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STATE OF CALIFORNIA  
FRANCHISE TAX BOARD

PUBLIC MEETING

TUESDAY, JULY 21, 2015  
GERALD GOLDBERG AUDITORIUM  
9646 BUTTERFIELD WAY  
SACRAMENTO, CALIFORNIA

REPORTED BY:

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CSR NO. 13061

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1 APPEARANCES

2 BOARD MEMBERS:

3 BETTY YEE

4 JEROME E. HORTON

5 ERAINA ORTEGA

6 YVETTE STOWERS

7 STAFF:

8 SELVI STANISLAUS, EXECUTIVE OFFICER

9 LaJENA JORDAN, BOARD LIAISON

10 MARCO ESQUIVEL

11 MICHELLE FALLON

12 THERIA GRADY

13 JEANNE HARRIMAN

14 ROGER LACKEY

15 SANDEE LEE

16 LAURIE McELHATTON

17 ANNE MILLER

18 JEFF MRIZEK

19 DAVID MURADYAN

20 ANTHONY MUSANTE

21 JON SCHLUSSLER

22 ALLEN WILSON

23 COUNSEL:

24 JOZEL L. BRUNETT

25 BRUCE LANGSTON

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SACRAMENTO, CALIFORNIA

TUESDAY, JULY 21, 2015, 1:00 P.M.

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CHAIRPERSON YEE: Good afternoon. 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 JORDAN: Member Horton?

MEMBER HORTON: Present.

BOARD LIAISON JORDAN: Member Ortega?

MEMBER ORTEGA: Here.

BOARD LIAISON JORDAN: Chair, Controller Betty Yee?

CHAIRPERSON YEE: Here.

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 the 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.

MR. LANGSTON: For this meeting only, LaJena Jordan from our Administrative Procedures Team will be

1 substituting for Board Liaison Dawn Casey.

2 CHAIRPERSON YEE: Thank you very much,  
3 Mr. Langston.

4 First item, Members, is approval of the minutes.  
5 We have the minutes of the March 24th, 2015, board  
6 meeting.

7 MEMBER HORTON: Move approval.

8 MEMBER ORTEGA: Second.

9 CHAIRPERSON YEE: Motion by Mr. Horton. Second  
10 by Ms. Ortega. It's been moved and seconded without  
11 objection. Such will be the board's order.

12 Item 2 relates to the Franchise Tax Board Open  
13 Data Portal. We have Jon Schlussler to present it.  
14 This is an information item and it's a PowerPoint. So I  
15 would ask my colleagues to move to sit at the table, at  
16 the very, very edge of the stage so the screen can come  
17 down for us to view the presentation.

18 MR. SCHLUSSLER: Good afternoon. My name is Jon  
19 Schlussler. I'm a manager within the Economic and  
20 Statistical Research Bureau within the Financial and  
21 Executive Services Division. And I am pleased to be  
22 here today to present to you our newest internet tool  
23 for exploring our California's tax data.

24 The -- we hope that this open data portal will  
25 provide many in government, private industry, and

1 academia the ability to better understand our tax  
2 revenue data.

3           So what is an open data portal? An open data  
4 portal, as the slide says, is a new portal to provide  
5 visual access in ways that we've never had available  
6 before. The data portal provides an inventory of data  
7 broken up into personal income tax, corporate tax, and  
8 other tax-related data.

9           It's similar to what we provide already on our  
10 annual report and what we provide to the Department of  
11 Finance and Legislative Analyst's Office for exhibit  
12 packages. So eventually we'll have many, many data sets  
13 out here that will represent all the data that we have  
14 on our public Website.

15           Currently we are starting out with a small group,  
16 and the idea is that we will eventually grow it out so  
17 that we're joining the other leaders in this area where  
18 they are providing transparent data, and that's Board of  
19 Equalization, State Controller's Office, and the  
20 Department of Health Services.

21           So when we first started capturing data, it was  
22 using paper returns, and we would capture the first  
23 three pages of many of the tax returns that  
24 were received. So our available data was fairly  
25 limited. But after we had mandatory e-file requirements

1 for tax practitioners, and we also had EDR come in,  
2 Enterprise Data to Revenue, we encountered a very  
3 positive influx of our data, so our data doubled in size  
4 from 2250 available data fields to nearly 4500 data  
5 fields. So this is due to the advanced technology of  
6 collecting the data with scanners and still using some  
7 KDOs, but increasing the ability by over 200 percent  
8 allows us to now share more data with our customers.  
9 And this increased data can help those customers  
10 understand our data much better.

11           So the user benefits are, obviously,  
12 transparency. We hope that it will allow for people to  
13 make better decisions about our tax situation, our  
14 revenue, where the money is coming in from, which  
15 counties, which locations, which different types of  
16 programs in our tax system are working, which ones are  
17 not, and where we might be able to really gather a lot  
18 more information about some of the different credits we  
19 have or anything else. So we're hoping that this can  
20 help people with understanding those details.

21           It also unleashes untapped potential for  
22 self-service. So, for example, we're allowing this data  
23 to go out there and people can start to configure the  
24 data in ways that we may not have thought about and that  
25 might provide them with better information about new

1 nonprofit programs or anything else.

2           So it really -- as the left-hand side of this  
3 slide provides, with all the different agencies working  
4 together, it allows us to answer those big questions  
5 that exist in our society.

6           So our consumers are, as I've been mentioning,  
7 different state agencies like Department of Finance,  
8 Legislative Office, Analyst's Office, and State  
9 Controller's Office, but also we expect that there are  
10 other state agencies that can leverage this data to now  
11 provide better information as they evaluate bills or  
12 anything else. We also hope that the legislature can  
13 use this data to combine with what they already receive  
14 and provide better decisions or better informed  
15 decisions.

16           The media -- they love our data because it allows  
17 them to go out and ask for what's the median income of  
18 the state and my county and everything else. So it  
19 basically gives them the opportunity to find out where  
20 the new 90210 is in California.

21           So what does it look like? This is an example on  
22 one of the screens that we have for the capital gains.  
23 And it's basically demonstrating five different  
24 categories of taxpayers that have adjusted gross income  
25 over \$1 million. And the highest one up there are

1 taxpayers that have over \$5 million. And what it shows  
2 is that the capital gains have a great impact on our  
3 economy. The others are fairly flat, but as you see,  
4 the highest of the high and the 1 percenters are the  
5 ones that really show the boom and bust of our economy.

6 So in the year 1999, or 2000, you will see where  
7 we had the dot com era, and that was a big peak. And  
8 then if you look over at 2009, that's where we had our  
9 bust year or our recession recently, and we're now  
10 climbing out of that recession.

11 This is another example of a map that we  
12 generate. Basically, as I was mentioning earlier about  
13 the median income by county, the public and the media  
14 love this data because they want to find out, where do I  
15 fit in this county? So in this county you will see a  
16 range of red to green. Red being the lowest median  
17 income range and green being the highest. So you will  
18 see things like, Imperial County, down in the bottom of  
19 the state, being red, and if you look up by the Bay  
20 Area, you will see Marin County; that's No. 1. And it's  
21 green, obviously.

22 So it allows for you to drill down further into  
23 this data and find out, well, what are the adjusted  
24 gross income classes and how much are they paying per  
25 county and other information like that. So it gives a

1 lot of information that we didn't otherwise have  
2 available in this format.

3         So this is an example of what the controller has  
4 out for city and county financial data that they have.  
5 And it provides for getting different information that's  
6 out there for different counties. So with this  
7 information, we can actually collaborate, or a user can  
8 actually collaborate on -- with what we have on the  
9 county, or the county did, we have on the controller's  
10 site, using data that we have on the FTB site, and  
11 combine those data sets together and come up with some  
12 different information.

13         This next slide is the sales and use tax from the  
14 Board of Equalization. And likewise, we can use tax  
15 data represented here, combine it with Franchise Tax  
16 Board data, and come up with some interesting  
17 information.

18         And this is what our open data portal looks like.  
19 As you will see, it's got the clear windows and it's  
20 nice and clear, representing transparency. So it's open  
21 and we've got the personal income tax, corporate income  
22 tax, and other data categories there. And we've got  
23 multiple data sets in there right now, but as I  
24 mentioned earlier, we will be adding significant data to  
25 it later.

1 Any questions?

2 CHAIRPERSON YEE: Jon, would you elaborate how  
3 far back the data goes?

4 MR. SCHLUSSLER: Yes, I will. Thank you for  
5 asking.

6 The data is actually -- we have many different  
7 data sets, some of which go back to 1929. So we have  
8 all of our tax rates from 1929, but we also have  
9 captured taxpayer-type data, not actual showing any  
10 personal, identifiable data. But we have summarized  
11 data all the way back to 1950, in other cases.

12 CHAIRPERSON YEE: Thank you.

13 Comments or questions?

14 MEMBER HORTON: Hi, Jon. It's your first time  
15 before the board?

16 MR. SCHLUSSLER: It is certainly my first time,  
17 yes. Remember, my son goes to Dominguez Hills. So you've  
18 got to be nice. (Laughter)

19 MEMBER HORTON: All right. (Laughter)

20 MR. SCHLUSSLER: That's how you do it.

21 MEMBER HORTON: Thank you.

22 Jon, I did have a -- just a thought about this  
23 open portal concept.

24 MR. SCHLUSSLER: Yes.

25 MEMBER HORTON: Is that similar to what Star Trek

1 used to transport people around?

