

STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

TUESDAY, MARCH 24, 2015
GERALD GOLDBERG AUDITORIUM
9646 BUTTERFIELD WAY
SACRAMENTO, CALIFORNIA

REPORTED BY:

KATHRYN S. SWANK

CSR NO. 13061

INDEX

ITEM NO.		PAGE
1.	Approval of Minutes	4
2.	FTB 2014 Accomplishments	5
3.	Compliance and Legal Outreach	
	a. Tribal Update	7
	b. California Competes Credit IPM 18	
	c. Audit and Claims Roundtable Meetings	23
	d. Ask a Legal Expert	29
4.	Talent Management Strategy	36
5.	Regulation Matters	47
	Proposed Regulation 25137, Apportionment of Income Arising from Space Transportation Activities	
6.	Administrative Matters	
	a. Spring Finance Letter	51
	1. Enterprise Data to Revenue Project	
	b. Facility Action Items	
	1. FTB Central Office Data Center Modernization and Equipment	53

Refresh

2. FTB Intermediate Distribution 53

Frame (IDF) Closets Power

Modernization Study

7. Executive Officer's Time 54

VITA Update

New Taxpayer Advocate

8. Board Members' Time 58

Board Resolution: Carl Joseph

Closed Session 67

Adjournment 68

Reporter's Certificate 69

Page break

APPEARANCES

BOARD MEMBERS:

BETTY YEE

JEROME E. HORTON

ERAINA ORTEGA

YVETTE STOWERS

STAFF:

SELVI STANISLAUS, EXECUTIVE OFFICER

MARIA BROSTERHOUS

DAWN CASEY

MICHELLE FALLON

RED GOBUTY

JEANNE HARRIMAN

ANNETTE KUNZE

MARIAN McKENNA

PAUL OGDEN

NORM SCOTT

COUNSEL:

JOZEL L. BRUNETT

BRUCE LANGSTON

PUBLIC PARTICIPANTS:

GEORGE FORMAN, Forman & Associates

LESTER J. MARSTON, Chicken Ranch Rancheria

Chemehuevi Indian Tribe

DENNIS LOPER, SpaceX

---o0o---

SACRAMENTO, CALIFORNIA

TUESDAY, MARCH 24, 2015, 1:30 P.M.

---oOo---

CHAIRPERSON YEE: Good afternoon. I call the Franchise Tax meeting to order and would the board liaison please call the roll to determine if a quorum is present.

BOARD LIAISON CASEY: Yes.

Member Horton?

MEMBER HORTON: Here.

BOARD LIAISON CASEY: Member Ortega?

MEMBER ORTEGA: Here.

BOARD LIAISON CASEY: Chair, Controller Betty Yee?

CHAIRPERSON YEE: Here.

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

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

The first item, Members, is the Approval of the Minutes. We have the minutes before us at the December 4th, 2014, board meeting and the FTB taxpayer Bill of Rights.

Members, is there a motion?

MEMBER HORTON: Move adoption.

CHAIRPERSON YEE: Okay. Motion by Mr. Horton.

MEMBER ORTEGA: Second.

CHAIRPERSON YEE: Second by Ms. Ortega.

It's been moved and seconded. Without objection, that will be the Board's order and Chair Yee will be abstaining from that vote since I was not present. Okay? Very good.

Item 2 is FTB's 2014 accomplishments. We have Michelle Fallon to present. It's a PowerPoint, so the Board will move to sit at the table so the screen can come down to view, can come down so we can do the PowerPoint.

MS. FALLON: Hello.

CHAIRPERSON YEE: Good afternoon.

We can't help but to notice we're being put closer and closer to the edge. (Laughter)

MS. FALLON: That is not a reflection of anybody of the board.

CHAIRPERSON YEE: Thank you, Ms. Fallon. Please proceed.

MS. FALLON: Good afternoon. Again, my name is Michelle Fallon, and I am the communications director here at FTB.

And I think I would like to take kind of a small, possibly career-limited, step out of my FTB box for just a moment and just brag a moment about my oh-so-handsome son Joshua Fallon. He plays football for Folsom High School and the Folsom Bulldogs just ended an amazing 16-0 season, snagged the state championship, and are ranked fourth in the nation. So I am -- (Applause) Proud Bulldog mom here. And as I step safely back into my FTB box, I'm guessing you're wondering, what the heck any of that has to do with taxes.

But you know, just as it was for the Bulldogs, 2014 was a great year for FTB. (Laughter) Bear with me. Work with me. But, you know, big wins, they don't just happen. They are the process or the culmination of very thoughtful planning; great coaching -- so thank you to my GC; incredible talent of FTB employees; a desire to bring their very best every day; and the wisdom to do it all with an attitude of humility and grace.

I can tell you, with certainty, that that is how the Bulldogs brought home that win, and I can also tell you that that is how we do things here at FTB.

But please, don't take my word for it. I would like you to hear from our employees who actually do the work as they tell the story of 2014.

(Video presentation)

MS. FALLON: And a big thank you to you, our board, who leads us and guides us and coaches us as we accomplish great things.

Do you have any questions for me?

CHAIRPERSON YEE: Thank you, Michelle. Wonderful presentation.

Any questions or comments, Members? Mr. Horton?

MEMBER HORTON: Thank you, Madam Chair. Do we have a rule on littering? (Laughter) Wonderful presentation.

MS. FALLON: Thank you, sir.

CHAIRPERSON YEE: Thank you. All right.

Let's reconvene at the dais for the next item.

MS. FALLON: We're going to stay here.

ASSISTANT CHIEF COUNSEL LANGSTON: You have another PowerPoint.

CHAIRPERSON YEE: Okay. Wonderful. Thank you.

We are now on Item 3, which is compliance and legal outreach. Another informational item and a PowerPoint. And we have four subitems. The first, we will have Maria Brosterhous with the tribal update.

Maria, good afternoon.

MS. BROSTERHOUS: Good afternoon, Madam Chair and Members of the Board.

I believe we have --

CHAIRPERSON YEE: Before we start, we have two speakers that will be presenting on this as well.

ASSISTANT CHIEF COUNSEL LANGSTON: Yes.

MS. BROSTERHOUS: My name is Maria Brosterhous, and I'm an attorney in the legal division.

At FTB we understand that compliance is the very foundation of our tax system, and engaging our taxpayers to meet their needs is a critical component to customer service.

I'm here today with my peers to talk to you about four specific areas in which we are doing just that: Engaging our customers and helping them to be compliant. At the beginning of the meeting today, you saw some of our accomplishments from last year. Under the taxpayer-centric service goal, you saw a very excited Red Gobuty, who will be speaking to you shortly, highlighting our Ask a Legal Expert program. Just like Red, each of us speaking to you today is excited, committed, and passionate about our efforts to help taxpayers.

My job today is to briefly go through our outreach efforts to the tribal community. And before we started this effort, I really had no idea how impactful this outreach would be, both for FTB and the tribal community. The goal of our outreach is to work collaboratively with the tribal community to increase FTB's understanding of tribal matters and help tribal members better understand when their income is subject to state income tax.

FTB's outreach to the tribal community has been broad in scope. We've held the first ever tribal consultation session hosted by FTB and we are planning a second one. We will be issuing a legal ruling, have updated our website, are now hosting multiagency networking meetings, and our audit staff will be issuing self-compliance letters.

We began our outreach efforts by issuing a position paper, identifying the factors FTB may consider in determining whether a tribal member is living on the reservation. Generally, tribal members residing in California are California residents subject to California personal income tax on their entire taxable income. However, in a case called *McClanahan*, the U.S. Supreme Court determined that a tribal member who was living on his or her own tribe's reservation is exempt from paying state personal income tax on income earned from sources on his or her own tribe's reservation.

