE MODERATOR: Members of the public on the
10 phone lines, if you would like to place yourself in the
11 queue for public comment, as a reminder, you may press
12 1, then 0 at this time.

13 (No response.)

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

16 CHAIRPERSON YEE: Thank you very much. Are
17 there any members of the public in the room who wishes
18 to address the board at this time? Okay.

19 Seeing no one approaching the board, we will
20 take this report. Thank you very much for the
21 background, really appreciate it. It at least gives us
22 a little bit of a threshold to begin to look at all of
23 the activities that are really happening in the --
24 related to digital assets, including the executive
25 orders both at the federal and state level, so very much

1 appreciate the -- the work and the presentation. Thank
2 you.

3 MS. CRANKFIELD: Thank you.

4 MR. KOSIEWICZ: Thank you.

5 CHAIRPERSON YEE: All right. Our next item will
6 be Item No. 5. This is also an informational item, and
7 this is a presentation on the FTB's fraud protection
8 efforts and let me ask Stacy Smith and Scott Reid to
9 come forward and present.

10 Good afternoon.

11 MS. SMITH: Good afternoon, Madam Chair and
12 board members. I am Stacy Smith, and here with me today
13 is Scott Reid. We are from the Fraud Analysis and
14 Detection Section, or FADS. FADS uses innovative
15 selection methods to detect and prevent fraudulent
16 claims and discover taxpayers who file false claims,
17 underreport their taxes, or attempt identity theft. We
18 are here to give you an overview of our fraud prevention
19 efforts.

20 As you know, identity theft happens when
21 personal information is stolen and used to commit fraud.
22 The most common form of fraud we see here at FTB is
23 refund fraud, and FADS handles all identity theft and
24 PIT refund fraud for the enterprise. The impact of
25 identity theft -- all fraud, really -- is not only felt

1 by the taxpayer, but by FTB and California. If we do
2 not prevent fraud, the State loses money and our
3 residents don't have faith in FTB as an entity.

4 Criminals have become more sophisticated in
5 their attacks. With dramatic increase in data loss via
6 corporate phishing, tax preparer takeovers, and
7 corporate data breaches, it is getting more difficult to
8 distinguish a good faith return from a fraudulent one.
9 For example, in a tax preparer breach or takeover, the
10 fraudsters have all of the taxpayer's information. They
11 will file using the correct preparer ID number, and in
12 some cases even file from the tax preparer's actual
13 computer. This fraudulent return will look normal, as
14 it is the right information from the expected preparer
15 and their device.

16 Refundable credits increase the potential for
17 fraud exposure for FTB. These refundable credits offer
18 the fraudster enhanced opportunities for free money. It
19 is our job to try to stay ahead of these criminals by
20 detecting and preventing these refunds before they are
21 issued.

22 Data breaches have dramatically increased over
23 the last few years. The criminals are trying to obtain
24 real people's data. They will breach systems,
25 impersonate corporate officers, or buy data from

1 previous breaches. They do this to create the most
2 accurate and realistic tax returns possible. We see
3 identity theft returns coming from what appear to be
4 legitimate firms, legitimate tax preparers, and
5 legitimate taxpayers.

6 The imposter return looks legitimate. This puts
7 us in a difficult position. We want to issue refunds
8 quickly as to not impact legitimate taxpayers. Still,
9 we want and need to stop these criminals. They will
10 increase their efforts if we do not, and the State could
11 be at more risk. These criminals have consistent data,
12 making it hard to differentiate a fraudulent return from
13 a legitimate return, which is why we send the taxpayer a
14 notice and require contact to try and resolve the issue.

15 This is not just a tax refund or FTB issue. The
16 criminals use the compromised data to commit fraud and
17 impersonate real people anywhere they can get a monetary
18 benefit. They have found ways to breach tax
19 professionals, employers, payroll, and government
20 agencies. They use the data for disability fraud,
21 credit card fraud, unemployment fraud, and medical
22 fraud, to name just a few. As you can see, we are all
23 affected by identity theft fraud, and we still have a
24 stake in preventing it.

25 FTB receives about 21 million returns annually,

1 and every return runs against our fraud analytics
2 scoring model and rule hierarchy. Most of the returns
3 are processed right away; however, about 5 percent of
4 the returns fall out to FADS for further review.

5 There are many reasons why a return may fall out
6 to us, ranging from taxpayer error, high fraud scores,
7 failing specific fraud rules, and fraud lead sharing.
8 We receive leads internally from our information
9 security area and criminal investigations, our own FADS
10 analyst, and our production technicians. We also
11 receive leads externally from taxpayers, preparers, IRS,
12 the other tax states, and industry partners such as
13 software and banking institutions.

14 Once the return comes to FADS, our fraud
15 modeling team takes a closer data-level look at the
16 return to see if we can release it or if we need to send
17 a notice. 65 percent of the returns the fraud modeling
18 team looks at are released within three to seven days,
19 so there is virtually no impact on the taxpayer. The
20 other 35 percent will receive a notice requiring the
21 taxpayer to contact us so we can obtain information
22 directly from them to help us resolve the issue.

23 Our objective is to stop processing an imposter
24 return so there are no issues for the legitimate
25 taxpayer when they file their return. If an imposter

1 return gets through, the real taxpayer may have to paper
2 file and it becomes a more involved process. A
3 legitimate taxpayer must do much more and provide more
4 documentation than we initially asked for when we
5 suspect identity theft during processing, and we hold
6 the return. This is because we must now prove they did
7 not receive the original refund.

8 I am going to turn the presentation over to
9 Scott, and he will continue with a deeper dive on our
10 process and our very successful results over the past
11 two years.

12 MR. REID: Great. Thank you, Stacy. So I'm
13 Scott Reid, and I'm a Bureau Director in our Filing
14 Division here at FTB. And as Stacy previously
15 mentioned, when a tax refund looks suspicious, we need
16 to make customer contact to verify the validity of that
17 return. We do this by sending one of our three notices
18 to the taxpayer.

19 Our main identity theft notice, the 3904, allows
20 for a phone call resolution through enhanced
21 verification. The taxpayer must call us to confirm that
22 they filed that return. During this call, we'll perform
23 enhanced verification, which involves asking them
24 questions we know the answers to, and we believe would
25 not likely be available from a data breach or easily

1 obtained by the criminal.

2 Our other two primary notices, the 4734D,
3 verifying withholding, and the 4502, verifying the EITC
4 credit, allow the taxpayer to choose what communication
5 channel they prefer, phone or correspondence. Most
6 cases can be resolved over the phone, but some taxpayers
7 still prefer to send us mail.

8 So Stacy mentioned our two main goals of
9 preventing fraudulent refunds from going out the door
10 and ensuring that legitimate taxpayers get their refunds
11 as soon as possible with as little impact as possible.
12 And we achieve this by maintaining a call center that
13 operates with an average 90 percent level of access and
14 usually less than a five-minute wait, so taxpayers can
15 always get ahold of us and resolve their issues timely
16 if the return does fall out to us for further review.