2 MR. SCHLUSSLER: You know, I have to tell you, I  
3 was never a Trekkie. I apologize. (Boos) I'm sorry.  
4 I'm sorry.

5 MEMBER HORTON: Can you do us all a favor? Just  
6 say, "Beam me up, Scotty."

7 MR. SCHLUSSLER: "Beam me up, Scotty."

8 CHAIRPERSON YEE: Thank you for the presentation,  
9 and I really appreciate the Franchise Tax Board moving  
10 in this direction -- more open transparency with our  
11 taxpayers.

12 Thank you.

13 We're now on Item 3, which is the filing season  
14 update. This is another information item and also a  
15 PowerPoint. We have two sub-items in this particular  
16 item, which will be presented together. First will be  
17 Roger Lackey with the new pipeline process. Then Allen  
18 Wilson with the customer satisfaction survey. Good  
19 afternoon.

20 MR. LACKEY: Good afternoon, Madam Chair and  
21 Board Members. I'm Roger Lackey. I'm the director of  
22 Processing Services Bureau. With me, I have Allen  
23 Wilson, director of Filing Methods and Budget Bureau.

24 We're providing the filing season overview. If  
25 we turn to the next slide, I will cover the details of

1 what we'll discuss.

2 So I will cover the 2015 filing season statistics  
3 as well as the Enterprise Data to Revenue impacts. From  
4 this point forward, I'm going to reference it as EDR.  
5 Enterprise Data to Revenue impacts to the processing  
6 functions. At that point, I'll go ahead and hand the  
7 presentation over to Allen Wilson, who will go over the  
8 customer satisfaction survey.

9 So in addition to this presentation, there were  
10 written materials that were provided to cover a number  
11 of different filing season statistics. For purposes of  
12 this presentation, I will be focusing on some key  
13 statistics and some statistics that are included in that  
14 written material. The statistics I will be sharing are  
15 as of June 13th of this year.

16 So with that, let's go ahead and start talking  
17 about tax returns. For this filing season, we've  
18 received 17 million 2014 income tax returns. The  
19 breakdown is 16 million for personal income tax. Of  
20 that, 86 percent were e-filed. Two items of note with  
21 regard to personal income tax are CalFile return, that's  
22 the pre-file option that we provide. This year we  
23 serviced 247 taxpayers through CalFile. This is a great  
24 self-service tool. In addition, last year we introduced  
25 e-file for fiduciary returns, we saw a great response on

1 that. That response continues. And this year, we have  
2 received 180,000 of those returns by e-file. That's an  
3 80,000 return increase from the previous year.

4 Now, with regard to BE returns, this is the first  
5 year of our BE requirement. So what that means is, to  
6 keep it simple, is that if a business entity has the  
7 ability to file electronically, we request that they do  
8 so. So for this year, we've seen an increase in our  
9 e-file. 70 percent of our -- 70 percent of business  
10 entity returns have been e-filed, or 700,000. That's a  
11 total of a million. We've seen a 25 percent increase in  
12 e-file returns, so that's great. The new requirement  
13 has worked.

14 So go ahead and turn to the next slide. We'll  
15 talk about payments and refunds. So first, with  
16 deposits. \$29 billion is what we've collected so far  
17 this year in terms of payments. The breakdown of that:  
18 24 billion for personal income tax and 5.3 billion for  
19 business entities. As a total, compared to last year,  
20 when it was 22.3 billion dollars. So 29 to 22.3 is your  
21 significant increase.

22 The number of payments themselves are also up.  
23 8.1 million payments have been received thus far.  
24 That's a 4 percent increase for personal income  
25 taxpayers and a six and a half percent increase for

1 business entities. Paper payments continue to be the  
2 predominant choice by taxpayers to pay their income tax.  
3 64 percent of payments are received by paper for  
4 personal income tax, and 87 percent of payments come in  
5 paper for business entities.

6 So next let's talk about refunds. So for this  
7 season, we've issued 10.1 million refunds. That would  
8 be 10 million for personal income tax and 90,000 for  
9 business entities. My numbers don't add up so I  
10 rounded.

11 So the total of that is \$9.5 billion. The  
12 average refunds for personal income taxpayers is up 1  
13 dollar this year to \$857.

14 So the next slide I would like to go to -- it's  
15 already there. So the first thing I wanted to mention  
16 is that we've actually provided some time after the  
17 earned income tax credit presentation later on in this  
18 board meeting, to provide the board members the  
19 opportunity to show their appreciation to the volunteers  
20 that are in the audience today.

21 So specific to the program itself, for this  
22 filing season, the VITA program, Volunteer Income Tax  
23 Assistance program, prepared 578,000 federal and state  
24 returns. That was at 960 locations in the state. And  
25 that helped 70,000 taxpayers claim the federal earned

1 income tax credit for a total of \$114 million.

2           So the next slide. So with regard to customer  
3 service, the one thing we wanted to point out is that a  
4 significant number of taxpayers leverage our  
5 self-service options to address questions and find  
6 information. For example, we had ten and a half million  
7 Web hits during this filing season. We had 2.2 million  
8 taxpayers check their refund using the self-service tool  
9 that we provide. And we have over 960,000 taxpayers  
10 visit MyFTB account to self-service in terms of  
11 obtaining records or other information.

12           Now, the slide that you have in front of you  
13 addresses our contact center, what we call TSCS. For  
14 this filing season, they answered over 500,000 phone  
15 calls. They have a level of access of 51 percent. They  
16 answered -- on their popular tax practitioner hotline,  
17 they answered 80,000 phone calls, and for live chat,  
18 they assisted 62,000 taxpayers.

19           I would also like to point out that we have  
20 several field offices in California that provide  
21 face-to-face customer service for taxpayers during the  
22 filing season. For this filing season, they assisted  
23 38,000 taxpayers. So a big thank you to all of customer  
24 service staff that are the face of the Franchise Tax  
25 Board, whether it's by phone, whether it's by live chat,

1 or whether it's by face-to-face.

2 So this next portion of my presentation is to  
3 provide you an overview of the new activities resulting  
4 from the Enterprise Data to Revenue project.

5 Specifically it was the reengineering of the return and  
6 payment process, as well as, I will briefly share some  
7 of the significant activities we were able to eliminate.

8 So more specifically, much of the reengineering  
9 was focused on eliminating the use and movement of paper  
10 throughout the department while also leveraging new  
11 technologies to enable us to capture the additional data  
12 from paper returns and related documents.

13 The new activities within the pipeline are  
14 focused in three areas: Incoming paper, data capture,  
15 and return analysis.

16 So incoming paper. This is the first step in  
17 moving away from paper and processing and creating an  
18 electronic environment from the rest of FTB and,  
19 eventually, taxpayers.

20 The first thing you need to do is make  
21 significant changes in how we handle the paper. For  
22 FTB, Franchise Tax Board, that means we invest time  
23 preparing returns, correspondence, and payment documents  
24 for scanning, ensuring high quality images, so that we  
25 have the ability to capture the data. This also means

1 investing in technology and for the Franchise Tax Board;  
2 that means five high speed scanners. These scanners, in  
3 conjunction with our existing scanning operations, give  
4 us the capacity to scan all incoming paper during our  
5 peak filing season quickly and with high quality.

6 For this filing season we scanned over 54 million  
7 pages. To give you an idea of how fast the scanners  
8 work, they average 7700 pages an hour. On two different  
9 days during our peak filing season, our staff, in two  
10 shifts, scanned 1 million pages. That's a lot of  
11 documents that are being moved from paper to electronic.

12 So why is the quality of images so important?  
13 Well, as you can imagine, if the image is not good, it  
14 can delay the processing of the return, the payment, and  
15 the resolution of an account issue the taxpayer may be  
16 attempting to resolve.

17 In fact, we need the hundred percent accurate --  
18 the fact that we need a hundred percent accuracy in  
19 individual images is what's ended up called -- we call  
20 the return pull workload. It's a new workload.

21 So the last item I wanted to share with you about  
22 incoming papers concerning correspondence. In the past  
23 we did not electronically track our correspondence.  
24 With EDR, we are now scanning all of our  
25 correspondence and delivering it electronically across

1 the Franchise Tax Board. We also are taking the  
2 additional steps in our pipeline to associate each piece  
3 of correspondence with the taxpayer's account to ensure  
4 the availability across the department.

5 The next item is data capture. So now you have  
6 54 million pages. What do you do with it? So you  
7 capture the data. It's a very important step. So  
8 through EDR, we have increased our data capture by 200  
9 percent. You heard Jon reference that in his  
10 presentation.

11 Without EDR and the technology introduced, it  
12 would not have been feasible to capture that amount of  
13 data manually. So instead, we're using a balance of the  
14 old manual keying of data and the new technology.

15 The key piece of the new is the use of paper data  
16 technology, such a 2D bar code and optical character  
17 recognition. These technologies enable the automated  
18 capture of data. This includes form identification of  
19 certain notices and tax forms and it captures specific  
20 data fields. For this filing season, approximately  
21 55 percent of the personal -- paper personal income tax  
22 returns received use the new 2D bar code technology. So  
23 with a 200 percent increase in data comes a need to  
24 ensure the quality of the data, even if it's  
25 automatically captured. As a result, we have also

1 placed a number of edit rules to confirm and check key  
2 pieces of data to ensure the accuracy of downstream  
3 processes.