In September 2013 we held the first consultation session ever hosted by FTB in cooperation with the tribal liaison through the governor, Judge Cynthia Gomez. This was the most well-attended and interested parties meeting FTB has ever hosted. Tribal leaders and representatives from over 25 tribes attended and we received written comments from seven tribes, two representatives of tribal member interests, and California Indian Legal Services.

With these comments and concerns in mind, FTB has drafted a legal ruling highlighting the factors we will look at in determining whether a tribal member is residing on or off the reservation and providing examples of how these factors will be applied. This ruling is scheduled to be published late this spring.

Throughout this process, the FTB has been working with the tribal advisor for the governor. We met with her prior to issuing the position letter and we continue to seek her guidance. FTB has consolidated all items of interest to the tribal community on a single Web page which we are regularly updating. This page is linked from the Web page of the governor's Advisory for Tribal Affairs. Most recently we posted information indicating FTB will follow Federal Revenue Procedure 2014-35, which explains the application of the general welfare exception to tribal government programs.

The FTB has recently taken on the responsibility of hosting the multiagency tribal networking group, which originally was organized by the IRS. These meetings are meant to promote communication between federal and state agencies regarding developing issues in Indian country. We meet twice a year and our first meeting was here at FTB central office this February, and our second meeting will be in September.

Additionally, our audit division will be sending self-compliance letters to tribal members. These letters provide information regarding the applicable law to tribal members who may be living off the reservation. We believe this letter is taxpayer-friendly, efficient, and provides transparency. It also reduces the need for lengthy examinations and information document requests, while lowering the burden on taxpayers' representatives and providing taxpayer education.

Lastly, in response to tribal member requests made during the September 2013 consultation session, FTB is developing a form specific to tribal members. This form would allow tribal administrators to certify that a tribal member is residing on the reservation. This form could be filed in lieu of a tax return to indicate that all of a tribal member's income is exempt and so they don't have a filing requirement, or along with a tax return to indicate that only a portion of their income is nontaxable. This form would reduce audit risk and prevent unnecessary filing enforcement actions. We plan to hold a consultation session to discuss this form late this summer.

Thank you for taking the time to listen to me. I'm happy to answer any questions.

CHAIRPERSON YEE: Thank you very much, Maria.

Let me ask first if the members have questions or comments? Okay.

Then let me invite the two speakers who are here to speak on this item to come forward.

Good afternoon.

MR. FORMAN: Good afternoon.

CHAIRPERSON YEE: State your name for the record. Then you will have three minutes.

MR. FORMAN: My name is George Forman, F-O-R-M-A-N. I'm general counsel for seven California tribes ranging from Humboldt County to San Diego County.

And I was here in September of 2013, and very encouraged by the meeting that was held. Frankly, I was disappointed in one respect, and that is that there was apparently no effort to reach out to people who did speak at the last meeting and propose specific ideas -- for example, joining a joint FTB staff and tribal attorney working group to explore some of the legal issues and the parameters of the board's flexibility within the board's statutory jurisdiction. I think there's a lot that can be done to address these comments.

I'm heartened by what Ms. Brosterhous said this morning -- this afternoon, about what's coming. I'm hoping that what's coming should be coming.

In a year and a half, we haven't seen the board address some of the very serious and substantive problems that its policies have created on a daily basis for thousands of California native people who derive income from their reservations, their tribal government's activities. But on whose -- on whom the board's policies impose burdensome requirements and burdens that are compounded by the legacy of California and federal policies that dispossess their tribes and often leave the survivors with little or no ability to live on the meager trust land basis remaining to them.

And I gave, at the last meeting, the example of the Bear River Band of Rohnerville, R-O-H-N-E-R-V-I-L-L-E, Rancheria in Humboldt County. A rancheria that went through termination under the California Rancheria Act; was able to acquire a new, small trust land base that is far too small to accommodate homes for all of the members. And so the tribe bought and owns an apartment building in Fortuna. By the board's policies, the people that have the misfortune of having to live in that apartment building, rather than on the reservation, are not considered to derive their revenue from the reservation.

And those circumstances are replicated throughout the state, for a whole host of reasons. And I look forward to the board's legal ruling and the self-compliance letters and other things that are forthcoming to address those situations, which, as I said, recur throughout the state and cause real problems for California's native people.

Thank you.

CHAIRPERSON YEE: Thank you very much.

MR. FORMAN: Are there any questions? I will take questions.

CHAIRPERSON YEE: Good afternoon.

MR. MARSTON: Good afternoon, Members of the Board. My name is Les Marston. I'm an attorney for the Chemehuevi Indian Tribe. I'm an Indian. My wife is also an Indian. She's an enrolled member of the Chemehuevi Indian tribe.

I wasn't at the consultation, but there's two points that I would like to make quickly. My wife and I, we have a home on the reservation and we have a home off the reservation. In order to meet the demands for water for San Diego and L.A. Counties, the United States government, 1948, condemned all the valley land of the reservation where all the Indians lived in order to create Lake Havasu. When they did that, they disposed every single tribal member on the reservation except one.

The tribe, back in 1970, began a reorganization to try to get people to move back to the reservation. Unfortunately, if you've ever been to Lake Havasu, it gets extremely cold during the winter and it gets -- temperatures will reach 130 degrees during the summer, and there's not a lot of employment on the reservation.

So the vast majority of tribal members who are trying to move back to the reservation, like my wife and I, we own homes on the reservation and off the reservation. We go to the reservation every month, every single month. She's a marriage and family therapist. She earns -- when she's there, she works for the tribe. The tribe has a tribal department of social services and she works for the Department of Social Services. I'm general counsel of the tribe. Every time I go to the reservation, I'm going there and I'm doing work. I'm at a tribal council meeting or some committee meeting.

So we earn our income both on and off the reservation. We live both on and off the reservation. And California doesn't do anything to apportion its income tax between the on-reservation and the off-reservation use.

And there's two primary cases that you ought to take a look at. One is called Moe versus Salish & Kootenai Tribe and the other one is Confederated Tribes of the Colville Indian Reservation. In those cases, the State of Washington sought to impose a tax, a sales tax, on an Indian's use of a vehicle. It was a use tax. And what the Supreme Court said was, even though the Indian goes off of the reservation, even though he drives the vehicle off the reservation, because the state does not apportion between the on-reservation and the off-reservation use, the state can't impose any tax at all.

So I think that California needs to do something about that. You need to look at whether or not because you failed to apportion your tax between the on-reservation and off-reservation residency and income that's earned, whether or not you can impose a tax on the Indian's income.

The second point I would like to make -- and I know I only have three minutes so I'm hurrying up -- is, I'm well aware of the "Mike" decision that basically holds that you can tax an Indian's per capita payment that -- if they are residing off the reservation.

The "Mike" decision is not well-reasoned and it's contrary to the vast overwhelming decisional law of the United States Supreme Court. I think that the IGRA comprehensively regulates the field, and everyone thinks that the IGRA regulates gaming. It regulates gaming activities, and an essential element of those gaming activities is revenue. The very purposes for which the IGRA was enacted was to ensure that tribes received money to improve their economic condition and that they spend that money to provide essential governmental services on the reservation.

How do you provide services to your members if you don't have housing on the reservation and you don't -- and you don't have employment to be able to offer a job? The way you -- the way you provide services is, you send them a check and you leave it up to them, whether they use that money to buy food, or to pay rent, or to pay a mortgage, or to send their kids to school.

CHAIRPERSON YEE: It's three minutes.

