

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 08/16)

Fiscal Year 2017-18	Business Unit 7730	Department Franchise Tax Board	Priority No. 1
Budget Request Name 7730-001-BCP-2017-GB		Program 6280	Subprogram 6280010/6280019

Budget Request Description  
 PBX Replacement Project

**Budget Request Summary**

The Franchise Tax Board (FTB) requests an augmentation of \$3.1 million General Fund and \$132,000 Special Funds in 2017-18, \$4.5 million General Fund and \$193,000 Special Funds in 2018-19 and \$242,000 General Fund and \$10,000 Special Funds in 2019-20. The requested funding is for the replacement of the Pointspan Time Division Multiplexed (TDM) Private Branch Exchange (PBX) telephone system, which reaches end of life (EOL) March 31, 2018.

The TDM PBX system is the main telecommunications backbone for the FTB's central office in Sacramento, CA. A failure after EOL would severely affect both internal and external customers. If the system is not replaced, FTB runs the risk of a catastrophic failure with its telecommunications infrastructure, which could prevent FTB from providing necessary and critical service to the taxpayers of the State of California.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. N/A      Project Approval Document: S1BA      Approval Date: N/A

If proposal affects another department, does other department concur with proposal?  Yes  No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By <b>Pending Board Approval</b>	Date	Reviewed By <b>Pending Board Approval</b>	Date
Department Director	Legislator	Legislator Secretary	Date

**Department of Finance Use Only**

Additional Review:  Capital Outlay  ITCU  FSCU  OSAE  CALSTARS  Dept. of Technology

BCP Type:  Policy  Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
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## Analysis of Problem

### A. Budget Request Summary

The telecommunications system currently used at the Franchise Tax Board's (FTB's) central office is the Pointspan Time Division Multiplexed (TDM) Private Branch Exchange (PBX) system manufactured by Mitel. It will reach end of life (EOL) March 31, 2018. In response to this EOL notice, FTB needs to replace its system and requests a funding augmentation for the following fiscal years (FY):

- FY 2017-18: \$3.1 million General Fund and \$132,000 Special Funds
- FY 2018-19: \$4.5 million General Fund and \$193,000 Special Funds
- FY 2019-20: \$242,000 General Fund and \$10,000 Special Funds

In addition to its use for in-house communications between employees, FTB's telecommunications system is also integrated with the Contact Center Platform and serves as a vital tool in enabling our customers to obtain answers to their tax questions either through live conversation with a contact center agent or through the Integrated Voice Response (IVR) system.

A failure after EOL would severely affect both internal and external customers. If the system is not replaced, the FTB runs the risk of a catastrophic failure with its telecommunications infrastructure, which could prevent FTB from performing its duty of serving the taxpayers of the State of California.

### B. Background/History

FTB's current telecommunications system was installed in 1995 and is the main telecommunications backbone for FTB's central office in Sacramento, CA. The telecommunication needs of FTB's 13 Field Offices (both in and out of California) are currently met through contracts with local phone carriers and are not presently part of the main telecommunication system used at FTB's central office.

The FTB currently has approximately 15,000 phone lines. These phone lines are primarily used as public lines, conference room phones, staff phones (single and multi-line), parking lot emergency contact call boxes, common area phones, facsimiles and modem lines. The phone lines are also used to assist FTB's contact center with routing incoming taxpayer calls to agents for tax balance resolutions. By supporting the phone lines, the PBX system makes it possible to:

- Resolve taxpayer's general tax questions and tax balances either through the IVR self-service system or personal assistance from contact center agents.
- Communicate with internal and external stakeholders, such as central and field office staff, the IRS, vendors, state agencies, law enforcement and other business partners.
- Answer approximately 16 million phone calls per year.
- Meet customer call volume demands during peak filing season (February-May).

If the current system is not replaced, the FTB will eventually have a catastrophic failure with its telecommunications infrastructure. If such a failure occurs, FTB would be unable to adequately meet the needs described above, which could result in the following impacts:

- Staff downtime and increased workloads and backlogs.
- Loss of accountability and public trust, impacting FTB's standing as a government leader in tax administration.
- Negative impact on FTB's contribution to California's General Fund. Currently, FTB's revenue accounts for approximately 76% of the General Fund.

The FTB's existing TDM PBX system will reach EOL on March 31, 2018 and the vendor is retiring the technology. Therefore, FTB must begin implementing a new telecommunications system. At the same time the vendor will no longer be obligated to provide support and fix any system or hardware issues

## Analysis of Problem

that arise. The FTB is currently in negotiations with Mitel to ensure that support services will continue, without lapses, until the end of the project.

The Network Engineering Services Section, within the Infrastructure Service Bureau (ISB), is responsible for installation and management of the new telecommunications system. The table below provides ISB's expenditures resource history.

**Resource History**  
(Dollars in thousands)

<b>Program Budget</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Authorized Expenditures	16,415	14,004	13,723	14,183	14,886
Actual Expenditures	13,671	13,067	13,571	13,594	14,666

### C. State Level Considerations

The TDM PBX equipment installed in 1995 is nearing its EOL and the FTB is currently negotiating with Mitel to solidify terms that will provide services until the end of the PBX Replacement project. If the TDM PBX system is not replaced prior to a system failure, then FTB's ability to address taxpayer issues effectively and expeditiously will be in jeopardy.

Moreover, the existing TDM PBX system does not allow for the seamless integration of newer technologies that have become available in recent years. These system incompatibility issues make it difficult for the FTB to integrate newer technologies with older legacy equipment and could lead to increased staff downtimes and higher maintenance and new system implementation costs.

This proposal supports the FTB's Strategic Plan **Goal #1: Taxpayer Centric Service** that states, "We will enhance services that we provide to help taxpayers fulfill their tax obligations." Understanding the needs of taxpayers and their representatives, FTB offers various high-quality, simple, and easy-to-use services. The PBX system is one primary tool that allows FTB to provide services when taxpayers call. It supports voluntary compliance, which contributes to most of California's revenue.

This proposal also aligns with **Goal #4: Operational Excellence** that states, "We will build an operational infrastructure in order to continuously provide excellent and cost effective products and services to our customers." As innovation occurs and best practices in tax and business administration evolve, the FTB embraces changes and enhancements to its operational infrastructure in a creative and responsible manner. Essentially, the need to replace the existing TDM PBX telecommunications system due to EOL issues, results in upgraded telecommunications technology.

### D. Justification

The FTB is working with Mitel to ensure continued service on the current TDM PBX system after EOL. This system is the backbone to FTB's phone system, which is a primary form of communications. This proposal is needed in order to continue the vital services the public expects.