4           So the last new data capture technology includes  
5 image cash letter, also known as "check 21." This  
6 technology has enabled us to move away from paper  
7 deposits with banks. However, it also has changed our  
8 relationship with these -- with these -- with the banks  
9 and the State Treasurer's Office since the control of  
10 checks is now by image. This requires constant  
11 oversight and the need for timely reconciliation of  
12 deposits.

13           So the last item is return analysis. Our  
14 pipeline change for return analysis is our newest, and  
15 we are currently getting ready for our first -- our  
16 first use of the tool in our meeting peak. So a high  
17 volume workload.

18           Within that return analysis, we have introduced  
19 new automated rules that have eliminated some of the  
20 manual follow-up that we've previously received. We  
21 also have created 300 new validation rules that will  
22 help in the accurate and timely processing of taxpayer  
23 returns. We already have excellent fraud detection  
24 rules, and we're enhancing those rules with EDR as well.

25           So if we go to the next slide, we talk about

1 pipeline efficiencies. So as you would expect, when the  
2 goal is to add data, you will incur new activities, as  
3 I've demonstrated.

4           Thankfully, EDR also brought us the opportunity  
5 to eliminate several activities for the processing of  
6 return payment correspondence. While these changes are  
7 less in numbers to the new activities, they are  
8 significant. So we've reduced the number of sorts by  
9 50 percent. That's reducing the number of touches.  
10 We've eliminated the DLN stamping. We would have bought  
11 a Bates machine. But those of you that have had a  
12 pipeline tour remember the boom, boom, boom, boom, when  
13 you are down in the pipeline. Instead of hearing the  
14 boom, boom, boom, you hear just the nice smooth sound of  
15 a scanner moving millions of pages of documents through.

16           We also eliminated the encoders for cashiering.  
17 And one of the most important items, we eliminated  
18 the need for paper returns and trucks for validation.  
19 There's a lot of historical pictures around the  
20 Franchise Tax Board that show the fish bowl full of  
21 thousands of trucks that have to be moved through our  
22 validation area to complete return processing. That's  
23 no longer necessary since our staff are able to work  
24 from an image.

25           Now if we move to the last page, so why is this

1 important? Well, these changes were important because  
2 they're foundational to EDR's \$4 billion revenue target.  
3 They provided the opportunity for return storage  
4 savings. If you go to our San Diego building, where  
5 return storage is, it's 50 percent less than it had been  
6 in terms of holding paper.

7 We decreased the number of paper returns scan  
8 requests. No longer do you have to call us and ask for  
9 a copy of a return and we have to search for it. It's  
10 already an electronic image. More data is available  
11 across the enterprise and eventually to taxpayers,  
12 electronic deposit 21 brings us up to the state  
13 standard, and, most importantly, we improve customer  
14 service.

15 So with that, that concludes this part of the  
16 presentation. I would next like to hand it off to Allen  
17 Wilson to cover the customer service satisfaction.

18 CHAIRPERSON YEE: Thank you, Roger.

19 MR. WILSON: Good afternoon. Thank you for  
20 calling the Franchise Tax Board. This is Allen at  
21 station 12. How may I help you?

22 That is the phrase spoken thousands of times  
23 every day and hundreds of thousands of times a year by  
24 our customer service agents. Today I'm excited to  
25 report to you on the results of our first customer

1 satisfaction survey. So earlier last year, we partnered  
2 with the Institute of Social Research -- which is  
3 affiliated with the California State University,  
4 Sacramento -- to conduct our first customer satisfaction  
5 survey.

6 The purpose of this survey was to see how we are  
7 meeting our taxpayer centric service strategic goal. It  
8 provided us with information to measure how taxpayers  
9 feel we are providing them products, services, and  
10 information to help them to pay and file the taxes that  
11 are due.

12 The survey also captured attitudes that taxpayers  
13 have towards the information we provide on our website.  
14 This first survey provides us with a baseline in order  
15 to measure progress that we are making and improving  
16 customer service and, in fact, we have a survey under  
17 way this year, so we will be able to measure what  
18 progress we have made since last year.

19 The target of our survey was callers who called  
20 our two primary contact centers: Our general assistance  
21 and our collection assistance phone lines. The survey  
22 was focused on the quality of those contacts with our  
23 live agents. So only those taxpayers who are actually  
24 able to get through and speak with an agent were  
25 included in the survey. And as Roger mentioned earlier,

1 our level of access hovers around 51 percent.

2 So the survey measured both live agent calls and  
3 FTB's Web site. So first, let's take a look at live  
4 agent calls. We're pleased to find that 83 percent of  
5 callers were satisfied with the customer service they  
6 received and that they were able to accomplish the goal  
7 for which they had called.

8 We also asked about those characteristics that  
9 they found important: An easy voice to understand,  
10 responsive to needs, clear and thorough information.  
11 Professional and knowledgeable were the top  
12 characteristics that we identified through the survey.

13 There are many self-service options available on  
14 our Web site, but the survey also found that most  
15 respondents preferred to speak with a live person in  
16 conducting their tax business. Again, that's of those  
17 that were able to get through to a call center agent.

18 Next let's take a look at the common reasons for  
19 calling: Not surprising, one of the most common reasons  
20 was to respond to a notice or to get some type of  
21 general information, or perhaps to request a payment  
22 plan or method of payment.

23 Next we'll take a look at the satisfaction with  
24 the Website. 75 percent expressed satisfaction with our  
25 Website and the MyFTB self-service features. The survey

1 also dove into those characteristics of the Website that  
2 they found most important: Efficient Web site,  
3 visually appealing, and clear information were the top  
4 characteristics. Now, this slide might look a little  
5 funny. What it's comparing is, of those 75 percent,  
6 those that strongly agreed versus just simply agreed,  
7 with that characteristic. And then the opposite end is  
8 those that strongly disagree.

9         So what's significant there is the "efficient" and  
10 "visually appealing" show a high contrast between those  
11 two extremes of where people feel more emotional about  
12 how they view the Website.

13         Now for the reasons for visiting our Website:  
14 The number 1 reason is to check their refund, and that  
15 does help with our call center when people do go online  
16 and check their refunds. Also, to do something  
17 payment-related. So that could be to make a Web  
18 payment, credit card payment, schedule an installment  
19 agreement, or research a tax question.

20         So in closing, we're very excited about the  
21 results of this survey and the positive light it shines  
22 on our customer service agents and our Website.

23         I will now close in the same manner as the  
24 customer service agent: Did I answer your questions?  
25 Is there anything else I can do for you today?

1 Thank you, Board Members, for your support for  
2 our customer service programs. Roger and I will now  
3 answer any questions you may have for us.

4 CHAIRPERSON YEE: Okay. Thank you very much.

5 Are there questions, Members? Comments?

6 I think, before we proceed, I really do want to  
7 thank customer service staff for what I think was just a  
8 really wonderfully successful filing season, and some of  
9 the new tools that were utilized this year, particularly  
10 the live chat, which we had an opportunity to witness  
11 where we could see the staff really deal with multiple  
12 inquiries at one time, was quite remarkable. And I'm  
13 sure that capacity will grow in future years. So thank  
14 you very much for the terrific work. (Applause)

15 Our next item is Item 4, and that's the Franchise  
16 Tax Board's Organizational Values Refresh. This is  
17 another informational item and a PowerPoint presented by  
18 Michelle Fallon and Jeff Mrizek.

19 MR. MRIZEK: Good afternoon, Madam Chairperson  
20 Yee and honorable Members of the Board.

21 I am Jeffrey Mrizek of the Organizational  
22 Employee Development Services Unit, and I'm joined with  
23 Michelle Fallon, director of the Communications Bureau.

24 We are delighted today to share with you the  
25 Franchise Tax Board's refreshed organizational values.

1 These values are representative of FTB's strong  
2 organizational culture.

3 Franchise Tax Board's history of the values  
4 begins in about the 1990s with a top-down delivery of  
5 values. In 2004 Franchise Tax Board began to hold focus  
6 groups to revisit the values and to get input from the  
7 staff. What they came to was the values you see here.

8 Lately, and ten years later, our mission and  
9 values team has now led a department effort to refresh  
10 these organizational values in preparation for the  
11 department's strategic planning process.

12 MS. FALLON: So when we came -- when it came time  
13 to refresh these values, we wanted to take a completely  
14 different approach than we had in the past. This time  
15 we surveyed all of our employees across FTB and invited  
16 them to be part of the process. And we had an  
17 outstanding response rate of nearly 70 percent. So we  
18 can definitely tell you, with confidence, that these  
19 values that we're presenting to you today are truly by  
20 the people, for the people. And this is what they had  
21 to say.

22 Compared to the last slide, they wanted less  
23 values, and they wanted their values to be more  
24 descriptive, maybe in a statement and more  
25 memorable. They wanted the values to represent more of

1 a call to action and to be inspirational. So with the  
2 develop -- with the help of our mission and values team,  
3 we drafted new values from the feedback and presented  
4 them at town halls like this. After some very valuable  
5 feedback that we received at these town halls, we  
6 refined the values and that's what we would like to  
7 share with you today.

8 And rather than read each definition to you, Jeff  
9 and I thought it would be much more interesting if we  
10 shared some stories from those town halls.