MR. MARSTON: Okay. I think that the Board has an opportunity here, and I intend to submit a legal memorandum on this issue, to say, look, this is a gray area, and we can -- and we're going to err on the side that we think that the statute is comprehensive and it preempts and it precludes the imposition of the tax.

Thank you very much. I would be happy to answer any questions.

MEMBER HORTON: Thank you very much.

Questions or comments, Members?

Ms. Brosterhous, do you have --

MS. BROSTERHOUS: With that, I was just going to pass it over to Annette Kunze, who will discuss the California Competes Credit.

CHAIRPERSON YEE: Actually, let me just make a comment on this last item. First, I want to thank the staff for the level of engagement with the tribal community. This has been, I think, a long time coming. And I think I will just express this as a member of this board and certainly of the -- my prior board, as a member of the Board of Equalization. That's been a very frustrating experience not having sufficient guidance to really have this move much further along in terms of recognizing and hopefully not disadvantaging the members of our tribes, given your financial situation.

And I'm very heartened to see that, certainly, with the congressional action on the general welfare exemption, that, certainly, the ongoing engagement that we hope to have with the tribal communities throughout the state, that this is not the end of the conversation, by any means. This is the beginning. And the more that we can certainly learn about specific situations, the more that we will begin to

engage. Certainly I know I will. Our congressional delegation with respect to any federal actions on this front is all very, very positive.

But I just want to assure our representatives who just spoke that this is by no means the end of our engagement with the tribal communities, and we welcome the input, frankly. And really, I do respect the fact that we are a state government engaging another sovereign government. And so this is really with the spirit of, hopefully, ongoing cooperation and resolving some of these issues.

Thank you. Okay. With that, we will move on, then, to the second item, and that's the California Competes Credit, and Annette Kunze. Yes.

MS. KUNZE: Good afternoon.

CHAIRPERSON YEE: Good afternoon.

MS. KUNZE: I'm Annette Kunze and I'm bureau director of the Technical Resource and Services Bureau. And today I will be highlighting a recent outreach effort relating to the California Competes Credit.

On February 19th, we held an interested parties meeting and invited program participants, or potential participants, to join us for a discussion of this credit.

Representatives from the Governor's Office of Business and Economic Development, or GO-Biz, attended the event and were available to answer any questions about their program. The California Competes Credit was one of several incentives added as part of the governor's Economic Development Initiative in 2013 and is administered by GO-Biz. The credit is available to businesses that want to come to California or stay and grow in California.

Tax credit agreements are negotiated between the taxpayers and GO-Biz, and they are approved by the California Competes Tax Credit Committee. Under the legislation enacting this credit, FTB is mandated to perform reviews to verify compliance with GO-Biz agreement terms. We report our findings to GO-Biz, including whether there was a possible material breach. This is an entirely new type of program for us and different from our income tax audits, so we felt it was especially important to engage taxpayers in a dialogue of FTB's rule and this GO-Biz credit.

At the interested parties meeting, we discussed general information about the credit and project investment and employment requirements as well as an overview of the review procedures in FTB Notice 2014-2. We also asked for feedback from the audience on ways to facilitate the review process, and during the meeting, we received several suggestions as to the types of records and documents that taxpayers might have to show that they met the commitments outlined in their contracts.

We appreciated the audience's feedback and comments and the opportunity to exchange ideas. As for next steps for this program, we plan to begin our GO-Biz agreement reviews in mid 2015 so taxpayers can expect to begin receiving contacts from us in the next few months. And as we receive new questions from taxpayers, we'll provide additional information on our website about the credit and review process to assist with those questions.

FTB and GO-Biz currently both have information about the credit on their website, including FAQs, and currently there's an application period open that ends April 6th and taxpayers can go to the GO-Biz website to apply.

We'll be mentioning in an upcoming tax news article the interested parties meeting, and then, lastly, I just wanted to point out that we do have a designated active e-mail address that taxpayers can use to submit any questions that they might have, and that is shown up there, on the screen.

So at this time, I would like to go ahead and open it up for any questions.

CHAIRPERSON YEE: Thank you, Annette.

Questions, Members?

MEMBER HORTON: Just a statement, Madam chair, from me.

CHAIRPERSON YEE: Yes, Mr. Horton.

MEMBER HORTON: Senator Hertzberg is considering a proposal to have tax on services. I met with him. One of the things that he was considering is to offset that with -- by increasing the funding for California Compete credits. Is it possible that we can provide him with some data, with your permission, Madam Chair, on just how well this program is working, its successes, and the few little challenges we have?

MS. KUNZE: Sir, we would be happy to take that information and have those conversations. There is some information on the website. GO-Biz does provide some information regarding the contacts that they have awarded, but we'll be happy to take the information to him.

MEMBER HORTON: Thank you.

CHAIRPERSON YEE: Thank you, Mr. Horton.

Other comments?

Okay. Great. Thank you.

MS. KUNZE: Thank you.

So at this time Marian McKenna and Red Gobuty are going to come up and highlight some more, additional, outreach efforts.

CHAIRPERSON YEE: Thank you.

Good afternoon.

MS. McKENNA: Good afternoon. My name is Marian McKenna, and I'm the bureau director of the National Business Audit Bureau. My portion of today's presentation is about the audit and claims roundtable meetings that we held last month.

During our December 2014 Taxpayer Bill of Rights board meeting, we heard comments from large taxpayers regarding audit and claim timeliness.

And as you suggested, Mr. Horton, we wanted to get more details on this item. We wanted to hear experiences and gather ideas from a broad audience, including taxpayers, preparers, and other interested parties. We scheduled two roundtable sessions, one in Southern California and one in Northern California. And we invited a sampling of our large corporate taxpayers, reached out to our tax news subscribers and posted the invite on our website.

Both sessions were well-attended with a mix of representatives from the large accounting and legal firms, a variety of large corporate taxpayers, trained media, legislative staff, and representatives from your own offices. And I know I certainly appreciated their support during these meetings, so thank you for their participation.

Our focus during the roundtable was the timeliness of audits and claim for refund processes and audit accuracy. We shared information to provide awareness of the steps involved in the current process and our current time frames.

We asked the attendees to share their experiences. We wanted to know their thoughts on what was working well so we could continue those practices. We also wanted to hear their challenges and ask for their ideas to solutions to overcome those obstacles. Lastly, we asked the attendees to help us prioritize their ideas by indicating what mattered most to them. The most important items revolved around better communication and enhanced collaboration.

In addition, the time frame to process claims for refund was an item of interest. The attendees asked for better communication during the audit and claims process. For example, we were asked to communicate with them as the claim progressed through FTB's processes so they could better estimate when to expect their refund. Also, additional advanced verbal communication was requested from the audit team, including supervisors before significant audit milestones occurred.

More transparency in our collaboration with FTB staff was a topic of interest. Attendees were not quite clear on the role of the various FTB parties participating in the audit; that included supervisors, subject matter experts, and reviewers.

Additionally, they asked to be able to participate in meetings with all audit team members and legal subject matter experts.

Lastly, attendees would like the refunding of their claims to be a quicker process. They suggested refunding the claim before the Franchise Tax Board reviews the claim for accuracy. We considered these items and have developed some short- and long-term plans to address these areas.

So first I would like to talk a little bit about our most recent efforts in some of our short-term plans.

With respect to the top bullet on the left-hand side regarding communication and collaboration, we are in the process of sharing the roundtable information with our staff so they also understand the taxpayers' and representatives' experiences and perspectives.

We are developing a program, a pilot program, to have representatives and taxpayers meet with auditors in an informational sharing-type setting to discuss their business cycles and other industry-specific items. We are taking steps to provide more access to audit supervisors and managers, including sharing contact information more often during the audit process. And we are identifying how we can provide better access to audit and legal subject matter experts. We do plan to conduct surveys to better assess the efficiency and effectiveness of our audit processes and to identify trends and educational opportunities.