This proposed solution will replace the current TDM PBX system with the purchase and deployment of a Voice over Internet Protocol (VoIP) platform within the FTB's central and field offices. It will provide FTB with the following:

- Greater control over the system – resolving system issues, implementing updates and maintaining security.
- Enhanced customization – applications, system specifications and configuration details can be tailored to FTB's exact needs, which is not readily available on FTB's current system.
- Enhanced call quality.
- Integration with FTB's current infrastructure, which will ensure the department maintains a high level of security.

## Analysis of Problem

The FTB is requesting funding to purchase, install and implement a VoIP platform. In order to meet the EOL date described above, funding approval is needed for 2017-18, 2018-19, and 2019-20.

### E. Outcomes and Accountability

The FTB's mission is to help taxpayers file accurate and timely tax returns and pay the proper amount owed. The FTB must be able to communicate with taxpayers to allow them to meet their obligations. Thus, FTB seeks to replace its existing TDM PBX telecommunication system.

The PBX replacement project will implement the following by December 30, 2019:

- Complete testing and installation of a new centrally located and managed scalable telecommunications system with the capacity/number of lines and same level of service currently being provided to FTB's internal (central and field offices) and external stakeholders (taxpayers, representatives, vendors, law enforcement, and other State/Federal governmental entities) by the existing TDM PBX system.
- The migration of FTB's 13 field offices onto the new VoIP platform, allowing them to receive their telecom services via the new centrally located and managed scalable telecommunications system.

This BCP is supported by the S1BA Reporting Exemption approved by the Department of Technology on January 8, 2016. Per SAM 4819.32, the "acquisition of telecommunications equipment" is excluded from IT Project submission and approval requirements. The reporting exemption gives the FTB project delegation and FTB's Executive management determined that the project would move forward and would be documented with an internal FSR.

### F. Analysis of All Feasible Alternatives

**Alternative #1: Provide \$3.1 million General Fund and \$132,000 Special Funds in 2017-18, \$4.5 million General Fund and \$193,000 Special Funds in 2018-19 and \$242,000 General Fund and \$10,000 Special Funds in 2019-20 for the replacement of the Pointspan TDM PBX system.**

The FTB's current TDM PBX system will reach EOL March 31, 2018. After which time, if the system were to break down or need parts, Mitel may not fix or replace the product. The TDM PBX system is considered outdated technology and is no longer available on the market. FTB is requesting funding to implement a VoIP platform, which is now considered the industry standard for phone systems.

**Alternative #2: Finance the costs of the PBX Replacement Project over three years using an interest rate of approximately 3.7% (\$1.9 million General Fund and \$80,000 Special Funds in 2017-18; \$3.0 million General Fund and \$127,000 Special Funds in 2018-19; \$2.1 million General Fund and \$90,000 Special Funds in 2019-20; and \$1.2 million General Fund and \$52,000 Special Funds in 2020-21).**

This will allow the FTB to spread the costs for the PBX Replacement Project over multiple years. The initial costs would be lower, however, the total amount paid would be more. The FTB estimates that financing the replacement over three years would cost approximately \$322,000 more.

**Alternative #3: Finance the costs of the PBX Replacement Project over five years using an interest rate of approximately 3.7% (\$1.6 million General Fund and \$69,000 Special Funds in 2017-18, \$2.3 million General Fund and \$96,000 Special Funds in 2018-19, \$1.4 million General Fund and \$60,000 Special Funds in 2019-20, \$1.2 million General Fund and \$50,000 Special Funds in 2020-21 thru 2021-2022, and; \$752,000 General Fund and \$32,000 Special Funds in 2022-23).**

Again, the initial costs for financing would be lower, however, the total amount paid would be more. Spreading the costs over five years would cost approximately \$537,369 more.

## Analysis of Problem

### **Alternative #4: Do not approve the request.**

By denying the request to replace the existing TDM PBX telephone system, the FTB will encounter significant difficulties, security concerns and the inability to recover from a partial or full hardware failure. The FTB must be available to internal and external customers through critical contact centers. An outage or system issue could lead to detrimental delays that result in public frustration, a decrease in revenue and loss of faith in FTB's customer service functions.

## **G. Implementation Plan**

### **2017-18**

- July 1, 2017: Funding approved
- October 2, 2017 – December 29, 2017: Install new system hardware/infrastructure
- January 8, 2018 – March 30, 2018: System configuration
- April 2, 2018 – May 10, 2018: Test, train, and accept new system
- May 11, 2018 – System acceptance

### **2018-19**

- July 1, 2018 – June 30, 2019: Migration onto VoIP Platform and deployment of phones to all central and field office employees.

### **2019-20**

- July 1, 2019 – December 30, 2019: Project completion – Decommission of the legacy TDM PBX