11 MR. MRIZEK: Being very proud to have our  
12 employees join us, we let them speak for the values.

13 (Slideshow presentation)

14 And this is Janice Schwartz and Janice is a  
15 gifted and creative professional in the Communications  
16 Bureau. And while Janice does not supervise or manage  
17 staff, she does recognize that at FTB, everyone is a  
18 leader. And Janice definitely leads with integrity and  
19 inspiration. She was part of the core team that helped  
20 develop the refresh of the values of what we're sharing  
21 here today. Her input was very helpful in anticipating  
22 how staff might respond to the variations of the words  
23 that we use and try and develop our value statements.  
24 She inspired all of us to keep exploring options until  
25 we had all the value statements just right. Janice

1 models the way for all of us as we grow our leaders at  
2 all levels.

3 MS. FALLON: Our next value is that we bring our  
4 best. This is Daniel, and he is a very driven  
5 individual who currently works in our filing division.  
6 In a prior life, Daniel was a Marine, so don't let that  
7 smile fool you. He told us that when you don't bring  
8 your best as a Marine, that there could be dire  
9 consequences. And while he recognizes that FTB is not  
10 exactly a war zone, he did say that there's great  
11 synergy to be had when everyone brings their best every  
12 day.

13 MR. MRIZEK: This is Kimberli. Kimberli is our  
14 current chair of the Mission and Values team, and she  
15 has a passion for excellent products and services. She  
16 was essential in guiding the Mission and Values team to  
17 help make our values more real to FTB employees.  
18 Kimberli is well known for reminding us that at  
19 FTB we are both taxpayers and civil servants with a  
20 vested interest with delivering excellent products and  
21 services.

22 MS. FALLON: Next we have "contribute to the  
23 caring community." And this is Patricia, one of my  
24 favorite audit supervisors. Her husband works in  
25 private industry, and her husband is one of the best

1 employees in the corporation that he works at, based  
2 upon production in customer service reports. But there  
3 is no recognition or camaraderie where he works, and  
4 there are no celebrations, no feeling of community, and  
5 even with a decent paycheck, there is very little  
6 incentive for him to keep working for a company that  
7 seemingly doesn't care about whether you stay or go. He  
8 had a hard time picturing the work environment here,  
9 where people treat each other with respect, with  
10 kindness, and with genuine caring. But he can  
11 definitely see the difference it makes in Patricia, and,  
12 not surprisingly, he's looking at other employment  
13 opportunities.

14 MR. MRIZEK: As the organizational employee  
15 involved in service management, this value is very dear  
16 to my heart, "becoming experts at what we do." She's  
17 Jennifer Barton. She's a supervisor in our audit  
18 program. Jennifer is proud of our professional culture  
19 here at FTB, where we encourage staff to continuously  
20 learn and improve in a career path of their choice. At  
21 FTB, we say "every day is an interview" and our focus is  
22 on cultivating a strong organization through a culture  
23 of development and mentorship.

24 MS. FALLON: So you have a copy of this next  
25 slide in your board materials, which includes

1 definitions of our values that we didn't share with you  
2 in the oral presentation. We feel very confident that  
3 these values do represent FTB's culture and that they  
4 also inspire us to make future strides in each of these  
5 areas.

6 And now we would like to invite any questions  
7 that you may have.

8 CHAIRPERSON YEE: Thank you, both, very much.  
9 Questions or comments?

10 Yes, Ms. Ortega.

11 MEMBER ORTEGA: It's not a question. It's a  
12 comment.

13 I think it is great. I think that the conclusion  
14 that the survey response came to, that should be fewer  
15 words, and not just words. I think the statements  
16 really make a much clearer point about the staff and the  
17 beliefs of everyone who works here. So I think this was  
18 a great effort. I really like it. So congratulations.

19 MS. FALLON: Thank you.

20 CHAIRPERSON YEE: Thanks, Ms. Ortega.

21 Mr. Horton?

22 MEMBER HORTON: Fabulous work. I mean, team FTB  
23 is just doing a fabulous job. And I want to thank not  
24 only the two of you who brought this forward but all of  
25 those who have worked on this, having some synergy in

1 our strategy, and kindness. A giving organization is  
2 always healthy for the state of California.

3 Thank you.

4 MS. FALLON: Thank you.

5 CHAIRPERSON YEE: Thank you, Mr. Horton.

6 I just want to echo these comments. I want to  
7 thank the employees for really participating so fully in  
8 this and really taking the opportunity that's been  
9 presented to them to have a voice in this process and I  
10 think it just makes for a much more robust organization  
11 that can be vetted by some very, very strong core  
12 values.

13 So thank you very much, employees. Thank you,  
14 Members.

15 Our next item is Item 5, and this is the earned  
16 income tax credit. This is also an informational item  
17 and a PowerPoint presented by Theria Grady and Michelle  
18 Fallon. And I'm going to ask Ms. Ortega to please  
19 convey to the governor and to the administration that  
20 we're just very proud of this program, with now having a  
21 California state version of the earned income tax  
22 credit, which I think is so helpful to just thousands of  
23 families and we hope that, at the same time, can help  
24 with getting more of those dollars claimed on the  
25 federal credit as well.

1           So thank you.

2           MS. GRADY: Wonderful. Good afternoon, Madam  
3 Chair and honorable Board Members. My name is Theria  
4 Grady, and I'm the filing compliance bureau director.

5           This afternoon, I will be providing you with an  
6 overview of the implementation portion of the California  
7 earned income tax credit, also known as EITC. Michelle  
8 Fallon, here to my left, will cover the marketing and  
9 outreach portion of this implementation.

10           We are really pleased that Senate Bill 80, the  
11 California earned income tax credit, was passed and  
12 signed by the governor this year. It's a historic  
13 legislation that establishes a tax credit to help the  
14 poorest working families in California, and it  
15 complements the existing federal income tax credit.  
16 This means that we are all giving back to hard working  
17 families here in California.

18           Now California has the opportunity to join 25  
19 other states that offer similar credits. It's the first  
20 of its kind in California history, beginning with the  
21 2015 tax year with the January 2016 implementation. We  
22 expect approximately 825,000 families to qualify for the  
23 credit and we're introducing nearly 65,000 new filers to  
24 California. We estimate also that an average refundable  
25 benefit would be about \$460, and it is a refundable

1 credit that is specific to wage earners with low income.

2 It targets households with income less than  
3 \$6,580, if there are no dependents; 9,880 for one  
4 dependent; and \$13,870 if there are two or more  
5 dependents.

6 The credit is available to all filing status  
7 types with the exception of married filing separate.  
8 It's a wonderful tax benefit available to hard working  
9 families.

10 To ensure the success of this valuable credit, we  
11 immediately formed an FTB earned income tax credit  
12 implementation team led by experienced project managers.  
13 They are managing to a very detailed plan to address  
14 such issues as training, procedures, tax form changes,  
15 and programming changes.

16 As well, they are working on data capturing and  
17 reporting requirements that are very important. The  
18 team's primary focus is to have us ready to service the  
19 California taxpayers and process the earned income tax  
20 credit returns in January of 2016.

21 Regarding the data capturing reporting, in  
22 accordance with the legislation, we're planning to  
23 capture all relevant data to develop reports that allow  
24 all of us to monitor the progress and the success of the  
25 program. We'll continue to provide these regular

1 reports on the progress of the implementation to the  
2 board and other external stakeholders, including the  
3 legislature, and we know that we have two formal reports  
4 that are already due.

5 The first is due regarding the expected cost of  
6 the IT implementation, and it's due at the end of August  
7 of this year.

8 The second report will cover the overall  
9 implementation effort due January of 2016. We plan to  
10 keep the board updated on our progress.

11 I would like to also address the potential for  
12 fraud. As I mentioned earlier, we're expecting new  
13 filers to California and we welcome these new filers.  
14 It's our plan to help all eligible earned income tax  
15 credit filers to receive the credit they are due.  
16 However, we are aware that there is potential for  
17 improper payments of a credit or the filing of  
18 fraudulent returns.

19 An improper payment could mean that it's  
20 misreporting the number of qualifying dependents or  
21 misreporting income.

22 Fraudulent claims filed by identity thieves or  
23 individuals creating fictitious returns for the purpose  
24 of capitalizing on the refundable credit. While we do  
25 have a very robust fraud detection program, our goal

1 here is to prevent as many undeserved refunds from being  
2 issued and getting into the wrong hands. We really want  
3 to give back to those hard working families and allow  
4 them to offset household expenses.

5 So with that, we also have another partner here,  
6 who is Michelle, we talked about earlier. She's going  
7 to talk about the marketing and outreach efforts for the  
8 EITC.

9 MS. FALLON: And at the risk of being redundant,  
10 as Theria mentioned, we really are excited about this  
11 credit, not only for what it will do for those who  
12 benefit from it but also the positive impact it will  
13 have on California's economy.

14 So with that in mind, our outreach goal is  
15 definitely to minimize the EITC funds that are left on  
16 the table at both the federal and state level.

17 While the details of our marketing plan are still  
18 under development I do have some exciting news to share  
19 with you: At the very beginning of this process, when  
20 we were strategizing for our outreach, we decided to  
21 look at other states and how they successfully  
22 implemented EITC. One of the best key, best practices,  
23 we learned was from New York. And they told us about  
24 the importance of partnering with nonprofits and other  
25 government agencies to help get your messaging out.

