

STATE OF CALIFORNIA  
FRANCHISE TAX BOARD

PUBLIC MEETING

THURSDAY, MARCH 10, 2016  
GERALD GOLDBERG AUDITORIUM  
9646 BUTTERFIELD WAY  
SACRAMENTO, CALIFORNIA

REPORTED BY:

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ITEM NO.	INDEX	PAGE
1. Approval of Minutes	4	
2. FTB 2015 Accomplishments	5	
3. EITC/VITA Presentation	8	
4. MyFTB Website Update	18	
5. EDR 2 Analysis	27	
6. Administrative Matters	34	
A. 2016-17 FTB Customer Service Resources Finance Letter - Board Approval		
B. Contracts over \$1 million - Board Approval		
1. Compuware Software Maintenance Renewal		
2. IBM Passport Advantage Software Subscription and Support Renewal		
3. IBM Software Maintenance Renewal for FTB Mainframe		
4. Software AG Software Maintenance Renewal		
7. Executive Officer's Time	43	
8. Board Members' Time	45	
Adjournment	48	
Reporter's Certificate	49	

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APPEARANCES

BOARD MEMBERS:

YVETTE STOWERS  
FIONA MA  
ERAINA ORTEGA

STAFF:

SELVI STANISLAUS, EXECUTIVE OFFICER  
DAWN CASEY, BOARD LIAISON  
MICHAEL BANUELOS  
MICHELLE FALLON  
JEANNE HARRIMAN  
KELLY HECKMAN  
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KEM MUSGROVE  
JACOB ROPER

COUNSEL:

JOZEL L. BRUNETT  
BRUCE LANGSTON

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SACRAMENTO, CALIFORNIA  
THURSDAY, MARCH 10, 2016, 1:33 P.M.

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CHAIRPERSON STOWERS: This is the scheduled time for the meeting of the Franchise Tax Board. Would the board liaison please call the roll to determine if a quorum is present?

BOARD LIAISON CASEY: Member Ma?

MEMBER MA: Here.

BOARD LIAISON CASEY: Member Ortega?

MEMBER ORTEGA: Here.

BOARD LIAISON CASEY: Chair Deputy Controller Yvette Stowers?

CHAIRPERSON STOWERS: Present.

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

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

The first item, Members, is the Approval of the Minutes. We have the minutes of the December 8th, 2015, board meeting and Taxpayer Bill of Rights hearing.

Is there a motion?

MEMBER MA: I'm going to abstain since I wasn't here.

MEMBER ORTEGA: I move approval of both sets of minutes.

MEMBER MA: I second that.

It has been moved and seconded. Passed 2-0.

Item 2 is the presentation of the Franchise Tax Board 2015 Accomplishments. We have Ms. Michelle Fallon to present it. This is an informational item and it is a PowerPoint, so the board members will move to sit at the table to my left so the screen can come down to view the PowerPoint.

MS. FALLON: Good afternoon. My name is Michelle Fallon. I'm with the Communications Services Bureau and I presented FTB's accomplishments actually a couple of times before this board. And usually what I do is, I go into a little bit of detail of each success, but I'm not going to do that today. We decided to change things up a little bit this year and we're going to wait to go into the specific accomplishments at the July board meeting, after we have the filing season statistics to back up the successes that we're just beginning to see now.

So what I would like to show you today is actually something that we produced for our own employees. It's a celebration of sorts and we definitely needed to celebrate.

Let me explain: I've been at FTB for over 26 years and I can honestly tell you that 2015 was the most challenging year that I have ever seen. The craziness that was that year culminated in a launch of our last major deliverable of a huge technology project that was years in the making.

As an enterprise, we were stretched and challenged to limits I have never seen before. Every single employee at FTB was impacted. Now, you are going to see a little bit more about that deliverable in just a few minutes. But 2015 wasn't just about that project. It was actually about getting everything else done at a time when time and resources were at a real premium. And that is the reason we wanted to produce this video, to remember and to celebrate what we can accomplish even during the most challenging of times.

So the video I want to show you today is just four minutes long. It's organized by our values that you see here on the screen. And as you watch, you are likely not going to see or understand what the

accomplishments were because this is a very, very high level, but what I hope you do see is the spirit of our employees, the commitment to the work that we do and how that all culminates together or translates to a culture that creates a working environment where great things can be accomplished. (Video presentation)

MS. FALLON: So again, we'll dig a little deeper when July comes around and we'll talk to you about our accomplishments. But for now, do you have any questions for me?

CHAIRPERSON STOWERS: Thank you, Michelle. That was great.

For me -- I don't have questions, just a comment. I feel that the video really demonstrates the Franchise Tax Board and, you know, I'm a little personally biased. But I swear, I say this is the best agency. The fact that the employees participated in the video, you can see that they are happy. You can see that you are encouraging your employees. You are building leaders.

As a graduate from the first management development program and the encouragement I got from that program to the encouragement I currently receive from the executive team, it's just a wonderful place.

MS. FALLON: Thank you.

CHAIRPERSON STOWERS: Members?

MEMBER MA: Thank you very much. This is my first meeting, and I've worked very well with Selvi over the past year, since I got here, and it is really great to see the video and I look forward to meeting all of the employees personally, over the next year. So again, thank you. Nice job.