## **H. Supplemental Information**

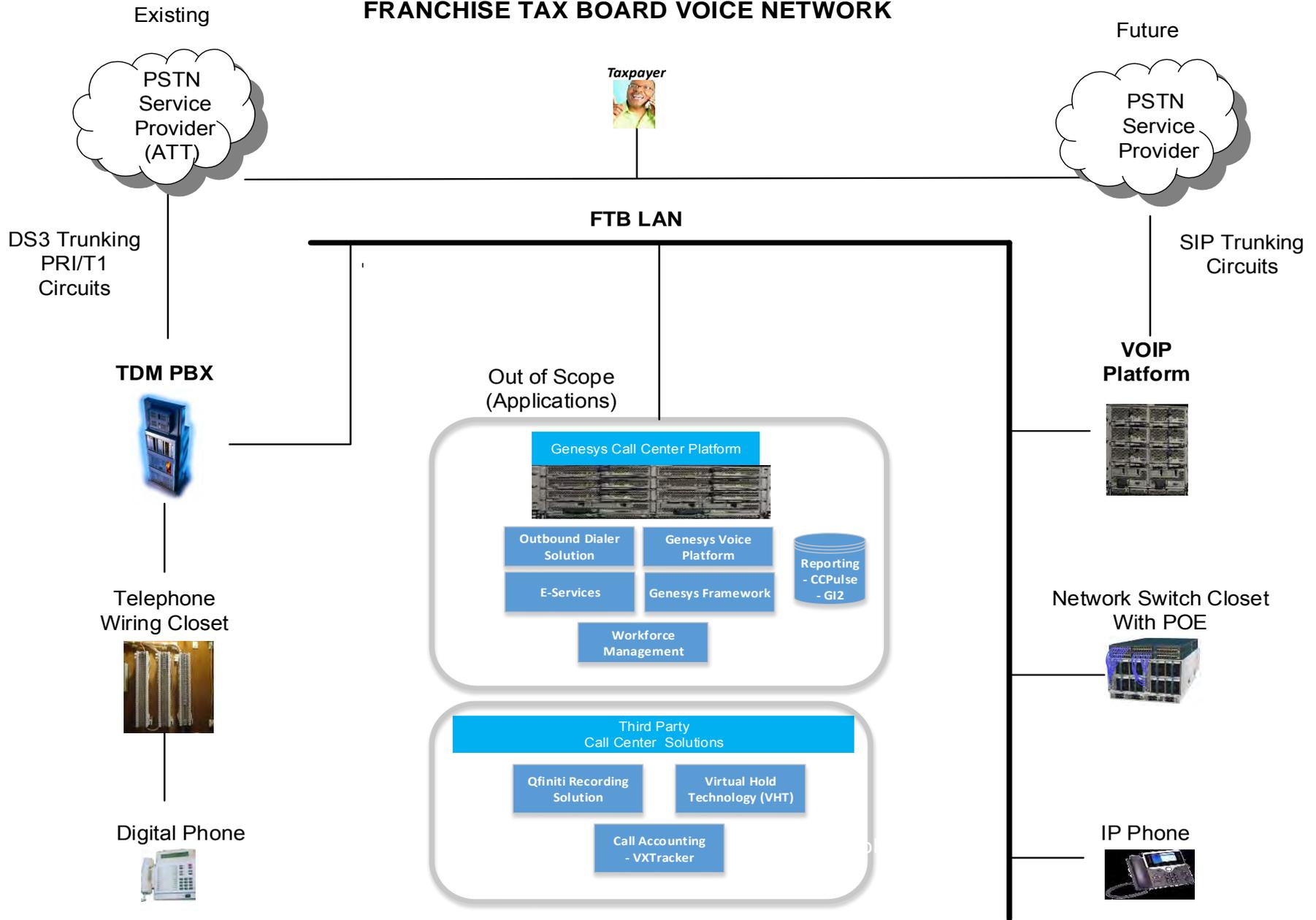
None

## **I. Recommendation**

Alternative #1 is recommended. March 31, 2018, the FTB's current telecommunications system, the Pointspan TDM PBX system, will reach EOL. This system is the backbone of the telecommunications system and is used for both internal and external communications. Replacing the telephone system with a VoIP platform, will allow the FTB to continue communications with customers, provide services to governing authorities and taxpayers that result in collection of revenue and compliance with state tax laws. The new system will seamlessly integrate new technology with legacy systems, avoiding work stoppages and increased workloads and backlogs. This will also allow customers to continue to trust FTB and maintain the department's reputation as being a leader in tax administration.

# Attachment 1

## FRANCHISE TAX BOARD VOICE NETWORK



STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 08/16)

Fiscal Year 2017-18	Business Unit 7730	Department Franchise Tax Board	Priority No. 2
Budget Request Name 7730-002-BCP-2017-GB		Program <b>6295</b>	Subprogram

Budget Request Description  
 Court Ordered Debt Collection Workload

**Budget Request Summary**

The Franchise Tax Board (FTB) requests 3 year limited term funding (additional spending authority) equivalent to 11 positions and conversion of 7 temporary help positions to permanent and \$1.1 million in Court Collection Account Funding for the Court Ordered Debt (COD) Program. The resources are necessary to continue to provide collection services and eliminate the backlog of accounts. Revenue generated from this proposal is estimated to be approximately \$3.8 million in 2017-18 and \$9.4 million in 2018-19.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.                      Project Approval Document:                      Approval Date:

If proposal affects another department, does other department concur with proposal?       Yes       No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By Department Director	Date	Reviewed By Agency Secretary	Date
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**Pending Board Approval**


## Analysis of Problem

### A. Budget Request Summary

The Franchise Tax Board (FTB) requests 3 year limited term funding (additional spending authority) equivalent to 11 positions and conversion of 7 temporary help positions to permanent and \$1.1 million in Court Collection Account Funding for the Court Ordered Debt (COD) Program. The resources are necessary to continue to provide collection services and eliminate the backlog of accounts. Revenue generated from this proposal is estimated to be approximately \$3.8 million in 2017-18 and \$9.4 million in 2018-19.

Program staff's primary responsibilities include collaborating with the courts and counties to ensure due process requirements are met, working with financial institutions or employers responding to our requests to withhold funds, responding to debtors who received a billing notice or collection actions and collecting the correct amount of outstanding debt.

Without an increase in position authority and funding, FTB-COD's ability to collect court and county revenue, timely and efficiently, will be negatively impacted. The current staffing levels are unable to eliminate the backlog and manage incoming caseloads.

### B. Background/History

Pursuant to the Revenue and Taxation Code (R&TC) Section 19280 and the approval of legislation, the FTB-COD program was established in 1994 as a pilot program. FTB-COD collects the following types of debt for clients who volunteer to participate in the program; court fines and fees, court-appointed counsel costs, vehicle code violations, civil assessments, probation, and victim restitution fines and orders. These clients include Superior Courts, Probation Department and Revenue Recovery Agencies.

With the success of the program, the Governor signed SB 246 (Chapter 380, Statutes of 2004) making COD a permanent program. This legislation amended the R&TC Sections 19280 and 19283 and expanded the current program to include counties and courts statewide. The program client base has grown from 66 to 80 clients (21% growth) since 2010-11. This is a natural growth pattern averaging 2-3 new clients per year.

The debts submitted to the FTB-COD program must be 90 days delinquent with an aggregate balance of \$100 or more. With FTB having the administrative authority to issue bank levies and wage garnishments the FTB-COD is able to resolve difficult collection accounts effectively. The revenue collected from the FTB-COD program supports numerous county and state funds, i.e., County Special Account, County General Fund, State Restitution Fund, California Victim Compensation Board (CalVCB) as well as the State General Fund.

The FTB-COD bills its clients for the operating costs of the program not to exceed 15 percent of the amount collected or actual cost, whichever is less. There is no General Fund cost to administer the FTB-COD program or cost to the taxpayers of California. With the deployment of the Court Ordered Debt Expansion (CODE) in 2009-10, the administrative program costs have been less than 15 percent and the FTB-COD program has been able to refund the difference in the fee and the actual costs back to the courts and counties. This reimbursement is the Court Collection Account (CCA) Reimbursement Program. The CCA Reimbursement Program reduces the net administration fee without the risk of costs exceeding the program's budget. The actual operating costs have ranged from 9-12% the last five fiscal years. The growth in clients, caseload demand and the attrition of temporary staff has made it very difficult for the FTB-COD program to prevent the growth in backlog and inventory.

In 2013-14, FTB-COD leveraged the COD budget surplus to hire temporary help resources to address the growing demand in collection activities. These staff provide a short-term solution for a long-term problem. The temporary help staff on an average stays within the FTB-COD program for about 12 months. The current attrition rate is approximately 75%. The FTB-COD training period is six weeks, however it takes staff approximately 6 months to become proficient, therefore staff is available a total of 6 months out of 12

## Analysis of Problem

months they are in the program. This continuous attrition makes it very difficult to maintain the job knowledge within the program.