17 So being cautious by nature, we also appreciate
18 when a taxpayer doesn't trust that our notice is
19 legitimate and takes steps to verify its authenticity.
20 Our technicians are trained to give the FTB website
21 address, where the taxpayer can go out and look up a
22 phone number and see the correct number to call.
23 Sometimes, in rare events when this isn't enough, we'll
24 also put notes on the account and instruct the taxpayer
25 to look up FTB's main customer service line. When they

1 call that line, they then get transferred back to our
2 FADS agents. This puts the taxpayer at ease, knowing it
3 is a legitimate contact and we can now help them resolve
4 their account.

5 So we have taken stakeholder feedback and
6 changed our process over the years to minimize the
7 impact on real taxpayers. We have pivoted to solving
8 most issues via phone and only requiring documents in
9 limited situations.

10 This slide shows the average FADS return
11 processing time for the past three years. As you can
12 see, we successfully minimized fraud processing time
13 frames and limit delays in issuing refunds to our
14 customers. We continually analyze our rules and refresh
15 our models to prevent fraud and decrease unnecessary
16 contacts.

17 We have been very successful in creating a
18 process that allows us to take a closer look at returns
19 that we do deem suspicious, while only impacting a small
20 amount of tax filers for a very short period of time.
21 But ultimately, it is up to the customer. The faster
22 they call us, the quicker we can resolve the issue. And
23 again, our call center is very easy to get into.

24 Our technicians also remind our customers to
25 contact us immediately if they ever get a notice in the

1 future. We receive compliments from many of our
2 customers for protecting them and the State's General
3 Fund. They compliment on how quickly they can speak to
4 an agent and what an easy process it was to get their
5 refund verified. Due to our successful business process
6 and our technicians' excellent customer service, we
7 receive very few complaints.

8 Historically, the fraudulent activity we see is
9 somewhat cyclical, where we'll have a few high-volume
10 fraud years, followed by lower attempts for the next
11 year or two. Our program has been very successful in
12 responding to these cyclical challenges and staying
13 fluid and evolving, just as the criminals change and
14 improve their methods.

15 As you can see from the chart, we are currently
16 in a peak period, and last year we stopped \$569 million
17 in improper payments, which was our biggest calendar
18 year to date. And so far, this year, the fraudsters are
19 not showing any signs of slowing down. The '21-'22
20 fiscal year that ended in June, on a fiscal year basis,
21 we have now prevented over a billion dollars in improper
22 payments.

23 While the fraudsters don't appear to be slowing
24 down anytime soon, the reality is that cyber criminals
25 or opportunists use sophisticated techniques to exploit

1 systems to gather data, and they intend to monetize this
2 data in the easiest way possible. So to date, we have
3 successfully detected and prevented their efforts, and
4 this is due to the hard work and the talent of our
5 staff, our internal partnerships, and our nationwide
6 fraud sharing and analytics partnerships with the IRS,
7 the other tax states, FTA, and our industry partners.

8 The criminals never sleep, and the good news is
9 neither do we. And we'll continue to be diligent in
10 protecting California and its taxpayers from these
11 fraudulent attempts.

12 I'd also be remiss if I didn't share that
13 taxpayers and tax preparers can also help in our efforts
14 to combat fraud. If they suspect that they may have
15 been a victim of income tax fraud or identity theft, I
16 would strongly encourage them to go to the FTB's website
17 and search "tax fraud." There, they'll be able to file
18 a report and help us prevent a criminal from filing a
19 false tax return using their information.

20 So I'd like to thank the board for your interest
21 in our fraud prevention efforts and giving us the
22 opportunity to share some of these statistics with you,
23 and we'd be happy to answer any questions that you have
24 at this time.

25 CHAIRPERSON YEE: Thank you both very much for

1 the presentation.

2 Member Cohen, questions or comments?

3 MEMBER COHEN: Thank you. Yes. So first
4 question is: What is the secret sauce? I mean, you
5 guys clearly have it nailed down. I'm just wondering,
6 so I can pass on a few recommendations to, say, I don't
7 know, EDD.

8 MR. REID: I think there are a few elements that
9 are attributable to our success. One is we have had
10 great support from this board, from current and previous
11 administrations, as well as the legislature, in securing
12 resources to really make an investment in those fraud
13 prevention efforts.

14 The second thing that we have done is we have
15 invested a lot of training in our staff. And I think
16 you guys have heard prior presentations on our data
17 analyst program, and so we actually have several of our
18 staff that have spent a year -- better part of a year --
19 going through data analytics training, and data -- I
20 would say literacy, so that they are much more effective
21 in being able to detect these people on the front end.

22 I would say our old and current model, to a
23 certain extent, was to look at something suspicious and
24 then immediately reach out to whoever submitted that
25 return and the -- with the expectation that the

1 legitimate taxpayer would actually return that call back
2 and clear things up for us. What we are moving towards
3 is trying to put a greater focus on those analytics, on
4 the up-front process. And that allows us, instead of
5 waiting for notices to go out and those taxpayers to
6 return, as Stacy mentioned, like 65 percent of all of
7 those suspicious returns were able to release within
8 seven days because of those analytics.

9 So I would say it is really an investment both
10 in people and in training, and really a diligence in
11 making sure that that balance is achieved between
12 getting people what they need and making sure that
13 fraudulent and improper payments don't go out the door.

14 MEMBER COHEN: Thank you. Thank you for the
15 most informative report.

16 I would like to go back to Slide 8. I think the
17 Slide 8 told a remarkable story, and I want to get your
18 input regarding the data shown on it. Just waiting for
19 it to get back up on the -- on the screen. Yes, that's
20 it. That's the one. Yes.

21 Okay. So you see in 2021, \$569 million was
22 saved, and then in 2020, 188 million was saved, and in
23 2019, 98 million was saved.

24 My question is was 2021 an outlier year or does
25 2021 represent the fraud of just a few large tax filers.

1 MR. REID: So that was our hope. Our hope was
2 that 2021 was an anomaly year. I would say that we are
3 continuing to see activity at -- maybe not that level,
4 but at very close to that level. And so kind of the
5 normal cyclical nature, where we see one high year
6 followed by multiple years of lower years, does not seem
7 to be occurring in 2022.

8 The other thing that is a little unique in
9 2021 -- and we'll see if that happens again in 2022 --
10 is normally we would see a lot of activity during the
11 early part of the filing season, right? The criminals
12 would want to get in their fake return before the actual
13 taxpayer filed. What we saw in 2021 was that pattern
14 continued throughout the year, and we actually saw a lot
15 of activity towards the latter part of the year, even
16 after the extension filing deadline.

17 MEMBER COHEN: I understand. Thank you.

18 Do you find -- are you able to -- have you put
19 together a profile as to where a lot of these online
20 robbers are operating from? Is it -- are we talking,
21 like, data centers? Are we talking international
22 espionage? What exactly are we dealing with?