1           As luck would have it, about the same time we  
2 were invited to participate in the statewide interagency  
3 team for EITC. This group is being facilitated by the  
4 Department of Community Services as part of their normal  
5 workload to help reduce poverty in California.

6           The first meeting was last week, and I can tell  
7 you, there were a roomful of very engaged individuals,  
8 including members from the IRS, specifically the key  
9 VITA coordinator; somebody from the governor's council  
10 on veterans, Dewey Square, which is a private  
11 advertising firm; California Budget and Policy Center;  
12 California Workforce Investment Board; and various areas  
13 of the Department of Social Services.

14           We spent some time discussing the demographics of  
15 the state EITC target group and some of the challenges  
16 we were going to have as we tried to reach out for these  
17 individuals. Things like the lack of trust they have in  
18 government or the belief that if they participated in  
19 EITC, it could jeopardize some of the other benefits  
20 that were receiving.

21           And finally, things like the normal workload --  
22 the normal information overload that every hard working  
23 family has to face as they open their mailbox every day.

24           Next we spent some time on talking about the  
25 communication tools available to each of us and how we

1 could leverage those connections. For example, Alissa  
2 , who is from the California Budget and  
3 Policy Center has already put us in contact with County  
4 Welfare Directors Association, who we're hoping to be  
5 able to work with to coordinate outreach efforts.

6 Pam, from the Council of Veterans Affairs, will  
7 connect us with that huge veteran volunteer base that  
8 could help leverage -- which we could use to help  
9 leverage for boots on the ground strategy.

10 We will begin developing a more detailed plan.  
11 Meanwhile, at FTB, we've been very busy. Our research  
12 folks have been digging through demographics of our  
13 target group, and they are going to help us confirm the  
14 counties, which most of the FTB beneficiaries reside.  
15 And as past studies on the federal credit indicate, we  
16 suspect that our top target counties are going to  
17 include Los Angeles, San Bernardino, Sacramento, and  
18 Fresno.

19 In another area of our campus, our marketing  
20 folks are working on our schedule, delivery of multiple  
21 products beginning in September. And those efforts are  
22 going to include posters, videos, social media  
23 messaging, Web content, and other deliverables. They  
24 are all going to be produced in volume and made  
25 available to our interagency team as part of our

1 outreach plan, and, of course, to anybody else who has  
2 an interest.

3         Okay. In summary, our entire EITC team, from  
4 processing to marketing and every single person in  
5 between, completely understands what's at stake here.  
6 Can I just say, it's a rare and wonderful thing when the  
7 tax man can play a role in giving back to hard working  
8 California families. So we plan on maximizing every  
9 avenue possible.

10         We also know that you are all very  
11 well vested in the successful EITC program and we want  
12 to turn the floor back to you to answer any questions  
13 you may have for us.

14         CHAIRPERSON YEE: Thank you both very much.

15         Is there any questions, Members?

16         Mr. Horton, please.

17         MEMBER HORTON: Thank you, Madam Chair.

18         As we all know, California has a poverty -- as we  
19 all know, California has a poverty epidemic. 40 percent  
20 of our residents are within the category of working  
21 poor; 78 percent of those actually are employed but,  
22 yet, still many of them still find themselves homeless.  
23 They are working on the job and every day they return to  
24 their cars or they return to some garage somewhere or  
25 they return to the streets, where their home is a box.

1           And so the governor's efforts in this area is to  
2 be commended, to allocate these funds. These  
3 individuals who need the money the most, if you will.

4           And to all of those who participate in this, you  
5 know, it is often said that we can no longer see angels,  
6 that they don't exist. But if you look around,  
7 especially in the VITA program, we see countless angels  
8 that are making a difference in everyone's life. And we  
9 want to thank everyone for the effort going forward.

10           I want to share a concern, though. The concern  
11 is to ensure that there is synergy in the project so  
12 that it minimizes the waste of these priceless revenues.  
13 And I look forward to having further conversation about  
14 that.

15           MS. FALLON: Thank you.

16           CHAIRPERSON YEE: Thank you, Mr. Horton.

17           Ms. Ortega.

18           MEMBER ORTEGA: Thank you, Madam Chair.

19           Just to say thank you to the staff for --  
20 obviously this is something new and so you kind of have  
21 to drop other things you have been working on and put  
22 all effort into this. I think when this proposal was  
23 being developed, I know I spoke with Selvi, as did  
24 others in the administration. And I think, you know,  
25 what Selvi said is, we will get it done. And I think we

1 all have great confidence in Selvi and everyone here at  
2 FTB that you will, in fact, get it done.

3 And so I look forward to the next updates and I  
4 think the marketing is going to be huge. And I think we  
5 all share the goal of figuring out every possible way in  
6 getting the information out to folks who are eligible.

7 So thank you again.

8 MS. FALLON: Thank you.

9 CHAIRPERSON YEE: Thank you for really doing the  
10 initial work of just understanding lessons learned from  
11 other states. I think certainly having the benefit of  
12 their experience has gotten us off the ground probably  
13 much more quickly than if we had been the first. So  
14 that's great.

15 And with that, Members, without any further  
16 comments or questions, Michelle? I think you had --

17 MS. FALLON: So at this time, if we are concluded  
18 with EITC, I would like to steal your attention yet  
19 again.

20 As Roger Lackey mentioned in his filing season  
21 update, and as you requested, we wanted to take a moment  
22 now to acknowledge the huge VITA volunteer base we have  
23 at FTB. Many of these volunteers are here today in our  
24 audience and some are watching online from our field  
25 office. We depend on these individuals to help low

1 income and elderly taxpayers file both their federal and  
2 state income tax returns, and also, most importantly, in  
3 my mind, is to claim the EITC as applicable. So we have  
4 them here today for your recognition.

5 CHAIRPERSON YEE: Thank you, Michelle.

6 Well, I would like to have all the volunteers  
7 please stand so that we can properly recognize them.

8 Thank you. (Applause)

9 It really is truly remarkable work that they do  
10 during the tax filing season. And I had an opportunity  
11 to really work in partnership with many of the  
12 volunteers this season. And just the tremendous service  
13 that's provided and the wonderful satisfaction and just  
14 sense of accomplishment by the taxpayers after their  
15 experience at a VITA center is something that defies  
16 description really.

17 And to be able to just hear people leaving the  
18 VITA centers, saying that they understand their -- how  
19 to file taxes better and are able to think about even  
20 doing it themselves the following year. Reaching a lot  
21 of first-time filers. Those that are members of the  
22 military, and we also, I know, did a lot with respect to  
23 outreach and a lot of underserved communities this year  
24 in California, but the work was just truly, truly,  
25 tremendous to help put some extra dollars in the pockets

1 of families who really -- who really need it.

2 I do have certificates for each of the  
3 volunteers, and I believe we have about 40 of the  
4 volunteers here today, and what I would like to do is  
5 just recognize them and Members, if you would, just come  
6 and let's recognize them in groups of ten, and we will  
7 want to acknowledge them by name and the others that are  
8 watching as well.

9 MS. FALLON: That would be lovely. Thank you.

10 So if I could have the first group of volunteers  
11 come up on stage to stand with our board members for a  
12 photograph.

13 With your permission, Board, I would -- I wanted  
14 to know if it was all right, if I have your permission,  
15 to read the names of all of our VITA volunteers while  
16 we're taking photographs so that they can be included in  
17 the formal record.

18 Thank you very much.

19 MS. GRADY: I will get started.

20 These are the volunteers from the Southern  
21 California area, the first one being Concepcion  
22 Anloague-Segui; Alina Boche; Linda Broderic; Cynthia  
23 Brown; Martha Carlos; Maria Castellanos; Margaret Cheng;  
24 Janis Chilakos; JohnPaul Chong; LeeAnne Christensen.

25 MS. FALLON: Can I have the second group come on

1 up then? Thank you, first group.

2 MS. GRADY: Cecilia Conriquez; Ellen DeAngelis;  
3 Jamie Ellis; Gerry Fernando; Delia Guerrero; Winnie  
4 Leong; Jaclyn Ma; Cynthia Malagon; Kyung Marshall; Rena  
5 Mercado; Anthony Miller; Lisa Park; Elizabeth Perales;  
6 Tawney Phan; James Quintana; Lindsey Soltelo; Jennifer  
7 Sun; Annie Vas; Debbie Wiedeman.

8 Thank you.

9 MS. FALLON: Could we have the next group come  
10 up, please.

11 MS. GRADY: Lin Yang; Amanda Abella; Evangelina  
12 Anderson; Mariselda Anderson; Denis Armstrong; Denise  
13 Azimi; Hannah Azimi; Shanti Bablu; Jennifer Barton;  
14 Angela Blais; Theresa Bolus; Ann Briggs; Mark Callahan;  
15 Edward Camargo; Robert Champlin.

16 MS. FALLON: And the next group, please. Come on  
17 up.

18 MS. GRADY: Peggy Chow; Rick Close; Jennifer  
19 Cook; Stephen Cook; Concepcion DeAlba; Nikkea Deary;  
20 Diane Deatherage; Catherine Defazio; Nya Demann;  
21 Narinder Dosanjh; Vaishali Dutta; Mansi Dutta; Sunayana  
22 Dutta; Gloria Escarrega.