Moving on to the second and third bullets on the left-hand side, pertaining to the claim for refund process, we are identifying when it's best to notify the taxpayer of a claim status and how to provide that communication. For instance, enhancements planned for this summer to my FTB account will aid the taxpayer and representative in knowing that FTB received the amended return. An image of the amended return can be made available upon taxpayers' requests on their my FTB account.

We are streamlining upfront processes to reduce claim referral times from several months to several weeks, and in regards to letter claims, as correspondence is scanned, we will be able to better report on the volume of letter claims filed.

Moving on to our longer-term endeavors, which are listed on the right-hand side of the screen, our long-term efforts will include improving timeliness based on circumstances surrounding the audit and the claim and the taxpayer situation, without adversely affecting audit accuracy.

Some representatives and taxpayers shared during the roundtable that, in certain situations, the audit timeline may need to be extended to ensure a correct decision is made.

For example, if a particular issue is being litigated, it may be appropriate to allow for that issue to be vetted out through litigation before closing an audit with the same issue. Another example provided included situations where a corporation is involved in an acquisition or a merger. During those times, the corporate transactions get very complicated and the issues take time to resolve.

As a result, we feel that this effort needs to be addressed cautiously and handled on an individual basis to ensure that audit accuracy is not impacted.

An additional long-term effort is to develop a practice that will encourage more taxpayer transparency in our collaborated efforts during the audit. Our vision is to ensure that taxpayers and representatives have access to all FTB staff, including audit team members, supervisors, and audit legal subject matter experts.

Lastly, we are currently exploring ways to refund claims sooner. As we move forward in implementing these efforts we will share information on our progress. For instance, in our April tax news publication,

an article will be included that talks about the results of the roundtable sessions and the planned next steps.

In closing, I would like to note that I feel that the roundtable discussions were very well received and I certainly know that they provided us with valuable information as to what's working well and where we can improve our best practices.

Thank you for your support during these meetings and here I would like to -- unless you have any additional questions -- turn it over to Red Gobuty to talk about our next outreach items.

CHAIRPERSON YEE: Thank you, Marian.

Any questions, comments? Mr. Horton?

MEMBER HORTON: Just a comment, Madam Chair.

I just wanted to express my appreciation. The FTB team did an exceptional job. Once again, you proved that working together works and that outreach is a very effective tool to increase compliance, understanding, and awareness, and to minimize the frustration that goes along with taxation. It reduces interests, penalties, and, at the same time, it accelerates the cash flow to the state's general fund by increasing compliance. So thank you very much.

CHAIRPERSON YEE: Thank you, Mr. Horton.

Thank you for convening the roundtables and particularly having one in Southern California as well. I think the input was particularly valuable, and the comments we've heard back is just -- maybe not even attendees coming in with complaints but just wanting to have more information about the process, so transparency is always good communication. Thank you.

MS. MCKENNA: Thank you.

CHAIRPERSON YEE: Okay. Our next item.

MR. GOBUTY: Good afternoon.

My name is Red Gobuty of the legal division's Technical Resources Bureau. And I am excited to be here to discuss our division's new Ask a Legal Expert program, designed to allow taxpayers and practitioners the ability to ask general legal tax questions that our experts in legal will respond to promptly.

Today I will talk about what has been done to set up the program, and we'll get some information on what it actually looks like to the public and our experts and provide data showing how the program is going.

Now, following the FTB's strategic plan goal of providing taxpayer-centric service, the Ask a Legal Expert program allows the legal division the ability to provide informal guidance to the public to assist taxpayers and practitioners in getting a quick answer to a basic legal tax question, and the really great

thing about this program is that we are using it as a tool to help the FTB learn when further guidance is needed on a subject matter for the public.

As an example, we received several questions in the program about new federal regulatory conformity, and in response to what we heard, we have now put out a tax news article on the subject. So this shows that the program also has the value of identifying opportunities for further outreach. It's a two-way street.

In this setting up this program, we put together policies and procedures to guide our administration. We wanted to make sure we could offer meaningful responses, so we provided structure to guide questioners and our legal experts. The external Web pages set out the proper subject matter parameters of the program in an attempt to focus the right questions to the right area within the division or a response. If the questions are basic legal tax questions regarding matters that are not in the FTB system already, so they are not in audit, protest, appeal, settlement, or litigation, then we can respond to them with informal guidance and the purpose of the program can be met.

We have answered a wide range of questions thus far including multiple queries about source income, conformity, withholding, nexus, cancellation of indebtedness income, and statutes of limitations, just to name a few.

We refer questioners with other types of situations to additional departmental resources, when possible, or may advise that a more formal written advice -- excuse me, that more formal written advice in the form of the chief counsel ruling request is the right way to address a more complex question. So, for example, a question about billing notices would be sent to our filing department or collections.

We acknowledge questions that come into the program right away, providing the assigned experts' contact information and an e-mail response, and we set up the program with the goal of providing a substantive response within two weeks at the maximum. The assigned expert is able to choose a method of response that works best. In some cases, responses are telephonic, and others, e-mail. And every e-mail response reminds the questioner in a disclaimer that the advice is informal advice.

Now, putting this outreach effort together, we linked to this program on our Web page. It's easy to get to the program. And one way is through the Tax Professionals page, where the user can click on the program link for "Ask a Legal Expert," identified by a red circle on this side. Users can also find program information by a Web search or on the law and legislation page. Once the link is clicked, a user is presented with a page detailing information on the program, type the questions is accepted (verbatim), how we will respond, and some other further particulars.

A bit further down on the page, each of the participating bureaus are described. We provide a bullet point list of each of the participating bureaus' name, the subject matter areas to help and request to determine which bureau to submit their query to, and then, finally, there's a link to e-mail that bureau.

Here's what a user sees when they select a bureau they want to submit the question to. There's a short warning not to include certain confidential information and then a text box for the question to be

answered. After the user types in the question, they just click a button to submit it, and that's it. An e-mail will come in to the specific bureau the question was sent to so that our assigned expert can respond.

Now I would like to provide some of the data on the program so you can get a sense of what has happened since we launched on October 27th. So this is about four months' worth of data. There were a total of 154 questions as of February 23rd, when we compiled the data. So as you can see, in the first graphic here, these questions have come in to each of the five participating bureaus with the General Tax Bureau receiving the most questions.

In the second graphic, you will see a breakdown of the answer provided by bureau where we gave a substantive response to the requester, and there were 94 such responses.

And the last graphic on the slide identifies the total questions which were sent outside of legal for resolution, to other departmental resources. So this is where we refer the question to the area in the department that could give the best response. About 20 percent of the questions coming into the program fall into that category.

So all together, this data shows us that as of the compilation date, we have substantively responded to about 80 percent of the answerable questions. That is, 94 out of the 123 that were not referred outside of legal. And that remaining 20 percent, less than 30 total questions, are those questions where responses were still in process as of the date we compiled the data. Maybe they required additional research or they did not ask a basic legal tax question our experts could answer through the program, such as a question more appropriate for a chief counsel ruling request or maybe one about sales and use tax. These numbers are constantly changing as we continue to answer questions that are currently pending.

And as we go forward, our next steps are to continue to perform data mining on the questions and responses so we can better learn areas where more guidance is needed and give responses to the public. We are planning to make continual program improvements for greater usability to the public, for the public, and to make it easier for our staff to manage question intake and response processing.