23 MR. REID: So there are a number of tools that
24 we have in place. Our fraud prevention efforts work
25 very closely with our information security staff on the

1 technology side. Without getting into a lot of detail,
2 I'd be happy to share some of this information, perhaps
3 with you offline, as we don't want to give a lot of --
4 the recipe for success. But I would say that we have
5 just seen a -- just an increase in volume in a number of
6 different -- from a number of different sources, so --

7 MEMBER COHEN: Are they in the United States?

8 MR. REID: Some -- some are.

9 MEMBER COHEN: Are they in the state of
10 California?

11 MR. REID: Some are.

12 MEMBER COHEN: Where are most?

13 MR. REID: I do not have detail in terms of the
14 origination of many of these. What I can tell you is
15 they are getting to be very sophisticated at masking
16 where they are actually generating those -- those false
17 returns.

18 MEMBER COHEN: What kind of training do our data
19 analysts go through in order to recognize fraud?

20 MR. REID: So as I mentioned, we have our data
21 analysts' program. We -- so that kind of gives our
22 staff some familiarity with how to manage large data
23 sets, how to look for anomalies, how to look for
24 patterns. There are tools that help them in that
25 regard.

1 MEMBER COHEN: When you say "tools," do you mean
2 an application or some kind of a plug-in that you put on
3 your computer?

4 MR. REID: Uh-huh, and then we are also, as I
5 mentioned, participating in a lot of forums with other
6 state tax agencies, the IRS, the banking industry. Our
7 tax software preparers are very active in this area as
8 well.

9 So a lot of it comes from understanding what
10 people are seeing, and frankly, our analysts have an
11 incredibly inquisitive mind. They really are focused on
12 making sure they catch these criminals and identify
13 those patterns early. It is all fine and good if we
14 identify a pattern six months later, after, you know,
15 thousands of returns have gone through. That's not what
16 we are interested in doing.

17 So again, it is -- they have the tools. They
18 have a lot of networking with their peers, and they are
19 very -- very talented and inquisitive and enjoy the work
20 that they do because they are able to protect
21 Californians.

22 MEMBER COHEN: Thank you very much.

23 Back to you.

24 CHAIRPERSON YEE: Thank you, Member Cohen, for
25 the questions.

1 I had a question on this slide as well. The
2 footnote about the revenue saved for 2021 includes 31
3 million in Golden State Stimulus 1 and 2 --

4 MR. REID: Uh-huh.

5 CHAIRPERSON YEE: -- revenue saved. I'm just
6 trying to get a sense in my mind about how fraud would
7 have been present in those particular cases, because it
8 seemed like that -- the recipient universe of those
9 programs were pretty well identified, weren't they?

10 MR. REID: For Golden State 1 and 2, there were
11 many filers that we had never seen before --

12 CHAIRPERSON YEE: So -- that's right, because
13 they didn't have a filing requirement?

14 MR. REID: Right. For the current stimulus
15 program, right, middle class tax refunds, that is
16 currently under way --

17 CHAIRPERSON YEE: Right.

18 MR. REID: -- that's based on prior year return
19 filings. And so while we'll continue to do some fraud
20 checks, continue to do those, you're correct in that we
21 do have a history. People have filed before they even
22 knew that was available. And so having that be based on
23 a prior tax return was really important to us to, again,
24 stem, kind of, the proliferation of fraud attempts.

25 CHAIRPERSON YEE: Got it. Okay. Thank you for

1 the clarifications about that. I had forgotten about
2 the criteria. Thank you.

3 Let me now turn to see if there are any members
4 of the public who wish to address the board on this
5 issue, this item. We'll start with members of the
6 public on the phone first, followed by those here in the
7 room.

8 PHONE MODERATOR: Members of the public on the
9 phone lines, if you would like to place yourself in the
10 queue for public comment, as a reminder, you may press
11 1, then 0 at this time.

12 (No response.)

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

15 CHAIRPERSON YEE: Thank you very much.

16 Are there any members of the public in the room
17 who wish to address the board?

18 Okay. Seeing no one approaching, we will take
19 this report and really appreciate both of you presenting
20 that to us today. And congratulations on just great
21 efforts across the enterprise. Thank you.

22 All right. We will now move on to Item No. 6,
23 and this is related to legislative matters. And we will
24 have a presentation of our recap on our legislative
25 activities, and Denis Armstrong will be making the

1 presentation.

2 Good afternoon, Denis.

3 MR. ARMSTRONG: Good afternoon, Madam Chair and
4 board members. My name is Denis Armstrong, and I'm the
5 Assistant Legislative Director for the Franchise Tax
6 Board. Over the next few minutes, I will give a
7 legislative update highlighting activities such as the
8 economic relief senate bill, Senate Bill 113, and
9 several enacted budget trailer bills. This update will
10 include FTB's legislative proposals and current bill
11 developments.

12 After a couple years of COVID focus in the
13 legislature, this year seemed to align with a more
14 typical year. The economic relief bill, or Senate Bill
15 113, enacted in early February, contained several
16 provisions that I will highlight.

17 Pass-through entity election and credit
18 modifications impacted the tentative minimum tax
19 application and credit ordering rules. The change
20 impacting tentative minimum tax, also known as TMT, took
21 effect in 2021, allowing the pass-through entity credit
22 to reduce taxpayers' tax below TMT. The change in
23 credit ordering rules, which took effect in 2022,
24 reordered the utilization of the credits so that the
25 pass-through entity elective tax credit is taken after

1 all other credits to ensure taxpayers would be able to
2 benefit from the pass-through entity's elective tax
3 credit five-year carryover provision.

4 There are also a few other changes that I wanted
5 to be sure to mention. One adds guaranteed payments
6 into the computation of the pass-through entity's
7 elective tax, as well as including guaranteed payments
8 in calculation of the taxpayer's corresponding credit.
9 Another change allows certain disregarded entities to be
10 included in the definition of a qualified taxpayer for
11 the pass-through entity elective tax and credit.
12 Additionally, there is a change to the definition of a
13 qualified entity to allow a partnership to be an owner
14 without disqualifying the entity. These changes are
15 effective for the 2021 through 2025 tax years.

16 This bill also includes several income
17 exclusions. The water and utility relief exclusions are
18 gross income exclusions for state purposes. These are
19 both related to payments made under the American Rescue
20 Plan Act. These provide a state-specific exclusion of
21 these payments from gross income, and these are
22 effective for the 2021 through 2025 tax years.

23 The restaurant revitalization and shuttered
24 venue operator grant exclusions are two gross exclusions
25 in this bill. These provisions are also related to

1 federal COVID relief provisions. Also, the repeal of
2 net operating loss deduction suspension and credit
3 limitation for 2022 ended one year earlier than the
4 original statute. These were originally scheduled for
5 three years, from 2020 to 2022.