23 MS. FALLON: And the final group, please. Come  
24 on up -- second-to-the-last group, come on up. There's  
25 a lot of you.

1 MS. GRADY: John Feenstra; Ernest Feliciano;  
2 Eileen Ferber; Sue Flaherty; Sandra Foster; Eva Gabbe;  
3 Charlie Gifford; Birutawit Girma; Becky Gong; Melinda  
4 Gonzales; Ron Grawey; Katherine Green; Kathi Healy  
5 Stroud.

6 MS. FALLON: Last group, come on up, please.

7 MS. GRADY: Nicki Hill; Charlene Hirst; Fati  
8 Hojjat; Sarah Holguin; Jennifer Holm; Connie Hughes;  
9 Andrey Ivanov; Jack Jimenez; Leander Jones, Jr., Kenneth  
10 Kendell; Janet Kerr; Olesya Kovzelyuk; Brian Kwong; Lynn  
11 Langdon; JennaLynne Laquindanum; Mark Lucas; Mahnaz  
12 Managhebi; Evangeline McMillon; Maria Miranda-Navaroo;  
13 Eric Moreno-Kano'i; Ben Munn; Maria Nolasco; Manuela  
14 Oca; Maria Ochoa; Kristina Olshamovskaya; Pamela  
15 Ouilegh; Luis Pangilinan; Steven Pawlaczyk; Elena Pyrev;  
16 Donna Roberts; Ashlee Robinson; Elizabeth Rodrick; Larry  
17 Rodriguez; Audrey Rowe; Melissa Ruelas; Suiying Saechao;  
18 Jeyamary Sami; Dawna Sampton; Clifton Sams; Andrew  
19 Smith; Debora Torres; Jose Torres; Chai Tung; Shawntae  
20 Tyler; Denote Vang; Kaay Vang; Nicholas Vedder; Heather  
21 Wardell; Yeama Yanguba; Sara Zenovic. (Applause)

22 CHAIRPERSON YEE: Thank you very much for your  
23 presentation. Thank you very much VITA volunteers.

24 Mr. Horton.

25 MEMBER HORTON: Thank you, Madam Chair.

1 Special thanks to all of the volunteers out  
2 there. I started -- I was first certified just a couple  
3 years ago as an intern with the Board of Equalization,  
4 and I was just 18. (Laughter) And so I can really,  
5 really appreciate. I mean, it's a novel concept to use  
6 the compassion of individuals to increase compliance,  
7 and so we've able to do that. But we -- this program is  
8 really, really awesome. I mean, as members, we get the  
9 benefit of your work. I mean, we get the smiles. We  
10 get the hugs. We get the thank you's and so forth. And  
11 we also see the tears when people are just so happy that  
12 they can now pay their rent; you know, they can help  
13 their kids with their college tuition; they can purchase  
14 their medicine and so forth. Sometimes we don't realize  
15 that people who are living below the poverty line really  
16 face some serious challenges.

17 And so whenever they can get in touch with  
18 someone who has the compassion, is willing to give them  
19 a smile, give them some of the most inexpensive things  
20 that we have as individuals, but get still the most  
21 valuable things are our ability to smile and say thank  
22 you.

23 So with that I give you one of the most valuable  
24 gifts that I have, and that is to thank you so very much  
25 from the bottom of my heart for what you do for others.

1 Thank you.

2 CHAIRPERSON YEE: Thank you, Mr. Horton.

3 Very much. Excellent. Thank you.

4 All right. Our next item is Item No. 6. These  
5 are regulation matters. We have three items under this  
6 section, and let me turn it over to the staff. Good  
7 afternoon.

8 MR. MUSANTE: Good afternoon. I am Anthony  
9 Musante. I'm an attorney here at FTB in the legal  
10 department, and I'm here today to request permission to  
11 proceed with the regulatory process to amend California  
12 Code of Regulations, Title 18, section 17000.30,  
13 otherwise known as our Conflict of Interest Code, here  
14 at FTB.

15 As I'm sure you know, the political format to  
16 require state and local government agencies to adopt and  
17 promulgate Conflict of Interest Codes. The Conflict of  
18 Interest Codes delineates which positions at FTB are  
19 considered designated positions. If an employee is in a  
20 designated position, then the employee is required to  
21 file a statement of economic interest. We know it as  
22 form 700, State Form 700. The current regulation was  
23 last amended in 2003.

24 Since that time, some previously designated  
25 positions are no longer utilized at FTB, and some new

1 positions have been added that were not in existence in  
2 2003. Therefore, we need to amend the Conflict of  
3 Interest Code to report which positions -- excuse me, to  
4 report which positions should be designated along with  
5 what their specific reporting requirements should be.

6 Staff believes that these proposed amendments to  
7 the regulation appropriately update the designations and  
8 streamline the various disclosure categories in the  
9 current regulation. We therefore request permission to  
10 continue to work with the Fair Political Practices  
11 Commission, the FPPC, and proceed to the Office of  
12 Administrative Law with the changes.

13 Also, given the uncontroversial nature of the  
14 proposed changes, we do not believe that an interested  
15 parties meeting is necessary.

16 So unless there are any questions or the board  
17 would like to act now, I will just turn it over to my  
18 colleagues with other proposed regs.

19 CHAIRPERSON YEE: Okay. Questions or comments?

20 Mr. Horton.

21 MEMBER HORTON: Madam Chair, I move to proceed  
22 with the formal regulatory process to allow them to  
23 basically ensure that there's governmental  
24 reconciliation with all the other codes.

25 CHAIRPERSON YEE: Very good. So we have a motion

1 by Mr. Horton to proceed to the formal regulatory  
2 process.

3 MEMBER ORTEGA: Second.

4 CHAIRPERSON YEE: Second by Ms. Ortega.

5 Without objection, such will be the board's  
6 order.

7 Thank you. Thank you, Anthony.

8 Okay. Next we will hear from David Muradyan on  
9 the withholding at source regulation.

10 MR. MURADYAN: Good afternoon, Madam Chair and  
11 members of the Board. My name is David Muradyan, and  
12 I'm an attorney with the Franchise Tax Board.

13 I'm here today to request permission to proceed  
14 with the interested parties meeting for proposed  
15 amendments to California Code of Regulations, Title 18,  
16 sections 18662-0 through -6 and section 18662-8, which  
17 are the withholding regulations.

18 As you know, the withholding regulations relate  
19 to withholding on payments, the right from California  
20 sources to nonresident individuals and non-California  
21 business entities, and from the sale or exchange of any  
22 California real estate. The FTB recently revised these  
23 regulations to conform to statutory changes.

24 Since then, staff has received input from the  
25 taxpayer community suggesting the need for various

1 technical changes to the revised regulations, including  
2 changes to terminology into current regulatory language  
3 and to line items on the withholding forms. Upon  
4 approval, staff will schedule an interested parties  
5 meeting to solicit public input, discuss issues relating  
6 to proposed modifications to the regulations, and  
7 develop proposed regulatory languages to address these  
8 issues. Thereafter, staff may request permission to  
9 enter into the formal regulatory process.

10 With that my portion is complete. I would be  
11 happy to entertain any questions the board members may  
12 have.

13 CHAIRPERSON YEE: Okay. Thank you.

14 MEMBER HORTON: Madam Chair?

15 CHAIRPERSON YEE: Yes, Mr. Horton.

16 MEMBER HORTON: Move to proceed with the  
17 interested parties meeting process.

18 MEMBER ORTEGA: Second.

19 CHAIRPERSON YEE: Okay. Motion by Mr. Horton to  
20 proceed with holding the interested parties. Seconded  
21 by Ms. Ortega.

22 Without objection, such will be the Board's  
23 order.

24 Thank you very much.

25 And then finally, our last item under this

1 section is relating to the net operating losses sales  
2 factor, and that presentation is by Laurie McElhatton.

3 MS. MCELHATTON: Good afternoon. I'm Laurie  
4 McElhatton. I'm an attorney here with Franchise Tax  
5 Board.

6 Under Revenue and Taxation Code section 25106.5,  
7 the Franchise Tax Board is allowed to adopt regulations  
8 for apportioning taxpayers. These taxpayers often have  
9 net operating losses that they carry into future years  
10 or that they carry back into earlier years. This then  
11 determines their California taxable income for the year  
12 of application. Net operating losses are governed by  
13 Revenue and Taxation Code sections 17276.20 and  
14 24416.20.

15 Questions have arisen from industry regarding how  
16 to properly calculate these net operating loss  
17 carryforwards and carrybacks when there are different  
18 apportionment rules between the year when the losses are  
19 generated and a year when the losses are being applied  
20 against income.

21 The proposed regulation addressing this issue  
22 would be contained in the combined reporting regulation  
23 at section 25106.5-6, which has been reserved to address  
24 net operating losses.

25 We request permission to proceed with an

1 interested parties meetings to solicit input from the  
2 public to develop procedures and regulatory language for  
3 a regulation that would address this issue.

4 Thank you.

5 CHAIRPERSON YEE: Thank you very much.

6 Questions or comments, Members?

7 MEMBER HORTON: Madam Chair?

8 CHAIRPERSON YEE: Yes, Mr. Horton.

9 MEMBER HORTON: Move approval.

10 CHAIRPERSON YEE: Okay. That's to proceed with  
11 the interested parties meeting?

12 MEMBER HORTON: Yes.

13 (No audible "second.")