And at this point, this concludes our presentation on compliance and legal outreach efforts. And I will close by stating that I -- I hope, and we hope, our presentation has demonstrated the importance that the department places on taxpayer-centric service, showing our continuing outreach efforts, and attempts to be responsive to the public's requests for further guidance and clarity. And I am available to answer any questions you might have.

Thank you.

CHAIRPERSON YEE: Thank you, Red. Terrific presentation.

Questions or comments? Mr. Horton?

MEMBER HORTON: Madam Chair, I just can't sort of resist this, from a numbers' perspective. But maybe we should have another category in the presentation so it all adds up to a hundred percent, you know? There's a big void there. I know you explained the void, but just in case. You know, 60, 33, 13. Yeah, doesn't reconcile from an auditor's perspective. (Laughter)

MR. GOBUTY: Thank you.

MEMBER HORTON: Well done.

CHAIRPERSON YEE: Thank you very much. Look forward to future updates on this program. Great. Great customer service tool. Thank you.

Okay. Our next item is Item 4, and that's the talent management strategy with Paul Ogden making the presentation. This is also an informational item and direct the audience's attention to this video presentation as well.

MR. OGDEN: This will be your last PowerPoint presentation for today, I believe.

CHAIRPERSON YEE: Good afternoon.

MR. OGDEN: Good afternoon. My name is Paul Ogden. I'm currently the HR director for Franchise Tax Board.

What I would like to do today is introduce -- formally introduce the board to the efforts our department is undertaking related to talent management. Now, to some of those in the audience today, "talent management" might be a new term. So I will let you know that talent is pretty much what we call every one of our employees, is our talent.

Talent management is the fancy way that we talk about how we -- the efforts we put into bringing our employees into the Franchise Tax Board, in the first place, through recruiting and hiring, how we train them while they are here, how we develop them through individual development plans, training, and things like that; and then how we also -- excuse me. How we develop them. And then how we -- lost my page. How we adapt to their needs once they are here in relation to the things like their physical and cultural environments.

So what I want to share with you today is the process we came up with to holistically deal with all the different components or services of talent management.

So why is this needed? Or in other words, why is it a problem?

First, I will explain why we need to do talent management at all, and then I will talk about the need to approach it holistically or as one big package. The problem is that in today's world, we find ourselves more and more at risk of losing our staff to either retirement, to other departments, or to private industry. And not only that, the employees we do bring into the Franchise Tax Board, no matter what generation they might be part of, do have different needs and expectations of their environment while they are here.

I'm sure there's similar conversations going on in each of your relative departments regarding how you gain and retain your staff, your talent. So the need to roll all of these components in talent management, and one overall approach, has more to do with being able to make better decisions on where to focus our efforts and making sure that those efforts don't conflict.

An example of a possible conflict is where, let's say you spend a lot of effort, a great deal of effort, into recruiting thousands of interested and qualified employees to come into your department, and then once they get here, there is -- you don't have a process to hire them, to get them in the door, or there's no vacancies to even put them into. The flip side of this would be where you have a really fine-tuned hiring process, but zero effort spent recruiting.

So another big problem that businesses find when they don't manage all their talent services holistically is that they end up running around, trying to tackle the hot issue of the moment. Someone says we need a program to do this, so everyone runs over to take care of that. Then there's a need identified over there, and we take all those resources and dedicate them to that. So if resources weren't an issue, this probably wouldn't be all bad. But by managing our resources as one big grouping of services, we can make better decisions about which areas need our focus.

Okay. So what are these services or components I keep talking about? I will break them into ten specific categories. They are recruiting, which really is getting trickier these days because of the improved economy and people's ability to get jobs elsewhere, it's harder for us to do the recruiting.

Hiring. And this covers everything from advertising positions to making sure the merit-based processes are used throughout, to making sure we get the proper skill set into the positions.

On-boarding. The on-boarding process really begins during the recruiting and extends to a year or so after the individual is hired into our organization. It focuses on connecting the individual to the organization, giving them the proper orientation, trying to get their roots planted, and really get them to understand their role and importance in our organization.

The next is core competency development. This is really a matter of determining and documenting what core competencies individuals need to be successful at FTB. Things like ethics and integrity, communication skills, and relationship-building skills.

The next is job-specific competency development. So beyond those broad core competencies the staff need to have, there's obviously development needed in job-specific areas. By identifying what these needs were we can better strategize how to make it happen. For example, if one of our goals is to get people up to speed, trained and productive, more quickly, which, by the way, it is one of our goals, we can shift resources towards finding those solutions.

The next is leadership competency development. And really, we recognize the importance of developing our current and future leaders. This is probably the service, of all the ten, that is the most mature and developed in our organization, but there are a few that are hot on its heels.

Work force planning is the next one. And this is one of the services that, as we were reviewing it, we acknowledged that it needed immediate attention, given the fact that 20 percent of our employees could retire today, based on meeting the minimum age and service-year requirement. So to give you a perspective, 20 percent is over a thousand people could -- of these people in the audience, could walk out right now. Don't do it. (Laughter)

So what we did is, we scooped that service up and put together -- we do have -- we did have workforce planning efforts in motion, but we didn't feel that what we had going would support what was -- what was facing us. So we did -- we scooped it up and began working on it immediately. The result was an enterprise workforce plan that is actionable, flexible, and that I can rest a lot better at night knowing that we have it in place.

The next item is our physical environment. And this is much more than just the buildings that we house our staff in. It's about adapting to the needs and trends of our employees and supplying them with the proper tools to get done all the things we ask them to do. We want people to be able to do their job anytime, anyplace that we need them to.

The old image of an auditor carrying files and documents from one place to another and going back to their desk to do the work isn't really how it works today. To give you one example of this, of a recent change, I can physically walk into one of several of our field offices, plop my computer down in a shared work area, and actually do work connected to our network right from that area.

The next item we have is cultural environment, and this covers things like assessing and trying to improve in areas such as the level of employee engagement, their job satisfaction, and empowerment.

The last item is kind of an -- is -- this service is really about ensuring that employees have the proper amount of policies, standards, procedures, governance, and leadership, so then in return, they can properly perform their duties.

So what approach did we use to combine all these services into one overarching approach? It consists of really four steps. The first one was to figure out what all the various services were, and to play a role in how we manage our talent. And once those ten were identified, we got a team together to work on defining what each of them meant, what was included or in scope for each of these services.

Then we tried to come up with a health rating for each one. This is more of a measurement of how mature the process was, how well it was flowing, and things like that. The initial health rating of each was determined based on input from the talent management team and was vetted through one of our governance action committees for validation. However, one of the major deliverables in the next couple of months will be developing performance metrics that will give us a more reliable and consistent health rating for each of these services.

The last component involved developing a process that measures the relative priority of each of the services. We hope to use this process at least on an annual basis so we can confirm that our efforts and resources are being utilized in the areas with the highest priority.

That's where having the talent management approach will really start paying dividends. Rather than being pulled from here to there without knowing that it's where the resources should be spent, we will have a process that guides through the determination. In other words, if we find that hiring has the most crucial need, we can shift our resources in that direction.

Now, a key -- an especially critical factor that will allow us to manage these services holistically -- was the implementation of a talent management system. Five months ago we launched a replacement to our learning management system, which was basically a system that allowed us to sign up for and track training, and so it was replaced with the talent management system that we named "Learn." One of the features of the system, once it's fully implemented, will be that employees will have a lot more control over their own career and development needs and this includes job-specific technical training. They can go in and figure out what their development needs are and map out specific training development opportunities and also manage their completion. What the screens I'm showing you here are just a couple of mocked-up screens of what this functionality looks like. I'm just trying to give you a flavor of the screens that will allow them to rate their needs and come up with a plan.