6 Several budget trailer bills impacting FTB were
7 also enacted on June 30th of this year. Assembly Bill,
8 or AB, 192 is the Middle Class Tax Refund. This
9 provides for a one-time payment to eligible recipients.
10 The payments range from \$200 to \$1,050 per tax return,
11 depending on the California adjusted gross income,
12 filing status, and whether the individual has a
13 dependent. FTB is partnering with the State
14 Controller's Office to issue direct deposit payments and
15 for the first time, a third-party vendor, to provide
16 debit cards. FTB quickly launched a web page to share
17 information about the Middle Class Tax Refund, including
18 a payment estimator tool. Payments are anticipated to
19 begin in October and are expected to continue through
20 January.

21 AB194, the tax provisions in this budget bill,
22 include multiple provisions impacting FTB. There is an
23 offsets exemption for the California Earned Income and
24 Young Child Tax Credits, starting for tax years
25 beginning on or after January 1, 2024, except for child

1 or family support. We have had many stakeholders who
2 have reached out in favor of this concept.

3 The main street small business tax credits, this
4 allows taxpayers who had previously received
5 reservations to claim the credit on amended returns.
6 For taxpayers who made reservations but did not claim
7 the credit, this provision removed the timely-filed
8 original return requirement so they could now claim the
9 credit on an amended return.

10 The Homeless Hiring Tax Credit, these changes
11 changed the definition and requirements and added
12 provisions for subsequent-year certification. The
13 California Competes Tax Credit extension, this program
14 is now extended for five years, through 2027-2028. FTB
15 assists GO-Biz by performing a compliance review of
16 certain items to ensure compliance with the agreements
17 entered into by GO-Biz.

18 The paycheck protection program conformity, this
19 expands the covered period for an additional three
20 months to be in conformity with the federal Paycheck
21 Protection Program Extension Act of 2021.

22 And the one-time penalty abatement, this was
23 based on an FTB legislative proposal resubmitted over
24 many years, allowing the treatment of timeliness
25 penalties to be similar to the federal procedure upon

1 request from individual taxpayers who meet certain
2 requirements. It applies to requests for abatement made
3 for tax years beginning on or after January 1, 2022.

4 AB195, the cannabis tax credits; originally
5 contained in separate legislative bills, these two
6 cannabis tax credits were moved to the budget bill
7 related to cannabis, AB195. FTB will develop a
8 reservation system that provides a credit equal to
9 25 percent of certain expenditures up to \$250,000 per
10 tax year for what is referred to as the "High Road
11 Employer Cannabis Credit." It applies to three general
12 categories: employee compensation, safety, and
13 workforce development.

14 The cannabis equity tax credit provides a tax
15 credit equal to \$10,000 for certain eligible equity
16 applicants and licensees. FTB will receive information
17 from the Department of Cannabis Control in order to
18 confirm the eligibility of these taxpayers. Both
19 credits start for tax years beginning on or after
20 January 1, 2023.

21 Senate Bill, or SB, 201. The Earned Income,
22 Young Child, and Foster Youth Tax Credits; this bill
23 enacted a foster youth tax credit similar to the Young
24 Child Tax Credit, providing a credit for former and
25 current foster youth between the ages of 18 and 25 who

1 were in foster care while 13 years of age and older.
2 The bill also allows Californians to qualify for the
3 Young Child Tax Credit with no earned income, assuming
4 they would otherwise qualify for the earned income and
5 Young Child Tax Credits. There are also computational
6 changes, such as adjusting the credits for inflation
7 annually.

8 Moving on to other updates. First, we have our
9 legislative proposals. As mentioned earlier, one of
10 FTB's legislative proposals, the one-time penalty
11 abatement, was enacted this year. Again, this applies
12 to requests for abatement made for tax years beginning
13 on or after January 1, 2022. FTB still has several
14 legislative proposals for which we have yet to find
15 authors. However, we continue to seek authors for our
16 proposals. These proposals include modifying the
17 research credit to achieve modified federal conformity,
18 taxation of income from incomplete nongrantor trusts,
19 and installment agreements.

20 Lastly, FTB continues to monitor developments on
21 approximately 15 to 20 bills still proceeding through
22 the legislative process. We will know more as the bills
23 advance.

24 Thank you, Madam Chair and board members, for
25 your time today, as this concludes the presentation on

1 FTB's legislative matters. I'm happy to answer any
2 questions that you may have.

3 CHAIRPERSON YEE: Thank you, Denis, for that
4 thorough presentation.

5 Member Cohen, questions?

6 MEMBER COHEN: I was wondering, do you know the
7 range for the new Foster Youth Tax Credit, the dollar
8 amount that the young person would be qualifying for?

9 MR. ARMSTRONG: Roughly \$1,000 per individual.

10 MEMBER COHEN: Okay. So I just want to say that
11 I think the FTB staff is phenomenal, and I have the
12 opportunity to interface with several different State
13 agencies and organizations and staff levels. And I
14 think that this is one of the most comprehensive
15 analyses that I have seen in a long time, and I
16 appreciate that. I appreciate the presentation. I
17 appreciate that this analysis is presented to --
18 regularly presented to the legislature, but more
19 importantly to the public so that they are able to track
20 the conversations regarding the bills that are having an
21 impact on, quite honestly, their dollars, their
22 household dollars.

23 So this is great, excellent work, I think a true
24 credit to the dedication and to the hard work of
25 everyone that has prepared this analysis. And this is

1 not just specific to this presentation. This includes
2 everyone, the other presentations as well. I want
3 everyone to feel included in my respect, and I think it
4 is really important just to highlight that the work is
5 very valuable. Sometimes it may seem tedious, and it
6 may seem thankless, but it is important information that
7 you present to us, and that I -- certainly we -- take on
8 to our respective constituencies that we represent. So
9 I appreciate you, and I appreciate you keeping
10 Californians informed. Thank you.

11 CHAIRPERSON YEE: Thank you. Thank you, Member
12 Cohen.

13 Let me see if there are any members of the
14 public who wish to address us on this item. We will
15 start with members of the public on the phone line
16 first, followed by those who are in the room here.

17 PHONE MODERATOR: Members of the public on the
18 phone lines, if you would like to place yourself in the
19 queue for public comment, as a reminder, you may press
20 1, then 0 at this time.

21 (No response.)

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

24 CHAIRPERSON YEE: Thank you. I see we do have a
25 member of the public who has approached the board here

1 in the room.

2 Good afternoon.

3 MR. BAER: Thank you. Bart Baer with Cal Tax.

4 Thank you, Denis, for the good explanation.

5 Just a real quick question on the last item -- next to
6 last item dealing with FTB proposals. And wondering if
7 the language has already been prepared for the
8 legislative proposals, in particular the -- the research
9 credit conformity point, if that is something that is
10 publicly available?

11 MR. ARMSTRONG: That is -- I'm sorry.

12 CHAIRPERSON YEE: Whether the proposal related
13 to the research credit for -- pursuant to federal
14 conformity is public.