In the last 3 years, FTB-COD has begun utilizing new collection tools and data which has led to ongoing program enhancements. As a result of these new tools and data, beginning in 2013/14 and continuing in 2014/15, FTB was able to identify additional asset sources that could be pursued for collection to pay off debts owed to the Courts et al. Upon implementation and use of the new tools, FTB-COD hired temporary staff to assist with the new workloads levels. These temporary staff have allowed FTB-COD to effectively manage the new level of ongoing work associated with the new tools, however, FTB –COD does not have sufficient staffing levels to address the one time influx of work and to date, FTB-COD has not been able to work these backlog levels down. FTB has attempted to mitigate the risks of these backlogs by working cases on a first in, first out basis but the backlogs remain undiminished and are aging. Without addressing the backlogs, FTB may not be able to timely collect the debts on behalf of the courts et al. In general, FTB retains the debtor file for 12 to 24 months before the debtor file is returned to the courts as uncollectible. In addition, a critical principle of debt collection is to work with the debtor as soon as possible to collect debts owed to minimize costs to the debtor and creditor. Carrying a backlog jeopardizes FTB's ability to timely resolve these accounts and collect monies owed to the courts et al.

### Resource History (Dollars in thousands)

Program Budget	2011-12	2012-13	2013-14	2014-15	2015-16
Authorized Expenditures	\$2,375	\$2,700	\$2,642	\$2,755	\$2,942
Actual Expenditures	\$2,231	\$2,465	\$2,893	\$3,321	\$3,457
Revenues	\$90,014	\$92,800	\$79,896	\$103,356	\$102,785
Authorized Positions	39	40	40	40	40
Filled Positions	33	37	37	37	38
Vacancies	6	3	3	3	2

See Attachment A for Workload History.

### C. State Level Considerations

Providing the funds requested in this BCP will allow FTB-COD to manage the inventory timely thus preventing the continuing growth in the backlog of accounts. Failure to process cases timely jeopardizes effective collections and revenue to the courts and counties.

This proposal supports FTB's mission to responsibly manage the resources allocated to the department. In addition, it supports FTB's Strategic Plan Goal #2 of Effective Enforcement strengthening partnerships with other government departments to share data, expertise, and tools for the tax and nontax programs mandated.

### D. Justification

This request will allow FTB-COD to continue providing collection services to the existing 80 clients. In turn, it will enable FTB-COD to continue to provide significant revenue sources to the courts and counties without delay. The FTB-COD Program has collected more than \$1 billion since inception in 1994. Growing backlogs delay the collection of revenue, and in some instances the revenue is lost as a result of cases being returned to the courts and counties prior to being worked. During 2015-16, FTB-COD collected over \$100 million in revenue on behalf of 80 clients.

## Analysis of Problem

This proposal is needed to sustain the current level of demand for collection services and eliminate the backlog at no cost to the State of California General Fund. Without the approval of this proposal, FTB-COD will be unable to perform effective services and collection options for the court and county clients as requested and expected and collection opportunities will be lost.

### Accounts Receivable Management Division – 17 positions or equivalents

Public Collections, Contracts & Support Section– ; 1 Senior Compliance Rep (three-year limited-term); 6 Tax Technicians (TH to Perm); 7 Tax Technicians (three-year limited-term); 1 Tax Program Technician I (TH to Perm); 2 Tax Program Technician I (three-year limited term)

### **Collection activities (baseline) – 7 Temporary Help to Permanent**

These staff have allowed FTB-COD to effectively manage the new level of ongoing work associated with the new data sources and tools implemented. Collection activities include issuing Levies (Orders to Withhold (OTW) and Earnings Withholding Orders (EWO). These resources allows FTB-COD to timely collect critical monies due to the Courts et al.

### **Backlogs – 3 year limited term funding equivalent to 10 positions**

These staff members will be responsible to assist in the elimination of the backlog. Collection actions (wage garnishments and bank levies) are essential tools used to collect revenue to fund court and county programs. The additional resources are required to reduce the existing backlogs.

### Filing Division – 1 position

Receiving and Data Storage Section – 1 Tax Program Technician I three-year limited-term

The position is needed to process incoming payments and correspondence and perform account look-up duties related to the FTB-COD program. As this workload continues to grow, the need for available staff to perform this work has grown accordingly. The nature of this work does not allow for any payments received to be held or put in a backlog status. Account adjustments must be made and reviewed immediately upon receipt of payment.

## **E. Outcomes and Accountability**

It is the responsibility of FTB to collect court-ordered debt as if it were a tax, per California R&TC Section 19280. The Accounts Receivable Management Division Chief monitors the program to ensure COD is efficiently collecting debts by using quality products and delivering excellent customer service. The tables below identify the projected outcomes.

The FTB-COD Program is the only external collections option for the California Department of Corrections and Rehabilitation (CDCR) and the CalVCB. Prior to the FTB-COD Program, these departments could only collect delinquent fines and restitution from the debtors while they were incarcerated. Once a debtor was released from prison, there was no way to collect restitution for victims of crime. Since these departments joined FTB-COD, the program has been able to collect approximately \$68 million in restitution which otherwise, the victims would never see.

Additionally, FTB-COD's administrative fee is much more cost effective for these departments, as well as the counties, courts, revenue recovery offices and probation departments.

See Attachment A for Projected Outcomes.

## Analysis of Problem

### F. Analysis of All Feasible Alternatives

**Alternative #1: Approve \$1.1 million increase in spending authority and 11 three-year limited-term positions and the conversion of 7 temporary help positions to permanent.**

This option provides the resources necessary to efficiently and effectively administer the FTB-COD program. These resources will sustain the current level of demand for collection services and eliminate the backlog of accounts. The courts et al support this request.

**Alternative #2: Approve \$1.1 million increase in spending authority and 11 permanent positions and conversion of 7 temporary help positions to permanent positions.**

These resources will sustain the current level of demand for collection services, address possible workload growth and eliminate the backlog of accounts.

**Alternative #3: Approve \$226,000 increase in spending authority and the conversion of 7 temporary help positions to permanent positions.**

This option does not provide the resources necessary to eliminate the backlog. This alternative would only address temporary help staff attrition. This cost is the delta of temporary help funding versus permanent position funding.

**Alternative #4: Approve no additional resources.**

This option does not address the current resource issues within the FTB-COD program. The backlog may continue to grow and will not be reduced jeopardizing the timely collection of critical monies due to the courts et al. This option would result in the loss of approximately \$3.8 million in revenue in 2017-18 and \$7.7 million in 2018-19.

### G. Implementation Plan

- June 2017 – All documents to establish permanent positions are prepared and approved by the FTB Budget Officer and forwarded to DOF.
- June 2017 – Department of Finance notifies FTB of position approval.
- July 2017 – Permanent positions are established and FTB begins hiring.

### H. Supplemental Information

Facility Costs – reconfiguring and purchasing additional workstations.