14 CHAIRPERSON YEE: Okay. Seconded by Ms. Ortega.

15 Without objection, such will be the Board's  
16 order.

17 Thank you. Thank you very much, Members.

18 Our next item is Item 7, administrative matters.

19 We have Jeanne Harriman who will be presenting proposed  
20 budget change proposals, an informational item, and then  
21 facility action requests, which is an action item.

22 Good afternoon.

23 MS. HARRIMAN: Thank you. Good afternoon. My  
24 name is Jeanne Harriman and with me is Mr. Marco  
25 Esquivel.

1           We are here to present the administrative matters  
2 in Item 7. I will be presenting the information on  
3 FTB's proposed BCPs for '16 and '17 for your  
4 information, with the understanding that we'll be  
5 bringing them back in the September board meeting for  
6 your approval.

7           Mr. Esquivel will be presenting the facility  
8 items for your approval today. Item 7A includes  
9 information on the five proposed BCPs FTB is pursuing to  
10 request additional resources for the fiscal year  
11 2016/17. At this time, many of these proposals do  
12 remain under development, and final position counts and  
13 dollars are not available, as shown on the chart.

14           FTB's first BCP deals with resources needed in  
15 order to support the final year of the EDR project, the  
16 Enterprise Data to Revenue project. Resources requested  
17 will include the final vendor payment approaching  
18 \$40 million. At this time we are also evaluating  
19 resource needs related to audit work and audit modeling,  
20 return and payment processing workload, new workloads  
21 related to returned mail, power of attorney, association  
22 of documents to taxpayers, business process  
23 reengineering, and various workloads associated with the  
24 release of MyFTB.

25           This BCP also includes costs for upgrading some

1 of the cost software and hardware installed in the  
2 earliest years of the project that is now reaching end  
3 of life.

4         The second BCP will be requesting a conversion  
5 of 101 limited term positions to permanent that are  
6 associated with our accounts receivable workload. FTB  
7 has actually had these positions in our budget since  
8 fiscal year 2010/11, as limited term positions, and we  
9 remain of the opinion that these resources are, in  
10 fact, critical to ensuring that we can continue to the  
11 address the accounts receivable.

12         The third BCP addresses a resource augmentation  
13 for our customer service channels -- phone lines,  
14 correspondence, live chat, and message. As you saw  
15 today in an earlier presentation, many of these channels  
16 currently are understaffed and we are not able to get to  
17 the taxpayers' inquiries in a timely manner, if at all.

18         This BCP will be seeking to address that. We do  
19 consider customer service to be a key component of our  
20 daily work and help taxpayers file timely and accurately  
21 as well as pay their liabilities.

22         The fourth BCP requests funding for the refresh  
23 of our network infrastructure. This infrastructure is  
24 reaching end of life as well as being limited in  
25 capacity and unable to meet our workload growth pattern

1 we are anticipating for the future.

2           The final BCP will focus on requesting additional  
3 audit staff and investigative staff to address various  
4 audit workloads and enhance FTB's ability to address the  
5 underground economy. Many of you are familiar that in  
6 recent months, the Little Hoover Commission published a  
7 report on the underground economy, finding that the  
8 underground economy is growing and thriving in part  
9 because of insufficient resources to address the  
10 underground economy. This is FTB's way to attempt to  
11 mitigate some of that growth.

12           At this time I'm happy to answer any questions  
13 you have.

14           CHAIRPERSON YEE: Thank you, Jeanne.

15           Any questions, Members? Comments?

16           Great.

17           MEMBER HORTON: Madam Chair?

18           CHAIRPERSON YEE: Mr. Horton.

19           MEMBER HORTON: Move approval of the proposal 1,  
20 2, 3, 4, and 5.

21           I commend the organization for working on the  
22 underground economy, a very important work on the part  
23 of the state of California. It's estimated somewhere  
24 around \$9 billion in taxes goes uncollected on an annual  
25 basis. These are criminals that are competing illegally

1 with legitimate operators who are providing jobs  
2 throughout the state of California.

3           The only thing -- I would encourage a  
4 collaboration between all of the agencies as we -- as in  
5 seeking out revenue for this effort, that it is a  
6 collaborative effort where the AG's office and all the  
7 other agencies that are involved in this process are  
8 kind of working together and figuring out exactly what  
9 resources are needed to focus in on dealing with those  
10 issues.

11           It's a long way of saying, move approval of the  
12 proposal that's before us.

13           CHAIRPERSON YEE: Mr. Horton, I believe these are  
14 here as informational today, as they are still going to  
15 be fully developed and brought back to us.

16           MEMBER HORTON: Oh, okay.

17           CHAIRPERSON YEE: But I appreciate the input.

18           There is a lot of good work being done across all  
19 of state government with respect to the underground  
20 economy. So to the extent we can really maximize our  
21 efforts by collaborating, that would be --

22           MS. HARRIMAN: Yeah. And I am happy to say that  
23 we are actually working currently with both EDD and B of  
24 E to address the various resources within our own  
25 departments, and then, eventually, in the very near

1 future, we'll be bringing in some of the other  
2 participants in the task force to kind of get an idea of  
3 their intentions to tackle the underground economy.

4 CHAIRPERSON YEE: Excellent.

5 MS. HARRIMAN: So great suggestion. Thank you.

6 CHAIRPERSON YEE: Thank you, Ms. Harriman.

7 Other questions or comments, Members?

8 Okay. So we'll see those back when they are  
9 fully developed.

10 Our next items are the facility action requests.  
11 And those are before us, for action.

12 MR. ESQUIVEL: Good afternoon. I am bringing you  
13 two board items for approval. The first item is a request  
14 for blanket delegation to submit DGS CRUISE requests for  
15 minor electrical work at FTB campuses. This is more of  
16 a process change where we would bring minor electrical  
17 needs to DGS to help Franchise Tax Board with electrical  
18 needs here on our campuses. DGS has requested that we  
19 formalize a request and submit a CRUISE request to the  
20 board. These requests amount to about 20 items that  
21 equate to about \$60,000. So we are moving forward with  
22 this request to have that blanket approval.

23 CHAIRPERSON YEE: Okay.

24 MR. ESQUIVEL: The second item is board approval  
25 to request DGS architectural design and engineering

1 services and fee proposal to develop a plan to modernize  
2 FTB's mail operations center. This is for DGS to look  
3 at our mail operations and redesign our mailroom to  
4 provide more efficiency for our power and for use of our  
5 equipment. We're looking into the future to bring in  
6 new equipment, so we're looking at DGS to provide us  
7 electrical design.

8 So those are the two items that we seek your  
9 approval on.

10 CHAIRPERSON YEE: Okay. Questions or comments,  
11 Members?

12 MEMBER HORTON: Madam Chair?

13 CHAIRPERSON YEE: Yes, Mr. Horton.

14 MEMBER HORTON: Move approval.

15 CHAIRPERSON YEE: Okay.

16 (No audible "second.")

17 CHAIRPERSON YEE: Motion by Mr. Horton; seconded  
18 by Ms. Ortega.

19 Without objection, such will be the Board's  
20 order.

21 Thank you.

22 Our next item is Item No. 7, and that's the  
23 Executive Officer's Time. Ms. Stanislaus.

24 EXECUTIVE OFFICER STANISLAUS: Thank you,  
25 Honorable Chairwoman and Honorable Board Members.

1           During my time, I've asked Anne Miller, chief of  
2 Filing Division, to come and give an update on the  
3 interest computations. But before she starts on the  
4 update, I want to make the public announcement that Anne  
5 will be retiring after 30-odd years. Great service to  
6 FTB. She will be retiring in September, and this may be  
7 the last board meeting that she will be presenting an  
8 item to the board members.

9           So with that said, Anne.

10           MS. MILLER: Thank you so much, Selvi. No need  
11 to do anything different because it might be my last  
12 time here. (Laughter) Good afternoon, Chair Yee, Board  
13 Members. I am Anne Miller, chief of the FTB's Filing  
14 Division, and I will be providing you an update on the  
15 department's efforts to make interest computation  
16 adjustments.

17           As you may recall, on April 8th of this year, we  
18 received direction from our State Controller and Chair  
19 Yee. And as a result of that direction, FTB began  
20 reviewing interest computations in certain circumstances  
21 involving the May Department Stores decision as well as  
22 corporate interest netting as a result of an IRS revenue  
23 procedure. These two interest calculations may impact a  
24 limited number of individuals and business entities that  
25 meet a set of specific and rare criteria. The criteria

1 are centered primarily around overpayments being  
2 transferred or refunded from one particular tax year,  
3 followed by an additional tax assessment on that same  
4 tax year. As a result, our systems may have overcharged  
5 interest.

6 FTB has formed a team to examine this issue. The  
7 team has determined the potential universe of impacted,  
8 in-statute accounts or taxpayers. And we have an  
9 estimate of that universe.

10 For personal income taxpayers, under the May  
11 department store computation, the estimated potential  
12 universe of impacted taxpayers is approximately 24,000,  
13 with a maximum account periods of 25,000, meaning that  
14 some taxpayers may have more than one tax year impacted.