15 MR. BAER: If there are more details available
16 and if there is language available to be reviewed?

17 MR. ARMSTRONG: There absolutely is, and I'd
18 be -- we'd be happy to share that with you.

19 MR. BAER: Great. Thank you.

20 MR. ARMSTRONG: Absolutely.

21 CHAIRPERSON YEE: Can I just ask a question on
22 that? Generally, don't we have a -- especially on
23 issues related to conformity -- those proposals
24 sometimes arise out of an interested party's proposal.
25 Is that still happening?

1 MR. HOFELING: Yes. That's the case, or the
2 ones here, usually we have a form for conformity issues,
3 for people to come forward with that.

4 CHAIRPERSON YEE: Yes. Right.

5 MR. HOFELING: We take issues -- or take
6 suggestions. In addition to that, we are also listening
7 to the public. When people come up with ideas, we try
8 to work with them to understand. But that particular
9 one is one that we have heard from the industry for a
10 long time now, that the complications were not
11 conforming. So that's something we worked on.

12 And then all of that is online, on our web page.
13 And, as you know, the -- we bring our proposals to the
14 board every December, and so that is also on there. But
15 we will get that to you, definitely.

16 CHAIRPERSON YEE: Thank you very much, Shane.

17 All right. Seeing no other members of the
18 public, we will take that report and really appreciate
19 the presentation, Denis. Thank you.

20 MR. ARMSTRONG: Thank you, Madam Chair and
21 members.

22 CHAIRPERSON YEE: Thank you.

23 All right, members, we will now move on to Item
24 No. 7. This is the Executive Officer's time, and I will
25 now turn it over to Selvi Stanislaus.

1 MS. STANISLAUS: Thank you, Madam Chair, and
2 good afternoon, board members.

3 First, I'd like to warmly welcome our newest
4 board member, the Honorable Joe Stephenshaw.
5 Unfortunately, he couldn't be here today, but on behalf
6 of the Franchise Tax Board, we are truly excited to have
7 him on our board. Mr. Stephenshaw was recently
8 appointed as the Director of the California Department
9 of Finance and brings with him a wealth of knowledge and
10 experience. We look forward to his insight and
11 guidance, and sincerely appreciate the unique
12 perspective and value he brings to this board.

13 Secondly, I'd like to highlight an event hosted
14 by our missions and values team and our diversity,
15 equity, and inclusion team. Every three years, the M
16 and V team will host a multicultural foods and arts fair
17 to study the FTB's diversity and share and learn about
18 other cultures. While the pandemic prevented us from
19 gathering in large numbers for an in-person festival, we
20 still wanted to be able to hold this event in a way that
21 allowed us to honor the event and help keep our
22 employees connected.

23 So this year, the missions and values team, they
24 partnered with our diversity, equity, and inclusion team
25 to present an online cookbook and video to celebrate the

1 multicultural foods and arts fair. The M and V team
2 reached out to staff for food recipes near and dear to
3 their culture and compiled those recipes into a PDF
4 recipe book so everyone -- that's staff and also the
5 board members -- have access to the book. We received
6 over 30 amazing recipes that the missions and values
7 team was able to share. The DEI team also did a
8 remarkable job creating a video that included photos and
9 videos from the events heard in past years. I thank
10 everyone involved for making this year's virtual event a
11 success.

12 And finally, as always, I want to thank you, our
13 board, for your time. The value, the perspective and
14 experiences that you bring to FTB cannot be overstated,
15 especially under the leadership of the Controller, the
16 Honorable Betty Yee. So thank you all again. With your
17 support and leadership, FTB is ready to tackle the world
18 and take advantage of opportunities ahead. Thank you,
19 board members.

20 CHAIRPERSON YEE: Thank you very much, Selvi,
21 for your comments. And I will echo Member Cohen's
22 comments that we really do have a spectacular enterprise
23 here that is so centered on just the talent that we have
24 throughout the organization. Thank you.

25 Let me see if there are members of the public

1 who wish to address the board on Ms. Stanislaus's
2 comments. Yes, I see -- let me start with those on the
3 phone line first.

4 PHONE MODERATOR: Members of the public on phone
5 line, if you would like to place yourself in the queue
6 for public comment, as a reminder, you may press 1 and
7 then 0 at this time.

8 (No response.)

9 PHONE MODERATOR: No members of the public are
10 queueing up at this time.

11 CHAIRPERSON YEE: Thank you very much. I do see
12 we have a member of the public here in the room.

13 Good afternoon. Yes.

14 MR. BAER: Thank you.

15 Thank you, Selvi, for those comments.

16 I'm Bart Baer with Cal Tax, and I didn't have a
17 comment on your -- on your report, but had a general
18 comment about FTB proceedings. I just want to share
19 some thoughts from our organization dealing with the
20 regulation process and, kind of, what is happening with
21 that in 2022, and then a general comment and then one
22 specific comment to share.

23 So in the end of 2021, the FTB set out its
24 agenda for regulation projects it planned to work on in
25 2022, and there was a timeline set out for each of the

1 projects. There was a number of different steps that
2 were laid out, expected dates for interested parties'
3 meetings and public hearings on notices of proposed
4 regulations.

5 And so far in 2022, at least based on what we
6 could see on the FTB's website, it doesn't appear that
7 there has been the anticipated level of activity around
8 that. We haven't seen those public hearings.

9 So just a general comment is, you know, we
10 believe that having the regulatory process play out in
11 the public arena is very important. And in particular,
12 we are in favor of very frequent and robust interested
13 parties' meetings and full public commentary that goes
14 on. It allows taxpayers and other members of the public
15 to be able to share their input on how statutes should
16 be interpreted and how the proposed regulations might be
17 set out, both from a technical perspective and also from
18 a compliance perspective. So just encourage the FTB to
19 follow the expectations that are set out publicly in
20 that process timeline, and also the different steps to
21 be followed and, you know, just so that we have more
22 input and met expectations on behalf of the public. So
23 that's the general comment.

24 The specific comment has to go with the market
25 sourcing regulations, so this is the set of regulations

1 under Section 25136, and those involve the apportionment
2 for purposes of the sales factor of sales of services
3 and sales of intangibles. And many of us have been long
4 involved in that process, going back to a Statute 25136
5 that was, I think, effective more than ten years ago.

6 And commend the FTB for many, many interested
7 parties' meetings and, again, a very robust process with
8 the public in getting feedback in terms of how those
9 rules should work. They are very complex rules,
10 obviously. There have been recent interested parties'
11 meetings, and I believe we are moving forward to having
12 proposed regulations formally proposed, and then there
13 would be additional public hearings on that.

14 So I was noting I don't think we have had any
15 public hearings this year. However, FTB issued a legal
16 ruling in this area, legal ruling 2020 -- 2022-01, that
17 sets out three very specific examples of how market
18 sourcing should work and how they would apply to
19 receipts from services performed by one business for
20 another business.