### I. Recommendation

FTB recommends that Alternative #1 be approved. Approval of this alternative allows FTB to eliminate the backlog and allows for the timely collection of critical monies due to the courts et al. Further it recognizes the ongoing nature of the work required by the seven additional permanent staff members and ensures that FTB has adequate resources to fully implement the FTB-COD program.

## COD BCP - Workload History &amp; Projected Outcomes

<b>Workload Measure</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
Total Actions Issued	1,336,782	1,080,303	1,327,119	1,275,447	1,128,427	1,243,664	1,308,246	1,424,963	1,404,635	1,268,581	1,262,440
Pre-Levy Notices*	707,545	556,751	718,250	551,832	445,900	571,994	523,242	533,707	560,392	549,184	582,135
Levies (EWO/OTW)	629,237	523,552	608,869	723,615	682,527	671,670	785,004	891,256	844,242	719,397	680,305
Pending Backlog of Levies	68,253	169,019	240,424	372,166	366,952	380,646	288,246	114,865	31,993	31,993	31,993
Number of COD payments processed	1,402,717	1,577,478	1,266,598	1,809,524	2,069,639	2,279,935	2,395,323	2,613,382	2,576,101	2,326,578	2,315,315
Revenue	\$90,013,884	\$92,800,000	\$79,896,263	\$103,355,887	\$102,785,052	\$102,591,920	\$106,440,435	\$112,046,553	\$109,041,447	\$103,599,301	\$102,380,438

\*does not impact backlogs

**Court Ordered Debt Collection Workload BCP**

Section	Classification	Resource Type (Perm, LT, TH, OT)	Tasks (workload)	2017/18 Volume	Production Rate	Hours	New Positions Requested	Risk Impact if Position(s) Not Approved
<b>Accounts Receivable Management Division</b>								
Public Collections Contracts & Support (PCCSS)	Senior Compliance Representative (SCR)	3-year limited term funding	Review the work of Tax Technicians and Compliance Representative Collectors to evaluate and recommend actions that may be taken to improve the quality and quantity of cases and the timeliness of actions. Review and approve account transactions. Review case history, comments, and actions taken to ensure appropriate resolution of case.	Lead/staff ratio is currently 1 SCR to 6 TT's	N/A	1,850	1	Lack of lead assistance will require current leads to increase their current teams. Immediate technical assistance would be delayed which could pose a risk to the department if the agent was not to receive direction on handling complex COD cases.
Public Collections Contracts & Support (PCCSS)	Tax Technician (TT)	TH to Perm	Resolve collection accounts relating to court-ordered fines. Provide information regarding account balances and determine the appropriate method of collection action needed to assist the debtor in resolving their accounts. Explain Court-Ordered Debt Collection procedures and processes to the debtors. Make appropriate account adjustments in order to resolve the debtor's collection account. Issues, modifies or releases involuntary collection actions based on an analysis of a debtor's financial situation. Analyze debtor financial information and negotiate short-term payment arrangements.	155,400	14	11,100	6	Not converting temporary positions to permanent positions will increase training costs and staff turnover will continue. Most attrition is attributed to temporary employees seeking permanent opportunities elsewhere.
Public Collections Contracts & Support (PCCSS)	Tax Technician (TT)	3-year limited term funding	Resolve collection accounts relating to court-ordered fines. Provide information regarding account balances and determine the appropriate method of collection action needed to assist the debtor in resolving their accounts. Explain Court-Ordered Debt Collection procedures and processes to the debtors. Make appropriate account adjustments in order to resolve the debtor's collection account. Issues, modifies or releases involuntary collection actions based on an analysis of a debtor's financial situation. Analyze debtor financial information and negotiate short-term payment arrangements.	184,800	14	13,200	7	Without the additional Tax Technicians resources the COD levy backlog will continue to grow and levy actions will be delayed. Delayed levy actions impacts the programs collection ability and revenue.
Public Collections Contracts & Support (PCCSS)	Tax Program Technician I (TPT I)	TH to Perm	Use various system mainframes and available data sources to process incoming correspondence. Update payer file, modify and release bank orders, perform account analysis and apply appropriate resolutions to ensure accuracy of each workload assigned. Count, sort and process incoming correspondence for the COD program. Perform routine and complex account adjustments, and process refunds	50,390	24	2,100	1	Not converting temporary positions to permanent positions will increase training costs and staff turnover will continue. Most attrition is attributed to temporary employees seeking permanent opportunities elsewhere.
Public Collections Contracts & Support (PCCSS)	Tax Program Technician I (TPT I)	3-year limited term funding	Use various system mainframes and available data sources to process incoming correspondence. Update payer file, modify and release bank orders, perform account analysis and apply appropriate resolutions to ensure accuracy of each workload assigned. Count, sort and process incoming correspondence for the COD program. Perform routine and complex account adjustments, and process refunds	100,780	24	4,199	2	Current support staff are able to handle the current COD program correspondence and support workloads. With a growth in the program, support positions are needed to address the levy responses received from the increase in levies sent. Without these resources, the support area would experience backlogs in all of the support workloads. Current policy requires a 21 day response on all correspondence, this requirement would not be met.
<b>Filing Division</b>								
Receiving & Data Storage Section (RDSS)	Tax Program Technician I (TPT I)	3-year limited term funding	Process incoming paper documents (payments, correspondence, etc.) and perform account look-up duties relating to the Court Ordered Debt Program.	31,625	16.9	1,871	1	Filing Division will continue to operate under the ongoing situation of working with a program deficit. This work must be worked as it arrived and can not be delayed or backlogged.
<b>Total Hours and Positions</b>						<b>34,320</b>	<b>18</b>	

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 08/16)

Fiscal Year 2017-18	Business Unit 7730	Department Franchise Tax Board	Priority No. 3
Budget Request Name 7730-003-BCP-2017-GB		Program 6280	Subprogram 6280010/6280019

Budget Request Description  
 Audit Protest and Appeals

Budget Request Summary

The Franchise Tax Board (FTB) requests 9 permanent positions to replace 12 expiring three-year limited-term positions (expiring on June 30, 2017) and \$1.2 million General Fund. These positions will work administrative resolution processes for undocketed protests and appeals within appropriate timeframes while sustaining current inventory levels.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.                      Project Approval Document:                      Approval Date:

If proposal affects another department, does other department concur with proposal?       Yes       No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By	Date	Reviewed By	Date
Department Director	Legis	Legisly Secre	Date

**Pending Board Approval**

<b>Department of Finance Use Only</b>			
Additional Review: <input type="checkbox"/> Capital Outlay <input type="checkbox"/> ITCU <input type="checkbox"/> FSCU <input type="checkbox"/> OSAE <input type="checkbox"/> CALSTARS <input type="checkbox"/> Dept. of Technology			
BCP Type: <input type="checkbox"/> Policy <input type="checkbox"/> Workload Budget per Government Code 13308.05			
PPBA		Date submitted to the Legislature	

## Analysis of Problem

### A. Budget Request Summary

The Franchise Tax Board (FTB) requests 9 permanent positions to replace 12 expiring three-year limited-term positions (expiring on June 30, 2017) and \$1.2 million General Fund. These positions will work administrative resolution processes for undocketed protests and appeals within appropriate timeframes while sustaining current inventory levels.