15 For business entities under the May Department  
16 Store decision, approximately 2,000 taxpayers are  
17 impacted and for businesses entities under the corporate  
18 interest netting issue, approximately 1,000 taxpayers  
19 may be impacted. So that's a total of approximately  
20 27,000 taxpayers.

21 Staff is working to determine the approximate  
22 fiscal impact for each of these three groups. This  
23 includes identifying a semi-automated method that will  
24 allow staff to perform the necessary interest  
25 adjustments.

1           In order to better serve taxpayers who may  
2 qualify for the interest computation adjustments, we  
3 have trained our staff to proactively identify cases  
4 that meet this criteria as well as put procedures in  
5 place to ensure that cases that do meet the criteria are  
6 proactively -- they proactively receive proper  
7 treatment.

8           Public contacts on these adjustments have been  
9 limited. We've received three written requests for  
10 interest adjustments as well as a few visits to our  
11 Website, but our contact center has not reported any  
12 phone calls on this issue.

13           So our next steps are to determine the fiscal  
14 impact. And I wanted to report to the board to due to  
15 the complexity of the calculation, it's been quite a  
16 challenge for us to determine the fiscal impacts.

17           We estimate that if work was to be done manually  
18 on each of these individual accounts, it could take  
19 three hours per account. We have enlisted the help of  
20 our experts in the research and economics -- in the  
21 Economics and Statistical Research Bureau, to help us  
22 with these calculations, because they are so complex,  
23 and we do hope to have the fiscal impacts completed to  
24 report back to the board in September.

25           Another step that we really need to continue on

1 is to determine if the interest calculations of this  
2 type can be done in an automated fashion or whether or  
3 not we'll have to pursue manual calculations. And based  
4 on our success of determining the fiscal impact as well  
5 as if it's an automated or manual solution, then we will  
6 know what resources are needed in order to make all  
7 these adjustments.

8 So that concludes my update, and I'm happy to  
9 answer any questions you might have.

10 CHAIRPERSON YEE: Thank you, Anne. And thank you  
11 for really responding to the request with such a strong  
12 focus on just initially identifying the universe, which  
13 I know was quite complex, and now to try to put a fiscal  
14 impact around what's been identified. We look forward  
15 to getting that information in September.

16 Questions or comments, Members?

17 MEMBER HORTON: No. I just want to thank --  
18 Madam Chair?

19 CHAIRPERSON YEE: Yes, please, Mr. Horton.

20 MEMBER HORTON: I want to thank the department  
21 for being proactive on this and engaging. It's very  
22 important. As always we've stepped up and have done so.  
23 But I also want to commend Anne for her 30 years of  
24 leadership. I don't want to pass that opportunity up.

25 The only question I have actually is of Selvi --

1 I mean, Ms. Stanislaus. Thirty -- what is "odd" years?

2 EXECUTIVE OFFICER STANISLAUS: Well, 35 years,  
3 Anne? How many years?

4 MEMBER HORTON: No, I'm just kidding. You don't  
5 have to disclose it.

6 MS. MILLER: It's too many to count.

7 MEMBER HORTON: No. But I mean, when we were  
8 going over our code of conduct and values system, core  
9 values system, you embody all of those things. Your  
10 leadership has inspired a number of people to step up  
11 and to do the best that they can possibly do and to be  
12 the best person they can be. So thank you.

13 MS. MILLER: Thank you very much.

14 CHAIRPERSON YEE: Thank you, Mr. Horton.

15 (Applause)

16 Anne, I just want to say that throughout her time  
17 with the Franchise Tax Board, I just -- I don't know of  
18 anybody who really has contributed more to just  
19 improving the taxpayer experience with this  
20 organization. And just your continued focus on how to  
21 make that the most pleasant. And we do get high marks  
22 for that. And a lot of that is attributable to your  
23 insight and leadership. Thank you very much.

24 MS. MILLER: Thank you, Betty.

25 CHAIRPERSON YEE: Thank you.

1           Okay. Our next item is the Board Members' Time.  
2 Board members, any comments or questions?

3           Okay. A couple things I just wanted to speak  
4 about. One is, I really appreciate and really got a  
5 sense of the benefits of the Enterprise Data to Revenue  
6 system. And I had a call from a personal friend of mine  
7 during tax filing season and she was the victim of tax  
8 fraud. And the Franchise Tax Board placed a call to her  
9 before she had filed her return and to verify whether  
10 the returns that had been received were, in fact, hers  
11 and they were not. And so I just was so appreciative of  
12 learning about that.

13           I know that we have approaches every now and  
14 then, and sometimes quite frequently, from vendors who  
15 want to sell us various products to detect such things,  
16 and to know that our own system is doing that very  
17 diligently, I was just very, very heartened to have  
18 learned about that.

19           So thank you to the EDR team for making sure that  
20 that capability was built in.

21           I also have the great pleasure of presenting a  
22 board resolution for another wonderful contributor to  
23 this organization to the people and the state of  
24 California. And that's to Ms. Sandee Lee, who is  
25 retiring. (Applause)

1           So I'm just going to read a few things about her,  
2 because these are the great talents of the State of  
3 California who have spent their dedicated careers just  
4 making improvements to how the public interfaces with  
5 state government. And for those of us who have been  
6 working in this arena for a long time, we know about EFT  
7 but this is the queen of EFT. (Laughter)

8           So Sandee began her career with the Board of  
9 Equalization in 1983, the year of My Little Pony and  
10 Cabbage Patch Kids, the must-have Christmas toys. And  
11 all of us know her as a doer. She led the first  
12 BOE/EDD/FTB effort to implement California's foray into  
13 electronic fund transfers, and, who, in 1998, saw the  
14 light and transferred to FTB as fiscal officer, where  
15 Jerry Goldberg firmly instructed her, "Our financial  
16 statements shall never include extraordinary issues or  
17 errors." And she responded by dutifully producing many  
18 lackluster but award-winning financial statements;

19           And whereas, Sandy thought she spun the wheel of  
20 fortunate but wound up spinning FTB's first managerial  
21 rotation, where she twirled away from the familiar realm  
22 of numbers and spreadsheets to the foreign land of  
23 collections and its many confounding acronyms like EWOT  
24 and OTW, ultimately discovering it really "CARES" about  
25 taxpayers while remaining "FIRM" in reducing our

1 accounts receivable;

2           Whereas, Sandee is also a -- is it "Dewar"? I'm  
3 not familiar with this one. As in Dewar's ice cream and  
4 candy shop, world-renowned soda fountain located in her  
5 hometown of Bakersfield, California, where after each  
6 trip home to visit with family, she always brought back  
7 boxes of those famous chocolates and taffy to share;

8           And whereas, Sandee is a self-proclaimed "turtle  
9 whisperer," owner of a legally tagged desert tortoise.

10           How cool is that?

11           (Laughter.)

12           CHAIRPERSON YEE: Now embarks on the most  
13 important phase of her career, where, not traveling slow  
14 like Donatella the tortoise, but quick like a fox, she  
15 will explore locales ranging from the California wine  
16 country to far away China. She will still find herself  
17 magically drawn, like salmon returning to the river  
18 where they were hatched, to that Central Valley gateway  
19 of excitement, Bakersfield.

20           (Laughter.)

21           CHAIRPERSON YEE: So therefore, let it be  
22 resolved that on this Twenty-First Day of July, Two  
23 Thousand Fifteen, by the Franchise Tax Board, we most  
24 sincerely recognize and thank Ms. Sandee Lee, on the  
25 occasion of her retirement, for her professional and

1 personal dedication to the Franchise Tax Board, and,  
2 most importantly, to the people of the state of  
3 California.

4 Thank you and congratulations. (Applause)

5 MS. MILLER: I just came back from Bakersfield  
6 the other day.

7 Just a few short words.

8 Madam Yee, Board Member Ortega, and Board Member  
9 Horton, I would like to express my gratitude and thank  
10 you for presenting this board resolution to me today. I  
11 appreciated the opportunity to serve the board to have  
12 worked closely with the state controllers and the  
13 Department of Finance over the course of my career, all  
14 those financial statements. And having begun my career  
15 with the Board of Equalization, it still holds a special  
16 place in my heart, my first state revenue agency.

17 Thank you, Board Members and Executive Officer  
18 Selvi Stanislaus, for your leadership and support in  
19 helping FTB to be successful in collecting the revenue  
20 that funds the many programs provided to the citizens of  
21 California. I'm proud to have been a part of this  
22 department -- its values, its culture, its many  
23 accomplishments.

24 It's been an honor and pleasure to serve the  
25 Franchise Tax Board and the state of California for

1 these over-32 years. Thank you. (Applause)

2 CHAIRPERSON YEE: Thank you very much.

3 Comments, Members?

4 MEMBER HORTON: Thank you as well. We truly  
5 appreciate -- it's good to know you started at the Board  
6 of Equalization. Thank you so very much.

7 CHAIRPERSON YEE: Thank you. (Applause)

8 At this time, the board is going into closed  
9 session to discuss pending litigation, and, audience,  
10 you may remain seated while the board members exit.

11 Thank you.

12 (The Board met in closed session  
13 from 2:27 p.m. to 2:41 p.m.)

14 MANDEL: We are back in session.

15 The board met in closed session and discussed  
16 pending litigation. And without any further business  
17 before us, we are adjourned.

18 Thank you.

19 (Proceedings concluded at  
20 2:42 p.m.)

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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