CHAIRPERSON STOWERS: Thank you, Member Ma. We're very excited to have you on our board. We are now on Item 3 which is the EITC, Earned Income Tax Credit, and VITA Presentation. This is another informational item and a PowerPoint and we have Jacob -- to present. I'm sorry. Michelle and Jacob.

MS. FALLON: I just love it up here. Hello again. Jacob and I would like to give you an EITC and VITA update. And I'm going to begin by giving you the numbers, and then Jacob is going to wow you with the marketing efforts of not only FTB but also he's going to show you what can be accomplished with a coalition of both government and nongovernment entities, when they work together towards a common cause. But first let me begin with the numbers.

So this slide is all about volumes. As you probably remember, we projected that about 600,000 families would benefit from the California EITC and so far, we've received over -- a little bit over 200,000 tax returns claiming California EITC.

Out of that amount, nearly 5,000 of those were prepared by our very wonderful VITA volunteers and I want to give a huge shout-out to the controller and to Member Ma for your wonderful support of our VITA program. Thank you, thank you so much for that.

And lastly, one interesting statistic is our first time filers are 26,000. To me that number tells us that the EITC credit is actually doing at least in part what it was intended to do. It is reaching those in the lowest income brackets because these are people who have never filed before and who likely aren't even in the income bracket that requires them to file. So very interested to see those numbers grow as we progress through the filing season.

So the first slide dealt with numbers and now I would like to switch to dollars for just a moment. Projected, those 600,000 families that I talked about in the first slide are expected to receive, in total, about 380 million in EITC dollars. So far, as of the end of February, we look like we have a hundred million dollars claimed in EITC refunds. So we're doing quite well.

But I want to use a little bit of caution; we still have a long ways to go. We're not even halfway through the filing season yet. I don't believe we are. It's all a blur once we hit January.

But we still have a long ways to go and I'm really looking forward to the numbers continuing to grow,

and who knows where they are going to take us. But we're very encouraged with where we are right now.

So before we leave the statistics, I should talk about our website visits because it kind of leads into what Jacob is going to tell you about marketing efforts. Our websites were a big piece of our marketing because that's where people go to get our information.

FTB's website had about 84,000 hits or visits from people who were looking for EITC information. And the Cal EITC page had about 54,000 visits. It's interesting to note that most of the people visiting these pages were looking for how much the credit is worth and what are the qualifying rules. And according to web traffic, the credit calculator that calculates both the federal and the state credit was also a really big hit.

So overall, from our analysis, it looks like these tools and the information that are on these websites are functioning exactly as we hoped they would and people are finding what they are looking for. And with that, I would like to turn it over to Jacob who's going to talk about our marketing.

MR. ROPER: Thank you. So the first slide you have here is a direct mail piece that we sent out to 90,000 taxpayers in California. Although we were part of a very broad coalition to support the EITC this is the primary effort from FTB's part. We targeted taxpayers who had incomes in 2013 within the EITC range, who had at least one dependent and did not file a state return in previous years, so we hope this feeds into and supports that rise in prior nonfilers that we're seeing.

You can see this is a little different than the normal style of mailers you might get from the FTB. First of all it starts off with a positive message to make sure that it doesn't cause anyone any anxiety and to let them know it's good news. And you can see at the bottom that it directs everyone to CalEITC4me.org. That is the central nongovernment website that we set up as a clearinghouse for the entire EITC promotion effort.

We also have a bus tour which we are trying to put together right now and although we're off to a great start with the EITC, we want to continue with a strong push through the end of filing season. So while I don't have dates with you to share today, I hopefully will later today or first thing tomorrow morning on where those stops will be.

We are working with the Community College Foundation. This bus was procured from FEMA and the Community College Foundation outfitted it with 13 Web stations that can be used by VITA volunteers to remotely prepare returns in areas of the state that don't have access to public transportation or existing VITA sites right now.

We produced several videos promoting the credit, just the general awareness that there's more money on the table for families than ever before, but also instructional videos on how to claim the credit, how to file the state return, both online and by paper.

And we've also produced a mountain of collateral including brochures, posters, and digital advertisements that our nonprofit partners can use to customize their own advertisements to promote EITC and VITA services.

And then of course we've used social media as much as we can. We've leveraged partnerships with at least 24 different state and local departments. So that we are not only Tweeting ourselves and using Facebook and every other social media form, but we're also leveraging the other departments and their followers to try to get the message out as much as possible.

We have focused on specific timing so that on one day we will talk about VITA awareness. On another day we will talk about how much the credit could mean to a family: could it mean car repairs? Could it mean clothes for your next job interview? What can it do to help these families get on their feet and get on a better path?

And then I wanted to do a quick demonstration of the CalEITC4me tax prep finder which is also a

pretty central part. And you are seeing right here the home page at EITC4me. If you click the get it button down here, it will take you to a number of resources, including ways to find free tax assistance. This database includes about 1200 different sites and one-time events right now.

In the past, we haven't always done a great job of putting together a completely comprehensive listing of VITA services but through an agreement between the IRS, the Franchise Tax Board, AARP, and United Way, we have put together what we think is the most comprehensive list of both existing full-time sites as well as one-time events.