21 And the -- one of the key examples in that
22 ruling basically said that there would be a look-through
23 approach, where you would source by looking to the
24 business customers -- customer, or the ultimate
25 customer. And I just would note that this legal ruling

1 took a different view, maybe the opposite view, of a
2 chief counsel ruling that was issued five years ago.
3 That was CCR2017-01, and that determined that the
4 sourcing should occur at the business customer location.
5 And so that CCR has now been rescinded per that legal
6 ruling, and this is shown on the website.

7 So we are not -- we are not asserting that one
8 particular approach is the correct approach, and that
9 will have to be determined through the normal process,
10 but, you know, we do believe that providing detailed
11 examples in guidance regarding how the statute should be
12 applied is better done in the regulatory process, where
13 you have IPMs, public meetings, taxpayers are able to
14 give input in terms of how well these regulations -- how
15 well these examples follow the statute; how does this
16 work from a compliance perspective, you know,
17 particularly where you have a situation where the FTB's
18 approach and interpretation of a particular statute
19 changes significantly.

20 So that's all I have for today. Thank you very
21 much.

22 CHAIRPERSON YEE: Thank you very much for your
23 comments. Really appreciate the request for, I guess,
24 more robust processes, but also more clarity with
25 respect to the rulings that are issued. And I think we

1 are all after the same thing with respect to compliance
2 and ease of compliance on all sides, and anytime we have
3 suggestions for process improvements, we will definitely
4 take those seriously, so I appreciate that comment.

5 Any other members of the public who wish to
6 address us on this item?

7 Okay. Seeing none, we will move on to Item
8 No. 8, and this is board members this time. And let me
9 turn to Member Cohen to see if she has comments.

10 MEMBER COHEN: Thank you. I would just like to
11 ask that we entertain a motion to rescind the vote on
12 the first item for the minutes so that I can be on the
13 record for that.

14 CHAIRPERSON YEE: Oh, sure. Okay.

15 MEMBER COHEN: Thank you. I have nothing else
16 to share.

17 CHAIRPERSON YEE: Do we need to do that
18 formally?

19 MR. HOFELING: Yes. Just call for a revote of
20 Item No. 1.

21 CHAIRPERSON YEE: Okay. Revote. So let us go
22 back to Item 1 at this point in time. This is approval
23 of the minutes. And why don't we just -- do we need a
24 motion to rescind the vote? We do.

25 MR. HOFELING: Yes. You can make one motion to

1 rescind the prior vote, and then you can call for a new
2 vote.

3 CHAIRPERSON YEE: Okay.

4 MEMBER COHEN: I'll make a motion to rescind the
5 prior vote and call for a new vote on Item 1.

6 CHAIRPERSON YEE: Okay. I will second that
7 motion. Without objection, such will be the order. And
8 that item is properly before us now for approval.

9 Is there a motion?

10 MEMBER COHEN: So moved.

11 CHAIRPERSON YEE: Motion by Member Cohen. I
12 will second that motion. I believe Member Miller is no
13 longer with the meeting, so it'll just be -- why don't
14 we call the roll for the record.

15 MS. RAMIREZ: Member Cohen?

16 MEMBER COHEN: Aye.

17 MS. RAMIREZ: Member Miller?

18 [No response.]

19 MS. RAMIREZ: And Chair Controller Betty Yee.

20 CHAIRPERSON YEE: Aye.

21 Thank you.

22 MEMBER COHEN: Thank you.

23 CHAIRPERSON YEE: Other comments?

24 MEMBER COHEN: No, that's it for me.

25 CHAIRPERSON YEE: Okay. Very well. Thank you.

1 Let me just provide a couple comments, if I may.

2 I also want to add my congratulations to
3 Director Stephenshaw. Very much look forward to working
4 with him in our various capacities in his role as the
5 new Director of Finance and a very, very experienced
6 person leading the department, and just look forward to
7 the opportunities to work together.

8 I also wanted to just thank the staff at the
9 Franchise Tax Board. A lot has been coming at you, and
10 not just because we are all still looking to identify
11 the best way to work going forward, but also how to do
12 that in a safe manner with, still, the pandemic and its
13 variants with us.

14 But I just want to applaud Selvi and your team
15 for staying on top of the public health situation. And
16 I hope one day we don't have to even talk about it, but
17 we know that there are just always new developments, and
18 we are learning about it, and I guess that's why they
19 call it the novel coronavirus. It is new and we are
20 continuing to learn more about it each day.

21 But part of that is also just the diligence
22 with -- as we look to remote work and now hybrid work.
23 I want to thank the information security folks because
24 we know that cyber security is rampant. This is a ripe
25 environment for cyber security, and certainly the care

1 with which we exercise all of our -- all of our
2 information here at the Franchise Tax Board has always
3 been at a high level, but even more so now. So just
4 kudos to the team for staying vigilant around those
5 issues.

6 I cannot say enough about the role this
7 organization plays with respect to providing much-needed
8 relief to vulnerable Californians during this time.
9 Certainly with respect to the pandemic and those who are
10 affected by the pandemic through the Golden State
11 Stimulus Payment programs, but now with the Middle Class
12 Tax Refunds, and just so much of what is affecting
13 households in California with inflation and just a lot
14 of uncertainty about the economy.

15 We know the inflation numbers that came out last
16 week just identified three areas that I know all of
17 us -- or know people who are feeling the pinch as
18 related to food prices, as related to rents, as related
19 to healthcare. And I think we also heard stories about
20 probably even having to look at electricity prices
21 probably on the rise going forward. But to be able to
22 put money in people's pockets and to have those payments
23 going out shortly, I think, means so much to so many
24 Californians.

25 And on that note, I did want to add an item for

1 further review, and that is we have many Californians
2 who will be affected by the much-welcome announcement
3 about the student debt forgiveness. And I know that in
4 many states, including California, the amounts of the
5 debt forgiveness are subject to state income tax. And
6 so I would just add -- add and request that we elevate
7 that proposal, and I know the legislature is interested
8 in looking at this.

9 But it just seems a little ironic that we are
10 providing relief -- the President has announced this
11 relief, much welcomed on the one hand and on the other
12 hand, we're going to kind of look at how we create more
13 pressure financially by taxing the amount of that
14 relief. So I hope we can make some progress on that
15 here in California on that front.

16 And then lastly, this is one of those
17 bittersweet moments. Seems it happens more frequently,
18 but I do have the great privilege of -- of acknowledging
19 a retirement resolution for someone very, very dear to
20 many of us in this room, and that is to Mr. Bill Hilson,
21 who has been serving as our Deputy Chief Counsel of the
22 Settlement Litigation Bureau. He's joined today by
23 members of his family, including his wife,
24 Penny Lucchini, his son, Christopher Hilson, his
25 daughter-in-law, Jaclyn Hilson, and grandson, Collin

1 Hilson. And I am just going to ask them all to stand so
2 that we may acknowledge them.

3 (Applause.)

4 CHAIRPERSON YEE: I have known Bill for, gosh, a
5 couple decades, maybe? But this is someone who has just
6 had a remarkable journey in this organization, and I
7 will just read the resolution. It almost defies the
8 body of work that he is leaving with us. It is truly
9 legacy work. It has been tough work, and I teased him
10 earlier that I felt like calling a closed session today
11 just in his honor, just because we always have something
12 to talk about.