Hopefully some day we'll be able to give you a demo on all the functionality of the learning system that we feel is a model that other departments could follow. In fact, we have been contacted by quite a few already who are interested in what we are doing with it. So what are we hoping to accomplish by managing our services this way?

There's really five things. We wanted to have more efficient use of all of our resources, want more results-focused efforts, and a way to quantify whether those efforts are producing value, a stronger overall organization, and remain, what I feel we are, is an employer of choice.

And what I wanted to close with is a short video that packs pretty much everything I just said into three and a half minutes. Now, you are probably thinking, why didn't I just lead with that and spare you the details? Well, if I did my job correctly, this should make perfect sense and wrap up everything I had in the three and a half minutes. And if I didn't, it will just be some fancy animations and a song that you will not be able to get out of your head for the rest of the day.

(Video presentation)

I should point out that was an internal video so there were a couple of acronyms in there, so pardon me for that. As you can see, we are pretty passionate about our talent management approach and efforts. So at this time, I'd be happy to entertain or answer any questions you might have.

CHAIRPERSON YEE: Thank you, Paul.

Questions or comments, members? Mr. Horton, please.

MEMBER HORTON: Madam Chair, just -- first, thank you very much, Paul. Appreciate this.

It's helpful in our discussion about succession planning, which is something that I understand the governor is very much interested in, and all the state agencies over the next five to ten years. Up to 43

to 48 percent of state employees will actually retire, and that's a huge loss of historical knowledge and experience and so forth. And if we don't plan for that, we're going to have some serious issues in state government. The other concern is the turnover, where we're losing some of our -- all of our employees are talented, so they are all subject to be recruited in one form or fashion. But losing them in turnover is having -- will have a devastating effect, I think, on our efficiency. And in turn, what this equates to is a loss of revenue to the state, and if we could somehow quantify that, maybe we could formulate a discussion or an argument for increasing compensation to our staff.

Now is the time to applause, everybody. (Applause) Give it up, out there.

MR. OGDEN: You are about to be recruited on to our marketing plan.

MEMBER HORTON: I'm serious about some analysis that says, what is it costing us? What is turnover costing us? What are these retirements, the loss of wealth of knowledge and so forth? And what's the fix? Niceties work. Compensation works just a little bit better.

MR. OGDEN: We agree, and there are a couple certain classifications. We've already undertaken studies to see if we can push that forward.

So thank you.

CHAIRPERSON YEE: Thank you, Mr. Horton. Thank you, Paul.

And just the emphasis on our talent here, I can't say enough about it. It is a great organization, and I'm glad we're giving equal time to how we want to develop -- continue to develop our talent here, just as we do time for other things that help us do our business as well, here, including the technology. But obviously our staff and employees here are the greatest asset in this organization.

Thank you.

MR. OGDEN: Thank you.

CHAIRPERSON YEE: Thank you.

Okay. Members, let us move back to the table for the next item.

Our next item is Item No. 5. This is a regulation matter. Norm Scott will be presenting proposed Regulation 25137 relating to apportionment of income arising from space transportation activities.

Good afternoon.

MR. SCOTT: Good afternoon, Madam Chairman, Members of the Board, Ms. Stowers.

My pleasure to be with you today to present for your approval our proposal to proceed into the interested parties meeting process for a proposed regulation involving space transportation activities. This would be a special regulation under our Regulation 25137 and would apply to private industries that now are engaged in such activities as transporting cargo to and from the international space

station, launching satellites into orbit for other companies, as well as anticipated activities in the very near future; they assure of us of transporting people to and from space as well.

California has always been on the forefront of that kind of activity. It has a rich aerospace history, and I think this is just the next phase of that, and we have been having some preliminary discussions with the industry representatives who have approached us about regulating in this area. This is along the lines of other regulations involved in transportation-type industries, where we have regulated shipping companies, airlines, railway companies, things like that, where the standard apportionment and allocation provisions of our tax code don't realistically reflect how income is earned from those activities. So our plan would be to hold an interested parties meeting sometime in the summer, where we would meet with industry representatives to explore the issues and challenges involving the apportionment allocation of these type of activities and how they might be fairly apportioned among the states. After those discussions, we would anticipate proceeding into a working environment where we would work with the industry to develop proposed regulatory language, hopefully to arrive at a product that we all felt was fair and administrable and something we could move forward with.

And if we could successfully complete that process, our plan would be to come back to the board at some future meeting to present that language for the board's consideration and request permission to move into the formal regulatory process.

CHAIRPERSON YEE: Very well. Thank you very much, Norm.

I believe we have one speaker on this item, if you'll come forward.

Any questions or comments at this point, Members?

We'll let the speaker proceed. Good afternoon.

MEMBER HORTON: Good afternoon, Madam Chair. Congratulations on your new role.

CHAIRPERSON YEE: Thank you.

MR. LOPER: Dennis Loper representing Space X.

We did approach staff and ask them to consider this. We believe the transportation is different than other areas of trend and needs to be apportioned fairly. We appreciate the hard work staff as already put into it, and we support the IPM process. Thank you.

CHAIRPERSON YEE: Thank you very much, Mr. Loper.

Mr. Horton?

MEMBER HORTON: Yeah, Madam Chair.

Let me just share, this is sort of a multifaceted, multistate, and even, to some degree, various, different, countries are involved in this activity, or will be involved, and it's new, it's innovating, and California has an opportunity to, once again, be the central location for this activity.

And so, as I believe reflected in the legislature, by the legislature and the governor, and the passing of recent legislation around this issue, and the Board of Equalization, that it is sort of incumbent upon us to take into consideration the potential job creation activity and -- that could occur here in California, as we take a look at the issues of source and apportionment and so forth.

The other unique thing about this particular business is, a lot of the activity occurs outside of the world. So we may need some new ways of taxing what happens between here and the moon. You know what I mean? But anyway, let's figure it out. Very supportive of this effort.

CHAIRPERSON YEE: Thank you very much, Mr. Horton.

We have this request to proceed to an interested parties. Is there a motion?

MEMBER HORTON: Move adoption.

CHAIRPERSON YEE: A motion by Mr. Horton.

MEMBER ORTEGA: Second.

CHAIRPERSON YEE: Seconded by Mr. Ortega.

Without objection, such will be the order.

Thank you.

MR. LOPER: Thank you.

CHAIRPERSON YEE: Item No. 6. Administrative matters. We have Jeannie Harriman who will be presenting some action items.

Good afternoon.

MS. HARRIMAN: All right. Good afternoon. My name is Jeannie Harriman with the Franchise Tax Board.

I'm here to present the administrative matters in Item 6 for your approval today. Item 6A is a spring finance letter in regards to the Enterprise Data to Revenue Project, formally known as EDR. At this time, EDR projects are on schedule, exceeding revenue projections. As of January 31st, the project revenues for the year are 480 million compared to a target of 684 million. Looking at the aggregate revenue since the project began, we are at 1.5 billion compared to a target of 674 million. As well as revenue, I'm happy to report, we've delivered seven of the nine deliverables timely, and we remain on track to deliver the final two over this next year, also on time.

The spring finance letter requests additional resources of \$6.1 million, 17 temp help positions for the 15/16 fiscal year. The request addresses resources for two different items. The first is a funding for the crawl-walk-run implementation strategy for the final deliverable of business entity return analysis, and funding for the senior vendor staffing levels in the last year of the contract.

The crawl-walk-run strategy has allowed FTB to successfully deliver past deliverables in a manner that has allowed for defect resolution and stabilization of the release with a small population at first, commonly known as "crawl"; ramping up to populations gradually, commonly known as "walk"; and then ramping up to populate, ultimately, the full universe.