I'm going to show you downtown San Jose and give you a sense of what kind of graphic overlay I can show you here of services. And you will see, that is the United Way of Silicon Valley in downtown San Jose and if I back out just a bit you can see in the larger area the different VITA services available. It's also searchable by language so if we want to see what is available specifically to Spanish speaking taxpayers you can see we have all those sites available and stood up in the downtown San Jose area. I could check on another one, for example, Vietnamese also has a good number of sites available there. We also launched a new feature in the last two weeks through a partnership with the United Way to include online appointment scheduling. So I'm going to hop over to another site here and that is the north Santa Barbara County United Way and Santa Maria. They were one of the first sites to use this service and if I click on their site and I go to schedule an appointment it will take me to a new page, where, for the first time ever I can actually go on, schedule an appointment, look at what days are available at the site. The next appointment is available on April 2nd and those are the times that are free.

So one of the largest problems that we've heard from our VITA partners is, we manage a volunteer labor workforce through a loosely organized statewide plan and a lot of times it's difficult to manage coverage. So services like this that let them plan ahead and cut down on the wait times for taxpayers, we think are going to go a long way.

MS. FALLON: So I think that's a pretty cool tool. So from the statistics we've shown you today and from our Web trends that we've looked at, it's pretty clear to us that people are using the tools and this has been a pretty good success.

There's another more nebulous success measurement we wanted to talk about before we left off with this presentation. Our VITA volunteers have been sharing with us stories of people who have been visiting VITA and have been receiving the EITC credit. And I'm sure you are hearing similar stories, but I wanted to share two with you.

Okay, so there was this mom. Her name is Mary and she had a five-month-old daughter. She came to a VITA event at a food bank so she was amazed to find out that she qualified for the EITC funds. She didn't have any idea whether she had heard about the credit but she didn't know she qualified. When her returns were done she found out that, between federal and state, she got refunds of, like, \$3,300. Anyway, when she found out how much her refund amount was, she started crying. And the VITA woman kind of leaned over and said, "Hey, are you okay?"

And she said, "You know what? I can now take my daughter to her doctor's appointments and I can find a job. It makes me so much more independent now." So it's huge. And the VITA volunteer said she started crying too. So second story -- and then I started crying.

Anyway, next is Christina. She's a single mom of three boys, all under the age of eight. I mean, can you imagine? I can barely handle two. So she gets points just for that. Christina is from L.A. and was helped by a very nice VITA volunteer from the Glendale BOE office. She had heard about VITA from a friend. She qualified not only for the EITC but she got a child care credit and got back some withholding. So this woman was like totally shocked when she -- her refunds totaled to almost \$9,000. She told the VITA volunteer that she planned to pay off her credit cards and take those three

rambunctious boys someplace fun for a change. I would have opted for a day spa, but good for her. I'm sure you have heard, like I said, similar stories, and clearly this wouldn't be new to you. But you know, since I began this presentation talking about the numbers, I thought it was fitting to end with a reminder that these numbers represent real people and real lives.

And the word from the community, just to let you know, is that VITA and EITC are very much making a difference in California.

And finally, it's pretty awesome to work with a board who not only is like-minded in regards to these programs but who has also been very supportive of FTB through this entire process. So thank you very much.

And now, I would like to invite you to ask Jacob whatever questions you may have of us.

(Laughter)

CHAIRPERSON STOWERS: Thank you, Michelle and Jacob. Excellent job. I remember, when you were just getting started and you had some really big goals set out, so it's going to be a challenge. Are we going to get the marketing out there? Are we going to have enough volunteers? But these numbers speak for themselves. 600 families helped. 30 million projected in claims and a hundred million year to date. That's fabulous. You are really helping a lot of needy families. The controller also has spoken with individuals who have received a Cal EITC and have gotten the same type of feedback on how this definitely is helping your family.

So this is a fabulous program; we need to continue with it.

Ms. Ma?

MEMBER MA: I'm very happy to see that we've used a hundred million out of the 300 million. The governor allocated this money to help working families. And for those of you who understand the legislative process, if you don't use it, you lose it. And so if we don't use this amount of money or all of it, it may not all be available next year. So we've all been pushing hard and Controller Yee has done an excellent job on her eight years here in the legislature, as well as Treasurer Chiang, before that, to make sure that we are doing the best outreach efforts that we can.

I'm going to be on the bus, the EITC bus. I'm just waiting for the schedule, and I think seven of my employees also have been certified to be volunteers and so I just thank all of you. You are doing a great job with this program kudos. Hats off.

MS. FALLON: Thank you.

CHAIRPERSON STOWERS: Okay. We're now moving on to Item No. 4. Item No. 4 is MyFTB Website Update. This is another informational item -- PowerPoint presentation -- by Kelly Heckman and Daryl Lee.

MR. LEE: Good afternoon. My name is Daryl Lee and I am the manager that oversees our website and I would like to introduce Kelly Heckman and she will be sharing the new MyFTB.

MS. HECKMAN: Today we will be sharing information with you on the new security added to MyFTB; our new registration process; new services that we've added for taxpayers and tax professionals; and some of the feedback that we've received to date; and Daryl is going to cover our security enhancements.

MR. LEE: As you may recall, the MyFTB enhancements were originally scheduled to deploy in the summer of last year. And we were definitely on track to meet that time frame until the IRS announced a data breach that involved their authentication process that allows taxpayers access to online services. Many government agencies took a step back and tried to learn from the IRS experience. At FTB we saw some similarities between their authentication process and ours that would make us vulnerable to the same type of threat.