13 But let me just recognize Bill in this way.

14 Whereas, Mr. Bill Hilson began his Franchise Tax
15 Board journey in May of 2001 in the legal division and
16 was quickly recognized as an attorney's attorney.

17 And whereas, Mr. Bill Hilson, currently the
18 Deputy Chief Counsel of the Settlement and Litigation
19 Bureau, and having been the founder of FTB's Litigation
20 Bureau, worked with executive management, the Government
21 Operations Agency, and the office of the Attorney
22 General.

23 And whereas, Mr. Bill Hilson is a recognized
24 expert in litigation strategy and practice, a leader
25 within FTB management, and mentor to countless others in

1 the FTB family; and most importantly, a friend.

2 And whereas, Mr. Bill Hilson earned the
3 admiration and respect of his staff with his grit and
4 integrity, defending FTB in many difficult and complex
5 cases, including trips to the California Supreme Court,
6 appearances at the California Courts of Appeal and
7 Superior Court, as well as the United States Supreme
8 Court, not once, but twice.

9 And whereas, Mr. Bill Hilson is a consummate
10 legal expert with the ability to explain complex tax
11 law, including the lengthiest tax protest in FTB
12 history, and highly respected in the tax community as
13 someone who listens to taxpayers' concerns and is a
14 trusted resource.

15 And whereas, Mr. Bill Hilson is it set to embark
16 on his next chapter, including golfing, supporting his
17 New England Patriots -- oh, gosh, we will not hold that
18 against you -- and spending time with family, especially
19 his grandson, Collin.

20 And now, therefore, let it be resolved this 23rd
21 day of September, 2022, by the Franchise Tax Board, that
22 we recognize and thank Mr. Bill Hilson on his
23 retirement, for his professional and personal dedication
24 for over 21 years to the Franchise Tax Board, and most
25 importantly, to the people of the state of California.

1 Bill, congratulations and we wish you all of the
2 best as you embark on your next chapter, and really a
3 big, big deep-felt thank you. Congratulations.

4 (Applause.)

5 MR. HILSON: Thank you. This was going to be
6 difficult enough for me to begin with. And after
7 hearing the words of the resolution -- and this is the
8 first time I have heard them -- it doesn't make it any
9 easier.

10 Most of you know me. Most of you know I'm not a
11 stranger to public speaking, but this one is different
12 because my public speaking roles are usually where I am
13 advocating on behalf of the department or doing updates
14 at seminars as to what is going on with FTB and its
15 litigation portfolio. It is very rare for me to be
16 standing here talking about myself.

17 And so talking about myself, talking about
18 others, it is not something that I do, and I really
19 struggled with how I was going to go about doing this
20 presentation. I got to a point where I sat down, and I
21 just asked myself: What are you going to be feeling
22 when you stand at that podium or you go up on the stage
23 to receive the receive the award? And basically, what
24 it came down to is yeah, feelings.

25 I mean, right now, excitement and humility are

1 at the forefront. But when I get past that, it is a --
2 just -- it is a great sense of good fortune, pride, and
3 gratitude. I truly consider myself fortunate. I have
4 had a good life. I have had a great professional
5 career. And I can honestly say if someone were to offer
6 me the opportunity to trade my experiences for theirs,
7 I'd turn it down.

8 When I say I am experiencing feelings of pride,
9 I am not talking about my personal accomplishments. It
10 was hard enough to listen to what is in the resolution.
11 What I'm talking about is I take great pride in being a
12 representative of the Franchise Tax Board. Let me give
13 you a little background as to why I say that.

14 I started my career in 1978. It was in
15 November, shortly before Thanksgiving, that I got the
16 good news from the bar examiners that I had passed the
17 California State Bar. I was admitted to practice law in
18 all courts of the state of California shortly
19 thereafter, and a few weeks later I embarked on what has
20 been a 40-plus year career.

21 My career breaks down at roughly 50 percent
22 public sector and at Franchise Tax Board. During the
23 last 15 years of my career in the private sector, I was
24 a -- for lack of a better term -- I was a partner in
25 what was then the largest firm in Sacramento, and a firm

1 that enjoyed a stellar reputation for going about its
2 business with ultimate high ethics and providing high
3 quality customer and client representation on a regular
4 basis. Quite frankly, that's the way we did things.

5 And one of the things I learned during that
6 15 years is that if you commit to doing things the right
7 way, putting your ethics out in front, there is really
8 something about that that's very liberating, and it
9 actually gets to a point where it is easy to do things
10 that way. It is easy to take on the difficult situation
11 because you're being forthright and honest.

12 In 2001, I decided to make a career and a life
13 change, and at that time I joined the Franchise Tax
14 Board. What did I know about the Franchise Tax Board?
15 What I knew was it was an entity to which I wrote checks
16 on an annual basis, and that it had a reputation for
17 being a good place to work. That was about it. I
18 didn't really know what I was getting into. I didn't
19 know what it was going to be like in terms of continuing
20 to practice law the way I wanted to or the way I had
21 become accustomed to.

22 As I -- as I became acclimated to FTB and began
23 to take on expanding responsibilities and know more
24 about the organization as a whole, as opposed to just
25 the confines of the legal department, I came to realize

1 that the values I had come to cherish -- again, doing
2 things the right way and taking the high road while
3 you're doing it -- were here. Not just in the legal
4 department, but throughout the -- but throughout the
5 organization.

6 The Taxpayer Bill of Rights talks in terms of
7 FTB having an obligation to ensure that taxpayers pay
8 the correct amount of tax. But quite frankly, I don't
9 know that the legislature had to go ahead and put that
10 goal into a statute, because from what I have seen of
11 this place, that was already the mantra and the way that
12 FTB went about doing things.

13 I have had experiences here that cross over the
14 many divisions within FTB. I have seen the audit
15 division spend a lot of time addressing how tax statutes
16 should be applied so as to ensure that the laws are
17 applied fairly, consistently. I've likewise seen how
18 forms and communications people go to great lengths to
19 tell taxpayers in writing how to meet their filing
20 obligations. That dedication to fairness is also -- is
21 also present and in the forefront of what I sometimes
22 refer to as the back end of the FTB operation, and
23 that's debt collection.

24 FTB, obviously, is the principal revenue raiser
25 for the State of California. It has got the fiduciary

1 obligation to go out and do it. FTB also is aware of
2 the fact that there are a lot of people in this state
3 who are not in a position to simply write a check and
4 pay their bill. We have programs out there. Our people
5 are trained to take into consideration these hardships.
6 We have a variety of ways to deal with that, and we are
7 in -- and while we -- there is a balance that where we
8 have to, at times, be firm.