This strategy has allowed FTB to successfully implement deliverables with minimal or no impacts to our operations and taxpayers.

Additionally, FTB is requesting an additional 2.3 million in funding for vendor staffing levels to ensure FTB has access to the right experts to optimize knowledge transfer activities as we proceed toward transition of the project to FTB on January 1st, 2017.

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

CHAIRPERSON YEE: Thank you, Jeannie.

Questions or comments?

MEMBER HORTON: Move approval.

CHAIRPERSON YEE: Okay. Motion by Mr. Horton to approve the spring finance letter.

Ms. Ortega will be not participating.

MEMBER ORTEGA: Right.

CHAIRPERSON YEE: Okay. The chair will second that motion, noting Ms. Ortega not participating.

Without objection, that motion passes.

Thank you. You have two more items.

MS. HARRIMAN: Moving on to the second item, we have two facility items mentioned in 6B, also for your approval today.

The first facility item. FTB hosts a data center which houses our IT infrastructure which supports all of FTB's activities. The basic foundation of this data center, the electrical distribution, and air handling system, are aging and failing more frequently. Parts for these systems are difficult to come by and, of course, when we find them, we are paying premium prices. FTB is asking for approval to work with DGS to develop plans for updating these aged systems as discussed in materials, and then implementing these plans.

The second facility item requesting approval is to work with DGS to study our overall electrical systems across the campus and the feasibility of tying the various systems together for optimization. In addition to approving a plan for development, FTB is also requesting approval to implement that plan.

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

CHAIRPERSON YEE: Thank you.

MEMBER HORTON: Move approval, Madam Chair.

CHAIRPERSON YEE: Okay. Motion by Mr. Horton.

MEMBER ORTEGA: Second.

CHAIRPERSON YEE: Second by Ms. Ortega.

Without objection, such will be the order on those two items.

Thank you. Thank you, Ms. Harriman.

MS. HARRIMAN: Thank you.

CHAIRPERSON YEE: Okay. Our next item is Item No. 7. That's our executive officer's time. Ms. Stanislaus. Okay.

EXECUTIVE OFFICER STANISLAUS: Okay. Thank you, Controller Yee, and Board Members Horton and Ortega.

I have three items for you today. First of all, I would like to warmly welcome Controller Yee to our Board. I've had the honor and privilege to work with her board at the Board of Equalization and also as a previous member of our Board. She has always been an advocate for doing what is right for California taxpayers. Controller Yee has a strong background in tax and financial matters and will be a great asset and resource to our Board.

So looking forward, I'm very excited about the composition of our board. My staff and I are fortunate to work with members who bring such a diverse and broad base of experience and knowledge to the table. But more importantly, in my view is your dedication to guiding FTB as we accomplish great things on behalf of California taxpayers, and that's invaluable.

So once again, thank you all for your continued commitment, and we will welcome Controller Yee.
(Applause)

CHAIRPERSON YEE: Thank you.

EXECUTIVE OFFICER STANISLAUS: Next I have a quick update on VITA.

As you know, this program provides tax filing assistance for those who arguably need it most: Are low-income and senior, disabled, and non-English-speaking taxpayers.

So I'm very happy to report that as of March 1st, our volunteers completed 224,000 tax returns which resulted in 178 million in federal tax refunds, of which 68 million of that was EITC. So by April 15th, that number will skyrocket as we continue our plan to service nearly 1600 sites between February to April of '15. That's a huge increase over 900 VITA sites we serviced last year. So once again, I'm very proud of

the FTB volunteers who help make VITA such a success. To each year they donate -- that's, our employees donate -- hundreds of their own time, their own leave hours, to obtain the required training they need before they can serve the community at these events.

So once again, Board Members, thank you for your support and your personal involvement in this wonderful program.

So now, finally, I have a mystery guest with me today, and she's our taxpayer advocate, Susan Maples. And today I wanted to give Susan a chance to tell you a little bit about her herself and how she feels about the new role as FTB taxpayer advocate.

MS. MAPLES: Thank you, Selvi.

Good afternoon, Board members. Let me start by saying how grateful I am to have this opportunity to serve taxpayers and tax professionals as their advocate. I know I have really big shoes to fill because Steve Sims was truly the advocate of the people, but, not only that, he was very charismatic and extremely funny. So much of the work that Steve did over the past seven years truly gave taxpayers and tax professionals a voice here at FTB and I'm really looking forward to building on that momentum.

My passion for helping people is what led me to the Taxpayer Rights Advocate Office, and I guess not only my passion, but the fact that I love and I really enjoy interacting with people. I enjoy hearing their stories, and if I can lighten their load, that's even better, especially doing some of the small things like maybe just finding them a live person here at Franchise Tax Board, instead of giving them another phone number so they can get their tax problems resolved more quickly.

I find that helping people makes -- and making their lives easier can have a really lasting impact. So it should come as no surprise that protecting taxpayers' rights and really listening -- I mean, really listening to their concerns and issues is going to be one of my top priorities.

My other top priority is going to be continuing our efforts with education and outreach. Madam Chair, Member Horton, the work that your offices have done helping taxpayers navigate the waters of tax administration has been enormously well-received. I'm happy to say that myself and my staff have participated in that through your small business affairs, your seminars and your conferences, and I'm really looking forward to working with you, the board, in my new role as the taxpayer rights advocate.

Thank you.

CHAIRPERSON YEE: Thank you. Welcome.

MEMBER HORTON: Welcome.

CHAIRPERSON YEE: Comments, questions?

Thank you.

Ms. Stanislaus?

EXECUTIVE OFFICER STANISLAUS: Yes. So I will move on to the next matter, and that is the Board Members' Time.

CHAIRPERSON YEE: Thank you very much.

So Item No. 8 is the Board Members' Time. And, Members, if you will, let me just start this section off.

First, it's just really wonderful to be back and be a member of this board and be associated with this excellent organization. So I am just very, very proud to be here.

I also want to add my thanks to the Franchise Tax Board employees who are volunteering their time for the various VITA sites throughout the state. I've had the great opportunity to host and sponsor many of these sites as well as Mr. Horton, and the work that they do to serve taxpayers and even the far reaches of the state is nothing short of amazing and incredible. So I'm very, very grateful for that.

Secondly, I am proud to introduce my deputy for tax in the Controller's Office, deputy controller for taxation, Yvette Stowers, who many of you know. She has been a part of my team since my time on the Board of Equalization and will be serving in my stead on that board. But more importantly, she just has a tremendous knowledge and background and much of it honed on this very organization. So I'm very, very proud to have her joining us as well, and you will be seeing a lot of her here.

And I'm also very happy to be sharing this dais say with Board of Equalization Chair Jerome Horton, and always doing good work together. So just look forward to continuing that work.

And with Ms. Ortega, with whom I have the tremendous opportunity to just take advantage of her brain trusts on many, many commissions and boards on which she sits. So looking forward to our time together here.

I have the special privilege this afternoon, Members, of presenting a board resolution. But before that, let me just see if the other members have any comments.

MEMBER HORTON: Madam chair, if I may.

CHAIRPERSON YEE: Yes, Mr. Horton.

MEMBER HORTON: I just want to thank the FTB team for their participation in so many different programs, but in particularly the VITA program because it really touches the hearts of folks. Oftentimes we go out and we fill out tax returns, we assist them from a calculated, academic perspective, and we don't hear the emotional, the personal impact that it has. And we, as public servants, we have an opportunity -- because people call us and tell us that if it wasn't for VITA and the earned income tax credit, they wouldn't have been able to -- for their children to go to college. They wouldn't be able to purchase their medicine. They wouldn't be able to pay their rent, and all of those things. So there's a very positive emotional benefit in us doing this work in addition to the economic benefit to the State of California by virtue that it stimulates our economy significantly. It's still, despite our best effort, somewhere around a billion dollars goes uncollected every year. So the legislature is sort of considering

a way that the State of California can assist in this, and I would encourage Gail to, via the permission of the executive officer, to kind of engage in that process, if only engaging by educating them about what we do here, and the success of what we do.