So out of an abundance of caution, we delayed the MyFTB launch until January of this year, and we

required all users to reregister using the enhanced security measures. Taxpayer privacy is a big deal to us at FTB, so much that we even hired an independent company to assess security prior to deployment.

They confirmed that our IT infrastructure, application, and other key components had all of the most up-to-date and best practices. In fact, the consultants were very impressed with our ability to rewrite and enhance our identity and access management process in six months.

These measures gave us a level of confidence to ensure that taxpayer data would be protected with the launch of MyFTB.

Before the January launch of MyFTB, we had over 600,000 active users. We had to deactivate all accounts and request them to reregister under this new process. And now I will take a few minutes to share with you the new process.

So here's a picture of our three step registration process. It's as easy as one, two, three. Step one. You go online and begin your registration process by creating an account name and password using your Social Security number or business account number, your e-mail, and tax information from a return filed in the past five years.

Step two. FTB will mail you a PIN using the U.S. mail in ten business days.

Step three. You will log back into MyFTB with your account name, password, and PIN, and now you have access to the new MyFTB.

As of today there are over 200,000 people who have followed the easy three-step process, and we think that one-third have already re-registered in just in over a two-month period. We think that is a great start to a great product.

And now Kelly will describe the information and services available now that they have been registered.

MS. HECKMAN: This is a home page for the individual taxpayer. The home page for a business entity is very similar. We designed the enhanced MyFTB to have an intuitive design with drop down menus that's really easy to navigate. More importantly, we provided our customers with a lot more account information and new services so that they can self-serve anytime, anywhere, 24/7.

MyFTB uses the same navigation tools on all pages, and although we can't go into all the great information that's available, we're going to take a quick look at some of the items that are now offered.

On the top of the page is an FTB banner and welcome message. The main application menu allows you to dive into a lot more of the account information and services of MyFTB. And in the middle of the screen, you can see our contact information including FTB ID, mailing address, phone number, and e-mail address. The account status section displays high level account information including real-time balance due. And the account access section displays when the account was last accessed and by whom.

On the left side of the page, we have CalFile, which is for individuals only; and Web pay, which is for individuals and businesses. Customers do not need to have a MyFTB account to access CalFile or Web pay. They can simply access it on our home webpage. And below Web pay we have two of our new communication options which is secure chat and send secure message. We've had secure chat before. However, now with secure chat, taxpayers can now discuss confidential tax matters with an agent, real-time, during normal business hours. Send secure message can be used to send an electronic message to FTB as well as upload documents to the message.

And back up on the top, under the communication drop down menu, taxpayers can access notices issued by FTB as well as the correspondence both to and from FTB.

And here's the home page for the tax preparer. They have access to much of the same information that's available for the individual taxpayer and the page has a similar look and feel. Here's where tax

preparers can add individual and business clients to their client list as well as file an online power of attorney declaration. And by selecting the last name, the tax preparer can launch into their client's own individual account.

The access column type indicates the role of either tax preparer or power of attorney. In MyFTB a power of attorney representative has access to all the same information as a tax preparer plus the power of attorney representative has access to a lot more features which include viewing return images, viewing notices and correspondence, filing an online protest and updating their client's account information. Like the individual, tax preparers can communicate through secure chat and send a secure message.

And on the top of each page there's a new help icon which provides page level help, which is available on all pages within the applications for individuals, tax preparers, and business entities.

And back on FTB's main website, we have how-to guides to provide a lot more help on specific topics, such as how to register, how to file a POA declaration and submit an online protest, and much more.

And now Daryl is going to share some feedback that we've received to date.

MR. LEE: We wanted to share some support we received in the social media world. On screen you will see some tweets from Lynn Freer at Spidell, and from Moss Adams encouraging registration. In addition, Toni Atkins, the Speaker of the Assembly, helped us get the word out about MyFTB with her tweet.

And in the news, while we weren't picked up by the "Washington Post," an enrolled agent, Russ Fox, was kind enough to blog about MyFTB. Here is what Russ wrote: "FTB debuted the new MyFTB on January 4th and it's a winner. I can look at account balances, estimated payment amounts, 1099 information, on the state level, calculate a balance due for a future date, protest and assessment, view images of notices and correspondence and more. If you are a tax professional who deals with California clients or a California taxpayer I urge you to enroll in my MyFTB. I am very impressed."

And now Kelly will share some other responses.

MS. HECKMAN: We've been pretty pleased with the feedback that we've been receiving to date, but, to be honest, it all hasn't been positive. As with any huge change, there have been a few bumps in the road and we've tried really hard to be responsive to the not-so-positive feedback.

One example is the registration page that Daryl just talked to you about. When we first launched in January, we quickly found that we didn't do such a great job in clearly explaining the fact that you needed to wait for your PIN to arrive by U.S. mail. We received many calls from our customers asking for their PINs. And it quickly became apparent that we had to better explain our process to them.

This registration page is an example of one of those responsive changes that we've made and that we are continuing to make those responsive type changes when we received that feedback.

And although there have been some minor tweaks made along the way, I can tell you that we're really pleased and proud of the feedback or the accomplishments that we've made to date.