### B. Background/History

Administrative protests at FTB are classified as either docketed or undocketed. Docketed protests are protests assigned to attorneys in the Legal Division, who serve as hearing officers. Protests not assigned to the Legal Division are assigned to the Audit Division (undocketed protests) and are resolved by protest hearing officers. Undocketed protests are filed by taxpayers to dispute proposed audit assessments.

The Revenue and Taxation Code provides the authority for taxpayers to file protests of proposed deficiency assessments. The protest process is intended to be informal. It is the first of several processes, which allow taxpayers to dispute proposed adjustments that increase or determine a taxpayer's tax for a particular year. Protests provide an opportunity for a hearing officer and the taxpayer to review and discuss the issues relating to the proposed assessment. Taxpayers can and will often raise additional issues during the protest review. The role of the hearing officer is to objectively determine whether the issues underlying the Notice of Proposed Assessment or new issues raised are correct in accordance with relevant tax law, Taxpayers' Bill of Rights, and FTB's Statement of Principles of Tax Administration by analyzing the relevant code and case law as applied to the facts applicable to the protest.

The protest process is not a negotiation process where disagreements are compromised. There is a separate administrative settlement process for that purpose, which provides opportunities for taxpayers and FTB to settle tax disputes based upon the costs and risks of litigation.

Over the years, the undocketed protest workload became backlogged because there were not enough hearing officers to address incoming taxpayers' protests. In 2014-15, through BCP #1 Protest Workload, FTB received 12 three-year limited-term hearing officer positions to address the backlog. Those positions will expire on June 30, 2017. The additional hearing officers allowed FTB to assign more cases in a timely manner thereby reducing the number of backlogged cases, aged cases and overall inventory levels.

In the past year, FTB has continued its effort to address the Tax Gap. With additional data sources now available, FTB has seen an increased level of protests for audits conducted within our Federal State and Special Audit Section (FSSAS) which has led to additional protests and will ultimately lead to increased appeals of these cases beginning in 2016-17. If the requested resources are granted, FTB has sufficient resources to manage the increased protest workload, however, FTB does not have sufficient resources to work the ongoing increased level of appeals. This proposal requests one Program Specialist to work on these appeal cases.

**Resource History**  
(Dollars in thousands)

<b>Program Budget</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Authorized Expenditures	\$3,499	\$3,269	\$3,481	\$5,547	\$4,488
Actual Expenditures	\$3,246	\$3,277	\$3,527	\$4,386	\$4,683
Revenues	0	0	0	0	0
Authorized Positions	34	29	31	48	35
Filled Positions	30	30	30	34	35
Vacancies	4	-1	1	14 <sup>1</sup>	0

<sup>1</sup> 12 of the 14 vacancies were attributed to the new positions gained through the 2014-15 BCP #1 Protest Workload.

## Analysis of Problem

### Workload History

Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Number of Protest Cases: Beginning Inventory	581	699	849	744	563	501
New Cases	385	410	406	347	528	414
Closed Cases	267	260	511	528	590	415
Ending inventory	699	849	744	563	501	500
Number of FSSAS Appeal Cases:	237	231	249	214	192	255

### C. State Level Considerations

This funding request supports FTB's mission to fairly and effectively administer the State's tax system. The FTB's mission is to provide the services and information to help taxpayers file accurate and timely tax returns and pay the proper amount owed. To accomplish this mission, FTB develops knowledgeable and engaged employees, administer and enforce the law with fairness and integrity, and responsibly manage the resources allocated to the department. In addition, this proposal supports FTB's Strategic Plan Goal of "Effective Enforcement", which states that "we will administer and enforce the law effectively to ensure all taxpayers meet their obligations to file and pay the proper amount owed."

### D. Justification

FTB experienced ongoing increases in the undocketed protest inventory levels and aging of those inventories due to two main factors:

- An increase in the complexity of the workload.
- Taxpayers increasingly raising new issues for the first time at protest.

With cases taking longer to resolve for the reasons stated above, there has been an overall aging of the protest workload and increases to the ending inventory of protests to be worked. The limited-term positions received in the 2014-15 BCP have helped to address backlogs caused by cases taking longer to resolve and allowed FTB to reduce the aged inventory.

<b>Undocketed Protests</b>							
<b>Aging and Case Assignment Time</b>							
Fiscal Year	Beginning Inventory	Aged Cases		Time to Assign a Case			
		Aged Over 24 months	Aged Over 36 Months	0-3 months	3-6 months	6-9 months	9-12 months
FY 2012-13	699	116	273	20%	42%	24%	14%
FY 2013-14 <sup>1</sup>	849	88	63	39%	48%	9%	4%
FY 2014-15	744	87	29	66%	17%	13%	4%
FY 2015-16 <sup>2</sup>	563	89	30	89% <sup>3</sup>	8%	2%	1%

<sup>1</sup> With the increase in aging, as well as the increase in length of time to resolve protest cases, FTB addressed this workload both in the short and long term. Short term, FTB temporarily redirected audit staff in FY 2013-14 to address the backlog for one year. The redirection was temporary because the resolution of cases under audit were delayed and new audit leads would not be pursued with negative impacts to the taxpayers, FTB and the State. The long term approach was to seek permanent staff.

<sup>2</sup> Utilizing the limited-term staff allowed FTB to reduce the backlog and position it to better manage both aged and new incoming inventory. Beginning July 1, 2014, the 12 new limited-term staff gained through the 2014-15 BCP #1 Protest Workload, allowed FTB to reassign cases that were in progress and assign more incoming cases.

<sup>3</sup> The percentage of cases assigned within three months (from 2012-13 to 2015-16) increased 69%, from 20% to 89%, demonstrating the positive impact the additional resources had on aging cases.

## Analysis of Problem

The limited-term positions have allowed FTB to reduce the backlog by 40%. To maintain inventory at this reduced rate, positions requested in this proposal are needed. Absent these additional resources, the backlog will revert to historical levels (800+ cases). The long term benefit of having more experienced staff to effectively and efficiently address the workload is the next step in managing this workload. Additional long-term solutions that have been implemented include:

- Involving attorneys earlier in the audit process with the goal of eliminating or minimizing the number of disputes leading to protests.
- Streamlining the intake and assignment of protests.
- Eliminating redundancies in processes.
- Developing protest plans with taxpayers and their representatives.

With the technical expertise of existing staff, FTB has determined that moving into 2017-18, eight Program Specialists are needed to manage the current and projected incoming undocketed protests at acceptable levels. (12 Program Specialists were received via the 2014-15 BCP.)

