

chair **John Chiang**
member **Jerome E. Horton**
member **Michael Cohen**

State of California
Franchise Tax Board

11.03.14

To: Hon. Mark Leno, Chair
Joint Legislative Budget Committee

Mr. Daniel Alvarez
Secretary of the Senate

From: Selvi Stanislaus

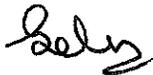
**Subject: Supplemental Report of the 2014-15 Budget Package - Item #7730-001-0001
Staffing for California Competes Tax Credit**

Memorandum

Enclosed you will find FTB's Supplemental Report that is required to be prepared and submitted to the chair of the Joint Legislative Budget Committee and chairs of the legislative fiscal committees. This report includes information on the staffing for California Competes tax credit.

The factual contents of the report are true, accurate, and complete to the best of my knowledge.

If you have any questions, please contact Jeanne Harriman at 916.845.6431.



Executive Officer

cc: Peggy Collins, Joint Legislative Budget Committee
Tina McGee, Legislative Analyst's Office
E. Dotson Wilson, Chief Clerk, Office of the Chief Clerk of the Assembly
Amy Leach, Office of the Chief Clerk of the Assembly
Jim Lasky, Legislative Counsel Bureau
Joseph Shinstock, Senate Committee on Budget and Fiscal Review
Mark Ibele, Senate Committee on Budget and Fiscal Review
Anthony Archie, Assembly Committee on Budget
Genevieve Morelos, Assembly Committee on Budget
Marybel Batjer, Secretary, Government Operations Agency
John Chiang, State Controller, Chair, Franchise Tax Board
Jerome E. Horton, Chair, Board of Equalization
Michael Cohen, Director, Department of Finance
Kristin Shelton, Department of Finance
Jeanne Harriman, Director, Financial Management Bureau, Franchise Tax Board

Enclosure

Franchise Tax Board
Report to the Legislature
California Competes Tax Credit
December 1, 2014

Pursuant to the provisions of Chapter 69, Statutes of 2013 (AB 93) and Chapter 70, Statutes of 2013 (SB 90), the California Competes Tax Credit was created. The amount of the credit available to a taxpayer will be negotiated and set forth in a written agreement between the Governor's Office of Business Economic Development (GO-Biz) and a taxpayer and will be based on numerous factors. Upon approval of the written agreement by the Committee, GO-Biz would inform Franchise Tax Board (FTB) of the terms and conditions of the written agreement. FTB would review the books and records of taxpayers allocated a California Competes Tax Credit to ensure that the taxpayer complied with the terms and conditions of the written agreement.

In the 2014 Budget Act, FTB was authorized for four new limited term positions to administer the provisions of this legislation. Two positions are effective January 1, 2015 and an additional two positions are effective July 1, 2015. The limited term positions were requested and approved to allow FTB the opportunity to understand the magnitude of work and avoid any disruption to existing audit workloads. Staff hours spent to date have been redirected away from audit and legal work to prepare for the implementation of AB 93 and SB 90. These implementation hours were spent working with GO-Biz to define contract milestones (investment and employment increases) to ensure measurability. These definitions were included in the California Competes Credit Regulations and were the basis for the milestones in all negotiated contracts. These hours also include reviewing draft contracts and milestones and drafting standard contract language.

In January 2015, FTB will hire, train and develop contract review procedures. Beginning July 2015, FTB staff will review the books and records of taxpayers allocated a California Competes Tax Credit. It is estimated that the authorized staff will review 50 contracts per year which is expected to take 125 to 175 hours per contract. These positions will manage and monitor the following aspects of the program upon approval of the written agreement by the California Competes Tax Credit Committee:

- GO-Biz would inform FTB of the terms and conditions of the written agreement and FTB would conduct an initial review of the written agreement to verify terms of the agreement can be measured and observed during an audit.
- FTB will schedule tasks associated with each agreement over the life of the agreement.
- Once the terms of the agreement have been reached, FTB would review the books and records of taxpayers allocated a California Competes Tax Credit to ensure that the taxpayer complied with the terms and conditions of the written agreement.
- If FTB determines that a possible breach of the agreement occurred, FTB provides GO-Biz detailed information regarding the basis of the possible breach. GO-Biz then makes a recommendation to recapture in whole or in part, the allocated tax credit, to the committee with FTB providing assistance as requested. The committee would approve or reject the recapture recommendation at a duly noticed public meeting.

Franchise Tax Board
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The following table displays FTB's California Competes Tax Credit workload from July 11, 2013 through October 31, 2014:

Workload Measure	Quantity
Number of staff involved in administering the California Competes tax credit	2
Actual staff hours spent to date implementing the provisions of AB 93 and SB 90	1,200
Number of authorized but vacant positions provided for the administration of the California Competes tax credit /1	0
Actual staff hours spent to date reviewing negotiated written agreements submitted by the Governor's Office of Business and Economic Development /2	150
Actual staff hours spent to date reviewing the books and records of taxpayers that have been allocated a California Competes tax credit /3	0

1/ Authorized positions are effective January 1, 2015.

2/ These implementation hours were spent working with GO-Biz to define contract milestones (investment and employment increases) to ensure measurability. These definitions were included in the California Competes Credit Regulations and were the basis for the milestones in all negotiated contracts. These hours also include reviewing draft contracts and milestones and drafting standard contract language.

3/ Reviewing the books and records of taxpayers will not begin until staff are hired, trained and contract review procedures are in place. We anticipate the contract reviews will begin in July 2015.