Many of us have already registered and logged into our own personal accounts. And I can tell you, it's pretty amazing to see this customer service vision really come alive. Daryl and I are honestly very humbled and proud to be a small part of such a huge effort and we know that it wouldn't have been possible without the support and leadership of our board, CIO, and executive officer, as well as the strong partnership that we have with our solution provider, and the commitment and dedication of just about every single person here at FTB to pull this off. It really has taken a village.

And finally, we would just like to say thank you for allowing us to present this item to you today and open it up to any questions that you may have for us.

MEMBER MA: I do have a question. When you are asking for -- or you said step number two, you should receive your PIN by U.S. mail, are you sending it to the real home address or a P.O. Box? That's

one of the concerns that taxpayers may not be getting this PIN number and then having access.

MR. LEE: Yes, we are sending it to their address of record.

MS. HECKMAN: So it could be a P.O. Box.

MEMBER MA: It could be a P.O. Box.

I have one question and one comment. On the taxpayer side of MyFTB, I see an area where they can update on their address. You had an area it says update contact information. So can a taxpayer go to that site if they have moved and changed their address?

MS. HECKMAN: Yes, they can.

MEMBER MA: Perfect.

CHAIRPERSON STOWERS: But that would be after they complete the registration process.

MEMBER MA: Perfect, still.

CHAIRPERSON STOWERS: I know, I got my letter to say that I had to re-register for MyFTB. My mom got one too. And she called me, which she does on all her tax things, and she slowly read the letter to me and I kind of shut her down because I already knew. So at least that correspondence got to one person.

(Laughter)

As far as CalFile, CalFile is working great. I used CalFile the other day and it was perfect. Just got me right in. I did it without the PIN because I didn't want to wait the 21 days, but it's up and running. So thank you very much.

Okay. We're now moving on to Item No. 5. Item No. 5 is the EDR 2 Analysis. This is an action item and PowerPoint presentation. With Kem Musgrove presenting.

MR. MUSGROVE: Good afternoon, board members. My name is Kem Musgrove. I'm a technical director for Enterprise Data to Revenue project or like we like to call it, EDR. I'm presenting an approval item today, requesting permission for the department to move forward with our second EDR project.

Back in 2007, the department developed a long-term strategy called Tax Systems Modernization Vision. This vision called for three very large scale projects over a 30-year period really focusing on two main areas: Modernizing our aging IT systems, and focusing on our key business problems and objectives.

This slide represents the timeline for the three projects. And vision is part of the tax systems modernization effort. Each project represents about ten years from project initiation kick off through final completion. We are very happy to say, the first project was our EDR project which we are just finishing implementing in December with MyFTB.

As you can see from the slide, we are now forecasting to begin our second tax system modernization project this year which we'll be calling the Enterprise Data to Revenue 2 project or no surprise, EDR 2. This slide represents how each of the projects are designed to build on each other. The first EDR project established the foundation on which the other two projects will be built. For now, EDR 2 project is envisioned to expand our case management, our modeling, and the MyFTB application which were all part of the first project.

We will also start to decommission and retire some of our existing legacy systems. All of these areas will be finalized as we perform business problem analysis to get ready for Phase 2.

This slide gives a good overview of why the tax system modernization effort focused on replacing and refreshing some of our aging legacy systems. Looking at the left side of the screen, at the timeline, the EDR marker represents the average age of our systems to be around 18 years old when we finished the first EDR project. Without replacing our legacy systems, in the middle of the screen, it shows the average age to be 27 years old around the time we would do the EDR 2 project.

And finally, at the right side of the screen, shows the average age to be 37 years old when the third project will be complete around 2035. These are very old ages for IT systems. Can you imagine your PC at home being 25 years old?

So with that, we really are trying to focus on replacing and refreshing those systems.

Before we talk more about the EDR 2 project we would like to quickly summarize where we are with the first project. We're very happy to say that both the initiation and project phases are now complete. We are now in the final maintenance and operations phase. In this phase we are focused on transitioning the solution from the vendor to be solely supported by the state resources here at FTB.

We are also very proud to say that the first project has been very successful. All the major phases have now been implemented and we are exceeding our revenue projects to date by \$300 million. We've been asked many times why the project has been so successful. We really attribute this to three main factors. The first one being, of course, executive support. We cannot stress how important the executive support has been for the project, for both the support from you, the board, and Selvi, as well as our other officers, has been key to that success.

Our second area has been our implemented phasing strategy. In this strategy we implement smaller components, we stabilize them and then we added new components one at a time, stabilizing each before we went forward and added the next component. This really minimizes the risk versus doing it all-at-once type implementation. It also reduces the stress on our staff and our systems. And finally, it really allows for a contingency plan to fall back to our existing systems without impacting our customers if we had any issues.

And our last area was our organizational change management. We realized how important this was at the very beginning of our project and we focused on it from the very start. Our dedicated team did a great job of keeping everyone well informed using a variety of very entertaining methods. An example of this is our famous red and blue cartoon characters as shown here.

Now that we are starting to look at the second year project, we're informing business drivers why we want to accomplish this project. The first one being increased customer service. We want to continue to focus on the needs of our customers, improve our service and be adaptive to our changing customer needs.