In addition, the increase in FSSAS appeals has created the need for an additional position to work in consultation with FTB attorneys. Moving staff from other workloads to this new appeal workload is not feasible because it would cause delays, backlogs, and customer frustration. If the position requested in this proposal is not granted, there will be insufficient staff to close cases and keep pace with incoming appeals. FTB needs permanent staff resources for administrative resolution processes for appeals in order to sustain current inventory levels within appropriate timeframes.

Replacing 9 of the 12 limited-term positions allows FTB to:

- Continue managing the ongoing levels of inventory.
- Continue maintaining the existing inventory aging levels.
- Work through the protest process more timely and efficiently.
- Address increased appeal workloads for FSSAS workload.

In the 2014-15 BCP, FTB primarily requested the Program Specialist (PS) I classification to focus on this work. With the utilization of the limited-term positions, FTB determined that staff in the PS II classification has a greater technical level of expertise to resolve cases more efficiently than those at the PS I level. The more experienced specialists have expertise that allows them to more quickly recognize the complex tax strategies and effectively apply the law to make a determination. This proposal requests ongoing resources at this level for the majority of the positions.

The limited-term positions will expire on June 30, 2017. If positions requested in this proposal are not granted, there will be insufficient staff to close cases and keep pace with incoming protests. FTB needs permanent staff resources for administrative resolution processes for undocketed protests in order to sustain current inventory levels within appropriate timeframes. Ensuring protest cases are closed timely is beneficial for both the state and taxpayers. Oftentimes, issues being addressed in the year in which a protest is received can impact later years that are either under audit or have yet to be filed. Without a determination as to the correct application of law, taxpayers must use their best judgment when filing subsequent tax returns, which can lead to additional disputes in later years involving the same issues. Moreover, taxpayers can incur interest charges if the taxpayer's best judgment does not prevail. Additionally, FTB audit staff may be required to delay resolution of audits that are pending a determination at protest or a later administrative process such as appeals or litigation. This unnecessarily increases costs and results in further delays for both FTB and taxpayers.

## Analysis of Problem

### E. Outcomes and Accountability

The implementation and ongoing progress of the workloads addressed in this proposal will be monitored by Audit program management who will regularly report to executive management on the challenges and successes of these workloads. While the Audit program management are also tasked with monitoring the use of resources associated with this proposal, the ultimate responsibility still remains with the department's Chief Financial Officer.

FTB annually reports outcomes of its compliance activities in the Audit and Compliance Activities Supplemental Report to the Legislature.

#### Projected Outcomes

Workload Measure:	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Number of Protest Cases:						
Beginning inventory	501	500	499	503	507	511
New cases received	414	414	414	414	414	414
Closed cases	415	415	410	410	410	410
Ending inventory	500	499	503	507	511	515
Number of FSSAS Appeal Cases:	255	255	255	255	255	255

### F. Analysis of All Feasible Alternatives

**Alternative #1:** Approve 9 permanent positions and \$1.2 million General Fund. The 9 positions will replace 12 limited-term positions expiring June 30, 2017.

This alternative will allow FTB to utilize an efficient level of staff resources to work undocketed protests within appropriate timeframes. Inventory would be at a level that would allow protests to cycle through the resolution process timely. Permanent staff resources for administrative resolution processes, including protest are necessary to efficiently work current inventory levels within appropriate timeframes. Without these resources, resolution of protest cases will be delayed and there will be a corresponding increase in case inventory and aging of existing cases.

**Alternative #2:** Do not approve the request for 9 positions and redirect staff from revenue producing workloads to protest workloads.

This alternative will impact revenue at an estimated loss of \$18 million per year. Program Specialist IIs will be redirected from production throughout the Audit Division program areas (National Business Audit, Pass Through Entity, and Personal Income Tax). Program Specialist IIs within the Audit Division perform as subject matter experts, resolve the most complex cases, and provide their expertise to others. When the Program Specialist II auditors are redirected to the protest workload their audit is reassigned. The taxpayer is then disadvantaged and the resolution of their audit is delayed impacting the Taxpayers' Bill of Rights timeframes.

## Analysis of Problem

**Alternative #3:** Approve the conversion of 12 limited-term positions to permanent and \$1.7 million General Fund.

This alternative will also allow FTB to work the undocketed protests within appropriate timeframes however existing resources allow for the completion of cases within the general time frame of 24 months or less and allows 90% of incoming cases to be assigned to a hearing officer within 3 months of receipt. Considering these established goals, if additional staff is provided, there could be periods of time where insufficient inventory exists for staffing levels which is an undesirable result.

**Alternative #4:** Do not approve the request.

FTB has invested significant resources in training its protest hearing officers and has successfully reduced the backlog and aged inventory with their assistance. Without appropriate funding and position authority, FTB will be unable to maintain the inventory level of protest cases and the backlog will quickly return to previous levels. Additionally, inventory being worked on by existing staff in these limited term positions, will be reassigned to remaining staff and cases will age while resolution is delayed. Unassigned cases will not be resolved within the timeframes established by the Taxpayers Bill of Rights. Without a timely protest determination taxpayers may be unable to file an accurate return, which can lead to additional disputes in later years involving repeat issues. Additionally, FTB audit staff will be required to delay resolution of audits that are pending a determination at protest or a later administrative process such as appeal or litigation. This unnecessarily increases costs and results in further delays for both FTB and taxpayers.

### **G. Implementation Plan**

- June 2017 – FTB prepares documents to establish 2017-18 positions and forwards to the Department of Finance.
- June 2017 – Department of Finance notifies FTB of position approval.
- July 1, 2017 – Funding is provided and positions are established. FTB begins hiring.

### **H. Supplemental Information**

None.

### **I. Recommendation**

Alternative #1 is recommended. This alternative requests approval to convert 9 limited term positions to permanent and \$1.2 million General Fund. The 9 positions will replace 12 limited-term positions expiring June 30, 2017. These positions will work administrative resolution processes for undocketed protests and appeals within appropriate timeframes, while sustaining practical inventory levels.