The other component that I think sometimes goes untold is the countless students that participate through the Franchise Tax Board and the Board of Equalization. I know, in our district, we interface with every university and we're trying to do it up and down the state. Every university for the purpose of stimulating the young minds and encouraging them to not only give back to others at the same time we're giving to them. We're teaching, we're educating, and so forth, them, and providing those opportunities for them.

And so hopefully we can address the succession issue and this is -- can be a training ground for our future leaders here at the Franchise Tax Board. But thank you, so very much, to all of the FTB staff members who participated in that process.

And to those who can't find the time to participate but support the efforts here at the Franchise Tax Board and allow those who can to go volunteer and continue the good work, we appreciate that as well.

CHAIRPERSON YEE: Thank you, Mr. Horton. Thank you.

With that, we've come to the moment of the meeting where we have a special tribute, and that is to Mr. Carl Joseph, formally our counsel of multistate affairs here at the Franchise Tax Board. And I'm going to just take a moment because I'm just -- and I want to welcome Carl's family, who's here as well.

There's no really proper way to just say thank you, and you know, the time that you have been here and certainly the time that I personally have had the opportunity to work with you.

I just have to say, Carl is like a kid in a candy store. Always kind of bright-eyed and curious and, you know, the mind is kind of constantly working, and -- but always with just terrific acumen and just guiding us to a good outcome with just the most complex and technical of issues. And I personally have just appreciated what you have brought to us as sitting members of the Board of Equalization on some very complex cases, certainly over my tenure on the board.

But you have to -- this is constantly kind of -- it's aptly stated in this resolution, your bag of tricks. Constantly reaching in and looking at it. What about this? What about this? And so it just never ceases to amaze us. But I know that you are on a bold, new adventure. We will miss you. I know that those with whom you work have gained tremendously just from your -- what you have been able to pass on and I would just -- this is just a wonderful opportunity as the board convenes together to offer our congratulations, much more importantly. Thank you.

MR. JOSEPH: You are welcome. Thank you.

CHAIRPERSON YEE: Mr. Horton?

MEMBER HORTON: You are brilliant, man. I thought, you know, after 30-some years in doing -- involved in taxation and audit and so forth, I would never be so impressed with an individual.

I just want to share a situation that impressed me. We were having a tax conference with one of the major CPA firms and there was an individual that constantly was asking questions in order to sort of challenge our team. And so he raised his hands to ask a question and Carl just answered it before he even asked. You know, and I'm like, wow. And so that shut him up, by the way.

And there's a saying that -- not a saying, but I think there's a quote by Wayne Gretzky. When people asked him, he said, "What is it that makes you such an exceptional player?" And his response was, is that, "The ability to anticipate where the puck will be and to position myself to be there to enhance the success of the team." And that's what he's been about and we certainly appreciate your effort.

MR. JOSEPH: Thank you very much. It's been the pleasure of my career to work for the Franchise Tax Board. It's been a wonderful experience for a full 18 years I've been here, and it certainly has made me a much better attorney than I was before I got here and I --

MEMBER HORTON: Unfortunately for us.

MR. JOSEPH: Yeah. Right. Unfortunately for us. Yes. I will be moving on to try something a little different and try to collaborate from the other direction for a while.

MEMBER HORTON: We'll hold you to the collaboration. (Laughter)

MR. JOSEPH: I hope so. I hope so.

CHAIRPERSON YEE: Great. This is a beautifully written resolution. I'm going to ask each of the members, if you will, to just take a paragraph because it's quite stunning.

MEMBER HORTON: Whereas in 1997, the same year the world read "Harry Potter and the Sorcerer's Stone," the McGeorge School of Law legal sorting has elected not -- I can't see. Anyway, but the Franchise Tax Board -- let me borrow your glasses -- for Mr. Joseph where -- would later marvel was he -
- (Laughter)

CHAIRPERSON YEE: Let me take a shot. Okay.

(Reading) "Whereas in 1997, the same year the world read 'Harry Potter and the Sorcerer's Stone,' McGeorge School of Law's legal sorting hat selected not Gryffindor or Slytherin" --

MEMBER HORTON: Slytherin, yeah.

CHAIRPERSON YEE: -- "but the Franchise Tax Board for historians to later marvel - was he man or legend; and" --

MEMBER HORTON: Yeah, that's it. (Laughter)

CHAIRPERSON YEE: "Whereas, Mr. Joseph, blessed with out-of-the-box creativity and an incurably curious legal mind, quickly fast-tracked his career from an internship through the Tax Council Series, assistant chief counsel positions, and finally to Counsel, Multistate Tax Affairs; and

"Whereas, Mr. Joseph represented FTB in many significant multistate appeals before the Board of Equalization, trial and appellate courts; while, at the same time, aiding scores of mere mortals by spinning complex legal principles into understandable legal rulings, chief counsel rulings concerning California tax law, and participating in tax conferences as FTB's leading expert; and

"Whereas, Mr. Joseph is such a valued resource even the California Legislature utilized his skills to the point where a joke that Ben Miller wrote half of the multistate tax regulations and Carl Joseph the other half; and (Laughter)

"Whereas, Mr. Joseph's bag of tricks includes implementation of appropriate remedies after numerous court decisions, transitioned through the single sales factor, revised definition of a sale in California, coordinating tax policy issues within the Legal Division, as well as overseeing regulatory and adjudicatory efforts in the multistate arena; and

"Whereas, Mr. Joseph now embarks on a bold new adventure pursuing the golden ring with a determination of Harry Potter sniffing out the horcruxes.

"Now, therefore, let it be resolved of this twenty-fourth day of March, two thousand and fifteen, by the Franchise Tax Board that we most sincerely recognize and thank Mr. Carl Albert Joseph for his professional and personal dedication to the Franchise Tax Board, the People of the State of California, and wish him well as he frustrates himself searching for loopholes in the very tax laws he helped write." (Laughter) (Applause)

Mr. Joseph, you have members of your family here. Would you like to introduce them?

MR. JOSEPH: I do. I have my wife, Kara, and my children, Graham and Nora. (Applause)

CHAIRPERSON YEE: And, of course, his service would not have been possible but for your generous -- letting him spend time with us.

MR. JOSEPH: Absolutely.

MEMBER HORTON: And so we are the beneficiaries of that. Thank you. It's just really a wonderful opportunity to share this honor together, with you and your family.

MR. JOSEPH: Thank you very much.

CHAIRPERSON YEE: So let us come forward and present this to you. (Applause)

MEMBER HORTON: Let me just say in closing, the size of the font is not indicative of the size of our appreciation. (Laughter)

MR. JOSEPH: I brought my glasses with me. Thank you.

CHAIRPERSON YEE: Thank you very much.

Members, at this time, the Board will go into closed session to discuss pending litigation.

(The Board met in closed session from 3:11 p.m. to 3:26 p.m.)

CHAIRPERSON YEE: Thank you.

The Board met in closed session and discussed pending litigation. And with that, we're adjourned.

Thank you.

(Proceedings concluded at 3:27 p.m.)

---o0o---

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 7th day of April 2015.

/s/ Kathryn S. Swank_____

KATHRYN S. SWANK, CSR

Certified Shorthand Reporter

License No. 13061