The second business driver is to continue to close the tax gap. Although EDR did a great job at addressing the tax gap there are still considerable areas for improvement. We continue to see this tax gap grow between what people pay in taxes versus what they legally owe.

Our third business driver is modernizing our aging systems. As I discussed before, our key legacy systems are aging, so the project will look at replacing and refreshing those systems.

And our last business driver is to increase business efficiencies. We want to continue to focus on any increase and improvement for business efficiencies for our staff.

Now that we've discussed why we want to do EDR 2, let's talk a little bit about how we will accomplish the project. Since the first EDR project was so successful, we really want to use the same processes to accomplish the second project. The first step, how, is to perform a detailed business problem analysis like we did with the first project. The problem analysis will address the following four areas: The first thing it will do is it will document and refresh our current business processes. It will also identify any new problems that constrain our business. It will also build and refresh our future business models from our strategic plan and finally it will look how to apply the latest technology to build our future business model. This really is the first step analysis is essential to us to establish the business case to move forward and submit the project and procurement phase later.

In this phase, we will be looking at identifying the scope, the revenue estimates, the timelines, and

the cost, and it really will be the start of our planning process for the project.

Another slide shows how we want to perform EDR 2 and the type of procurement model we want to use. As we did with the first EDR project, we'd like to perform EDR 2 under a benefits-based procurement model.

There are four main components to this model that we'd like to talk about:

The first one is contractor compensations based on project benefits. In other words, if a contractor does not meet the revenue estimates for the project, they do not receive compensation.

The second component of this model is the contractor cost or fixed price. The contractors only pay the bid price regardless of how much revenue potentially exceeds the estimates. They do not get compensated more depending on how successful the project becomes.

The third component is, this shifts the risk to the contractor. Using this model, the risk shifts to the contractor to deliver a solution that not only works but is successful.

And our last component is, the state pays no vendor cost until benefits are realized. This allows for no out-of-pocket expenses for the state to initially pay for the project. In other words, the project pays for itself with the revenue it generates.

Now that we have discussed why and how we want to accomplish EDR 2, we would like to quickly go over the timelines for the project. Starting in 2016, we would like to perform the business problem analysis. This is the only step that we're asking permission to move forward with today and it really is the first step in our planning process. Then contingent on your future approvals, we would like to perform the actual procurement for the project from 2017 to 2021.

And finally, starting in 2021, we are projecting to start the actual project with the contractor. We are estimating the project length to be 48 to 60 months, taking us through 2026.

Concluding my presentation today, are there any questions we can answer before asking for approval to move forward with the business problem analysis piece?

MEMBER MA: Are we voting on a dollar amount or just moving forward with the process?

MR. MUSGROVE: Just for us to move forward with the planning process.

CHAIRPERSON STOWERS: That's planning all in-house, correct? Just FTB resources.

MR. MUSGROVE: Yes, yes. Just FTB resources.

MEMBER ORTEGA: I will move approval of going forward with the business problem analysis.

MEMBER MA: Second.

CHAIRPERSON STOWERS: Motion to go forward. There's a second, no objection. The motion passed. Thank you. That completes our PowerPoint presentation.

Members, we are now on to Item No. 6. Administrative Matters. 2016/2017, customer service resource finance letter and contracts over 1 million which includes four sub-items. We have Jeanne Harriman and Michael Banuelos presenting on these items. The contract items can be approved in one motion or voted separately. Jeanne.

MS. HARRIMAN: Right. Good afternoon.

So we have presented for your approval today the spring finance letter requesting resources for customer service channels. Customer service is a core function of what we do. With a healthy customer service function, FTB is better able to serve taxpayers of California and ensure the protection of the voluntary compliance nature of the California's tax system.

This enables the department to effectively transact business with taxpayers and interact in a way with them that is most convenient for them at any time, in any place. It provides them information allowing them to meet their filing and payment obligations. Over 60 percent of the contacts we receive in our channels typically deal with a taxpayers asking questions to resolve a tax liability. FTB strongly believes that existing service levels and response times in our current channels are

unacceptable. This leaves California taxpayers struggling to find answers to their tax questions needed in order to file correctly or to pay their liability. FTB's goal is to provide customer service at the first point of contact to ensure taxpayers get information as soon as possible as well as minimize the FTB's operational cost.

In recognition of reduced staffing levels in these channels, over the last decade FTB has implemented many new tools or processes to allow for increased and enhanced customer service levels. These tools have been very effective in providing taxpayer options to obtain a system and have substantially reduced the typical general questions we've gotten in the past such as: can you e-mail me this form? Or, where's my refund?

However, in many situations taxpayers still wish to speak with us. They want an answer ready or they need for their assistance as their question is very complex and/or sensitive in nature and they just want to ensure that they are making sure they understand what they've read online or heard from somebody else.

As a result, all these new tools and processes have provided FTB and the state tremendous opportunity and value. Many taxpayers ultimately still wish to speak with us.

This proposal requests 180 positions and \$15 million in fiscal year 16/17 to enhance our service levels on various service channels. These service channels include higher levels of services and accesses on our phone calls, chats, written and e-mail correspondence, processing power of attorneys, as well as assisting taxpayers who are having issues with registering on MyFTB.