9 The fact of the matter is, is that in fulfilling
10 that obligation, FTB doesn't sue people. We don't
11 foreclose on their homes. We don't force them into
12 bankruptcy. The legal division, of course, plays a
13 significant role in all of this, as well as being in the
14 forefront of handling formal dispute resolution matters,
15 be it internally or before the Office of Tax Appeal, its
16 predecessor, the Board of Equalization, or the courts.

17 Regardless of the forum, we carefully review our
18 facts, research the law, and clearly state the FTB's
19 positions in all of our written submissions to these
20 various tribunals. Should the matter require oral
21 argument, our presentations are always professional and
22 are done in a manner showing respect for whoever it is
23 that's presiding over the matter, the taxpayer, and
24 whoever it is that may be representing the taxpayer.

25 These considerations of fairness are not limited

1 to FTB's performing its tax assessment and collection
2 responsibilities, but also in the way FTB treats its
3 employees. We strive to continue FTB's reputation for
4 being a great place to work through the use of open-door
5 policies, and to ensure that employees' concerns are
6 heard. We also strive to eliminate discrimination and
7 all forms of bias from the workplace, and as Selvi
8 pointed out a few minutes ago, we affirmatively
9 undertake efforts designed at inclusion, not exclusion.

10 While mistakes might incur and there is always
11 room for improvement, I believe FTB ascribes to high
12 standards in all aspects of its operation and function,
13 and I am proud to be part it for the last 20 years.

14 Gratitude. I am just -- I am overwhelmed. I
15 can't thank you enough for what you're doing for me.
16 But -- and I really appreciate what FTB is, what it has
17 become, and I'd like to extend some personal thank yous
18 at this point.

19 To the board, Members Cohen, Miller, and
20 Chairwoman Controller Yee, and your predecessors, I
21 thank you for your guidance and oversight, and -- that
22 you have provided and will continue to provide to this
23 organization.

24 To Controller Yee, I can't help but reflect upon
25 the fact that I have represented FTB before the Board of

1 Equalization on occasions where you were charged with
2 the responsibility of deciding the matter, and on other
3 occasions in your capacity as Chair of the FTB. I want
4 to thank you for your professionalism, for always being
5 prepared, listening, and asking the questions designed
6 to get at the heart of the matter to enable you to make
7 the decisions you did, and that includes those occasions
8 where you disagreed with the position I was advocating.

9 To Selvi, for your unwavering dedication and
10 devotion to this organization, and for your unspoken
11 insistence that FTB always operate with consistent
12 excellence.

13 To Jozel, for sharing my compulsions for word
14 sleuthing and finding the proper tone or tones for
15 written and verbal communications, for having the
16 confidence in me to entrust me the various cases I have
17 been assigned and the positions of responsibility I have
18 achieved within the legal division. More importantly,
19 thank you for the friendship we have developed.

20 To Shane, very simple, for being my always
21 available -- my always-available sounding board on any
22 topic.

23 To Ann Hodges, for being my proverbial right arm
24 for these past many years. To Ann, Scott DePeel,
25 Joanna Palisoc, and the many other people who helped me

1 meet the numerous challenges that thrust upon FTB in
2 connection with a certain matter that went before the
3 Board of Equalization during August of 2017.

4 To all of you who work in the Settlement and
5 Litigation Bureaus, I thank you for your commitment to
6 excellence, as well as the intellect, personality, and
7 diversity you bring to our organization.

8 To the chiefs and upper management members of
9 all of the divisions not named legal, I thank you for
10 your open-mindedness and willingness to listen and
11 consider the advice provided by legal on various
12 matters, even though there might be a sense that what
13 legal might be saying is -- is sometimes understood or
14 figured to be an unnecessary stop sign.

15 To my fellow colleagues in the Legal Division
16 management team, I thank you for your dedication to
17 ensuring that the Legal Division is the best that it can
18 be. I know the challenges and pressures you face, and I
19 also know that you have the collective knowledge and
20 temperament to guide and lead the division through
21 whatever challenges may arise in the near and
22 not-so-near future.

23 A few minutes ago, I told you that if offered
24 the opportunity, I would not change my -- not trade my
25 life for another. That is particularly true when it

1 comes to my family. With me today are my wife, Penny,
2 my son, Chris, my daughter-in-law, Jaclyn, and my
3 grandson, Collin. My daughter -- my daughter, Meaghan,
4 couldn't be here, but they are -- they have always been
5 supportive, and they are truly what is most important to
6 me, and I thank them for supporting me today and
7 throughout the years.

8 To Chris and Meaghan, I thank you for putting up
9 with the long hours I put into my career over the years,
10 and for becoming the upstanding people you are and for
11 assuming more and more responsibility within the family
12 as time -- as time has transpired. To Jaclyn, I thank
13 you for becoming part of the family and all that you
14 bring to us. To Collin, I thank you for the unbridled
15 sense of joy I experience every time I see you, and the
16 reminder of what a precious gift children truly are.

17 And to my wife, Penny -- I could go on for a
18 long time, but she would kill me. But it is really very
19 simple. We have been married for 42 years, and Penny
20 has been with me every step of the way during my legal
21 career. We shared the highs, the lows, and the moments
22 of nervous anticipation. Penny has always been there
23 for me and is my personal rock. I know I don't thank
24 her enough for the support she has provided me
25 throughout my career, but it is the reality, the value

1 of which can't be quantified and is only exceeded by my
2 appreciation.

3 In closing, one of the certainties in life is
4 that time moves on, and that time has come for me to
5 retire from FTB. Doing so is bittersweet because I'm
6 doing it -- I'm stepping away from something that is
7 very, very dear to me. My memories of FTB and its
8 people will always be positive, and I cannot express how
9 much I appreciate your letting me be a very small part
10 of this organization.

11 Thank you for everything, from the bottom of my
12 heart.

13 (Applause.)

14 CHAIRPERSON YEE: Before we ask Bill to come to
15 the stage, let me turn to Member Cohen for any comments?

16 MEMBER COHEN: No comments. Thank you.

17 CHAIRPERSON YEE: And let me see if there are
18 any members of the public that wish to comment.

19 Very well. Thank you.

20 Thank you very much, Bill.

21 I'm just going to ask all of you to rise again
22 and just help me to extend all best wishes to Mr. Bill
23 Hilson on his well-deserved retirement.

24 (Applause.)

25 (Mr. Hilson approaches the stage and receives award.)

1 CHAIRPERSON YEE: Thank you very much, members.
2 Thank you, Selvi, Jozel, and Shane. Again,
3 congratulations to Bill.

4 And seeing no other business to come before the
5 board, this meeting is adjourned. Thank you very much,
6 everyone.

7 (Meeting concluded at 3:48 p.m.)

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REPORTER'S CERTIFICATE

State of California)
) ss.
County of Sacramento)

I, CARLI MCKENNY, 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, CARLI MCKENNY, 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 hereby certify this transcript at my office in the County of Placer, State of California, this 12th day of October, 2022.

/s/ Carli McKenny
CARLI MCKENNY, RPR, CSR NO. 14086
Certified Shorthand Reporter of
the State of California