In addition FTB is requesting resources to continually monitor and enhance our website and Web applications for accessibility and usability issues. FTB has a strong desire to ensure our website and applications are at peak performance as this is truly one of the most effective ways for the taxpayer to self-serve at any time from any place.

FTB is very excited for the opportunity to present it to taxpayers, FTB, and the state that these additional resources will provide.

At this time, this proposal is presented for your approval, and I'm happy to answer any questions you have.

CHAIRPERSON STOWERS: Thank you.

Any questions?

MEMBER MA: Yes. I'm glad you are asking for more resources for customer service. I'm just wondering, on the letters that go out to taxpayers whether there is a specific person to contact with a phone number? I know a few years ago you would just call like an 800 number but there wasn't a specific person assigned. And if there isn't, will this resolve some of those customer service issues?

MS. HARRIMAN: Sure. Great question.

So it kind of depends on the process that they are involved in, with Franchise Tax Board. So an example, if they are under audit, typically they are going to have the direct contact line for the auditor themselves. If they are past a certain point in our collection process, they are going to be assigned to a collector so they can talk back and forth.

Then the remainder of taxpayers who are looking for such as a first or second bill that they've got, it has our 1-800 number typically on the back allowing them to call in and get assistance from a multitude of different staff members helping them to be able to assist them as quickly as possible.

MEMBER MA: So do you guys have a call center?

MS. HARRIMAN: Yes, the call center.

MEMBER MA: Just goes to a general call center.

How many people are in the call center?

MS. HARRIMAN: Right now we have 183 staff in that call center. And resources that we have in the

call center as well as the correspondence channels, the chat channels that can be interchangeable. So it's not correct to assume, today, that 183 staff are available there because we are navigating them around where we most need them to be. But as a baseline level of services, it's 183 people in our call center.

CHAIRPERSON STOWERS: Thank you.

Actually, I just spoke with a young lady who said that she's normally in -- I forgot the acronym -- BES. Anyway, she's been transferred over to the call center right now to help with that. So I saw it working. Members, do we have a motion?

MEMBER MA: One more. Do you have language access?

MS. HARRIMAN: Yes, we have various languages that we do. We have Spanish and then we have other channels. We have a large staff that if there is a need for a language that we typically don't have on our service, we will put a call out with our staff saying, I need some X language and then we have a staff member that hopefully will volunteer. We have a list of staff that we can get in contact and hook them up with the taxpayer to help us communicate with them.

MEMBER ORTEGA: Madam Chair, I would like to abstain from this item.

CHAIRPERSON STOWERS: Motion?

MEMBER MA: Motion to approve.

CHAIRPERSON STOWERS: A motion made by Ms. Ma.

Second? I second that motion.

Finance is abstaining.

Motion passed, 2-0.

Thank you, Jeanne.

MS. HARRIMAN: Thank you.

CHAIRPERSON STOWERS: Our next item is the -- next we have Michael Banuelos, contracts over 1 million.

MR. BANUELOS: Yes. Good afternoon, board members. My name is Michael Banuelos and I am the director of the Franchise Tax Board Procurement Bureau.

Today I'm here to ask for the board's approval to initiate procurement activities on four software maintenance contracts that we anticipate will be over the \$1 million threshold.

If I may, I will make a couple of general statements about the contracts first. These are requests for software maintenance contracts that allow us to continue using software that we already have embedded in our environment. So these are not new products for new projects or anything like that. We require software maintenance for a lot of our infrastructures. Maintenance would include things like product updates, bug fixes, patches, technical support and so forth. So these are not new products to FTB's environment.

And then the second point I would like to make is, all of the procurements will be done in accordance with the Department of General Services and the Department of Technology procurement guidelines. So with your permission, I would like to briefly go over the four contracts. And then I would be happy to respond to any questions that you may have. Is that okay?

CHAIRPERSON STOWERS: Yes.

MR. BANUELOS: Okay.

So the first contract is for the Compuware software maintenance renewal. This is a renewal software that is running on FTB's mainframe computer and includes critical productivity tools used by our mainframe developers. So they use it for measuring performance of our programs, testing our programs, debugging programs, and creating reports. We have an existing five-year contract valued at 1.17 million -- I'm sorry \$1.175 million that expires in July that we will be looking to renew.

The second contract is called the IBM Passport Advantage software subscription and support renewal. That one is a mouthful. This is the annual renewal of IBM software that is used to run multiple FTB systems, including filing enforcement programs, collections, audit, our data warehouse, our enterprise tape library, and various other programs that run on servers.

Our existing one-year contract which is valued at \$1.2 million expires this June. So we would like to begin working on that renewal as well.

The third contract is also on IBM contract. This is a renewal of IBM software maintenance for the products that reside on our mainframe computer. These support our mission critical tax processing systems, including but not limited to our taxpayer information and business entities tax system and, actually, any programs that reside on our mainframe which is one of our -- our most critical pieces of equipment use all of these IBM software products.

This one is a little bit different. We would traditionally do a joint contract between the Franchise Tax Board, the California Department of Technology, and IBM. So our current three-year contract, which is valued at \$59 million, is expiring in September, but of that 59 million, 10 million of that was FTB's portion of it, and 49 million of that was for the Department of Technology, as they have a much larger footprint than FTB. So we are asking for permission to begin that renewal process as well.

And then the last contract, again, this is also a renewal of software that's running on FTB's mainframe computer. This core company called Software AG. And this also supports mission critical tax processing systems, such as our taxpayer information system and our business entities tax system.

And this is our five-year contract valued at \$5.1 million, also expires in September. So we would like your approval to begin to initiate procurement activities on this as well as the other three contracts.

At this point I would be happy to entertain any questions that you may have.

CHAIRPERSON STOWERS: Any questions? A motion?

MEMBER ORTEGA: I will move approval of the four contracts.

MEMBER MA: Second.

CHAIRPERSON STOWERS: So the motion is seconded for approval of the four contracts.

No objections, the motion passed.

MR. BANUELOS: Thank you very much.

CHAIRPERSON STOWERS: Thank you, Jeanne. Thank you, Michael.

Okay. Our next item, Item No. 7, is the Executive Officer's Time.

EXECUTIVE OFFICER STANISLAUS: Thank you. Good afternoon, Chairwoman Yee, Chief Deputy Ortega, and a warm welcome to our new Member Fiona Ma. Welcome to Franchise Tax Board and to our beautiful campus.

I hope you feel the excitement in the room. I certainly do. It's because we are excited to have you on our board. You bring a lot of positive energy and a commitment to get the job done. For example, last fall when the hills in Lake County were burning, you jumped into action and went right out to help your constituents in person. So this speaks volumes about your character and commitment to service. Because you're a CPA, you bring a deep knowledge of tax issues and a real world perspective to ensure we are enforcing the tax code. And all this has been done to treat taxpayers with respect. Lastly, you are a tireless promoter of our new Earned Income Tax Credit, aimed at helping our working families. And you are also an enthusiastic cheerleader of our VITA program. It's true you have the interest of Californians at heart.

I also want to thank Member Horton for his five years of service to FTB and the taxpayers of California. We thank him for his support of EDR and VITA, and we will miss his sense of humor and his insights.

Lastly, let me give you a few statistics that show a strong start of the filing season as of this week

that's March 5th, we processed 6.8 million personal income tax returns with a 6.3 million of those e-filed. 4.2 million refunds with an average refund of \$700. Better, still. 3.3 million refunds were deposited directly to the taxpayers' bank account.

2 million tax payments, totaling 8.2 billion, with 42 percent was made electronically. So for perspective purposes, we have a little over a month till the end of tax season. And if this tax season mirrors last year then by April 18, we can look forward to processing over 7.9 million more personal income tax returns, issuing an additional 4.6 million refunds. That's 2.1 million in direct deposits and receiving 3.5 million more payments with nearly 40 percent being electronic payments. So once again, I'm very proud of my employees and the work they have accomplished, some of which you already heard today.

Thank you for my time.

CHAIRPERSON STOWERS: Thank you. Item No. 8, Board Members' Time.

MEMBER MA: I just have a question.

So do we expect that people are doing better and paying more taxes in terms of capital gains and interest dividends, that kind of thing?

EXECUTIVE OFFICER STANISLAUS: Yes. And that's our hope and that's our prediction too, but we'll come back in July and give you an update of our filing season numbers.

Thank you.

CHAIRPERSON STOWERS: Okay. We're now moving on to Item No. 8, Board Member Time. Member? Members?

MEMBER MA: We're not used to board member time at the BOE. So I kind of like this. So I wasn't really prepared to say anything, but I'm just very happy to be here and I'm just wondering whether the board meetings are this crowded every time.

EXECUTIVE OFFICER STANISLAUS: It's --

MEMBER MA: You are here because of -- to hear the presentations? To say hello? I'm just kind of wondering. This is a huge auditorium but it's great to see everyone. Normally we hear tax cases and so it's usually the taxpayers and the lawyers that are in the room. And so it's just really nice to see everyone and we hope we will be doing a lot of agency activities. So I hope you will include me.

EXECUTIVE OFFICER STANISLAUS: Thank you.

(Applause)

CHAIRPERSON STOWERS: For my time I would like to invite Marlene White and Kem Musgrove to come to the stage, please. I am inviting them to the stage because both of them received a joint reward, CTO of the Year award, in the large department or agency category for co-managing the Franchise Tax Board Enterprise to Data Revenue project, EDR. We're always talking about EDR. EDR is the largest project in FTB's history and with their leadership, they were able to meet ten major releases on time, which generated more than \$2 billion in state revenue.

Their leadership allowed for improved transparency and increased level of services to California taxpayers and also with that leadership they helped to reduce the tax gap which has been a burden, and continues to be a burden on, the taxpayers of the state. I want to say thank you very much for your leadership in this area and congratulations on your award.

(Applause)

MEMBER MA: Where is the award? It's coming in the mail.

(Laughter)

(Applause)

CHAIRPERSON STOWERS: Next item. It's closed session. We're going to go into closed session. I would ask the audience to stay here while we walk down the pathway. Thank you.

(Break taken in proceedings from 2:36 p.m. to 3:13 p.m.)

CHAIRPERSON STOWERS: The board met in closed session and discussed pending litigation. We are adjourned.

(Proceedings concluded at 3:13 p.m.)

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Page break

CERTIFICATE OF REPORTER

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

That I am a disinterested person herein; that the foregoing Franchise Tax Board meeting was reported in shorthand by me, Kathryn S. Swank, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of March 2016.

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