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 08/16)

Fiscal Year 2017-18	Business Unit 7730	Department Franchise Tax Board	Priority No. 4
Budget Request Name 7730-004-BCP-2017-GB		Program 6280	Subprogram 6280010/6280019

**Budget Request Description**  
 Legislative – AB93 – California Competes Tax Credit

**Budget Request Summary**

The Franchise Tax Board (FTB) is requesting \$1.7 million in 2017-18 and \$1.6 million in 2018-19 and 2019-20 for three year limited term funding authority to administer the provisions as mandated in AB 93 – California Competes Tax Credit. Limited term funding is requested to allow FTB the opportunity to extend four limited term positions set to expire 6-30-17 and hire ten additional staff to perform the mandatory reviews of awarded agreements.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.                      Project Approval Document:                      Approval Date:

If proposal affects another department, does other department concur with proposal?       Yes       No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By <b>Pending Board Approval</b>	Date	Reviewed By <b>Pending Board Approval</b>	Date
Department Director	Date	Agency Secretary	Date

<input type="checkbox"/>					
<input type="checkbox"/>	<input type="checkbox"/>				

## Analysis of Problem

### A. Budget Request Summary

The Franchise Tax Board (FTB) is requesting \$1.7 million in 2017-18 and \$1.6 million in 2018-19 and 2019-20 for three year limited term funding authority to administer the provisions as mandated in AB 93 – California Competes Tax Credit. Limited term funding is requested to allow FTB the opportunity to extend four limited term positions set to expire 6-30-17 and hire ten additional staff to perform the mandatory reviews of awarded agreements.

### B. Background/History

The California Competes Tax Credit was created under the Governor's 2013 Economic and Development Initiatives. It is an income tax credit available to businesses that want to come to California or stay and grow in California. The amount of the credit available to a taxpayer for a taxable year is negotiated and set forth in a written agreement between the Governors' Office of Business and Economic Development (GO-Biz) and a taxpayer and is based on numerous factors. These factors include total jobs created, total investment, average wage, economic impact, strategic importance and more. The California Competes Tax Credit (CCTC) will be allocated by GO-Biz through June 30, 2018.

Upon approval of the written agreement by the CA Competes Tax Credit Committee (Committee), the Go-Biz would inform FTB of the terms and conditions of the written agreement. FTB reviews the books and records of taxpayers allocated the credit to ensure that the taxpayer complied with the terms and conditions of the written agreement.

Each agreement lasts five years. For each of the five years, the taxpayer is allocated an amount of credit. To be able to earn and claim the credit in each taxable year, the taxpayer must meet the milestone commitments for that taxable year. In addition, the taxpayer must maintain the milestone commitments for three additional years once that taxable year's milestone is met.

FTB is required to review business agreements for businesses with gross receipts of over \$2 million at least once. It is the discretion of FTB to review small business agreements (gross receipts under \$2 million).

Taxpayers may earn and claim the credit prior to FTB's review if they certify they meet the milestones for a taxable year.

Each fiscal year, 2015-16 through 2017-18, has three application periods in which an estimated 60 agreements are approved per period. During fiscal year 2015-16, GO-Biz accepted applications for the California Competes Tax Credit during the following periods:

- July 20, 2015 through August 17, 2015
- January 4, 2016 through January 25, 2016
- March 7, 2016 through March 28, 2016

FTB is requesting funding to extend four limited term staff and add ten additional limited term positions to administer the provisions as mandated in this bill. The funding is requested to allow FTB the opportunity to perform the mandatory reviews of the awarded agreements and avoid any disruption to existing audit workloads. The 2014-15 BCP estimated 50 agreements per year subject to mandatory review. To date, the California Competes Tax Credit Committee has approved 324 agreements for businesses with gross receipts greater than \$2 million.

The credit is scheduled to sunset on June 30, 2018. During the 2017-18 fiscal year, Go-Biz will hold three application periods. There are also three CCTC Committee meetings scheduled to approve the applications. For 2017-18, the CCTC Committee meetings are anticipated to be in November 2017; April 2018 and June 2018. Calendar year taxpayers whose agreements are approved during April 2018 and June 2018 have until April 1, 2019 to meet their first contractual year milestones. FTB can start the reviews of these businesses once the businesses meet the milestones. However, each agreement has 5-year milestones and businesses have up to the fifth year to meet all milestones.

## Analysis of Problem

Each agreement review is expected to take an average of 185 hours to complete. In the 2014-15 BCP, FTB estimated it would take between 125-175 hours to complete each review. Based on experience, the reviews are consistently taking an average of 185 hours to complete.

The requested resources would perform the following tasks for each audit:

Tasks	Hours Allocated to Tasks
Send initial contact letter	5
Obtain and process power of attorney (if applicable)	5
Request information to support the milestone commitments per agreement	40
Organize and perform analysis of the information received	40
Document the review/verification of the agreement requirements	65
Prepare a recommendation whether the taxpayer is in compliance with the agreement	20
Communicate with taxpayers and/or representatives of the reviewer's finding, as well as throughout the review process	10
<b>Total Hours</b>	<b>185</b>

### Resource History (Dollars in thousands)

Program Budget	2011-12	2012-13	2013-14	2014-15	2015-16
Authorized Expenditures	N/A	N/A	N/A	129	440
Actual Expenditures	N/A	N/A	N/A	129	440
Revenues	N/A	N/A	N/A	N/A	N/A
Authorized Positions	N/A	N/A	N/A	2	4
Filled Positions	N/A	N/A	N/A	2	4
Vacancies	N/A	N/A	N/A	0	0

### Workload History – Mandated Workload

Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Beginning Inventory <sup>(1)</sup>	NA	NA	0	18	153	309
Actual New Cases <sup>(2)</sup>	NA	NA	18	135	171	0
Estimated New Cases <sup>(3)</sup>	NA	NA	0	0	0	180
<b>Total Cases</b>	<b>NA</b>	<b>NA</b>	<b>0</b>	<b>153</b>	<b>324</b>	<b>489</b>
Estimated Closed Cases <sup>(4)</sup>	NA	NA	0	0	15	40
Ending Inventory – Total Cases Closed	NA	NA	18	153	309	449

- (1) The majority of agreements awarded and included as beginning inventory are not yet ready to work due to certification requirement with GO-Biz. FTB is mandated to review all agreements awarded, except for small business agreements.
- (2) Although agreements were awarded beginning in 2013-14 and 2014-15, they are not ready to work per GO-Biz certification requirement.
- (3) Each fiscal year has three application periods. Based on actual data and increase in credit allocation amount (from \$150 million to \$200 million) for fiscal years 2015-16 through 2017-18, an average of 60 large business agreements are awarded during each application period (60\*3=180), which exception of 2015-16 (see #1). Only the first application period agreements awarded are ready to work cases. The other two application period agreements awarded are workable in immediate subsequent year.
- (4) Currently 15 audits on milestones have been opened and will be closed in 2015-16.

## Analysis of Problem

### C. State Level Considerations

This proposal will allow FTB to comply with the mandates of the legislative bill. This proposal supports FTB's mission to fairly and effectively administer the state's tax system. FTB's mission is "to provide the services and information to help taxpayers file accurate and timely tax returns and pay the proper amount owed. To accomplish this mission, FTB develops knowledgeable and engaged employees, administer and enforce the law with fairness and integrity, and responsibly manage the resources allocated to us." The proposal also supports the Strategic Plan goal of effective enforcement to administer and enforce the law effectively to ensure that all taxpayers meet their obligations to file and pay the proper amount owed.

### D. Justification

FTB is required to review every business with gross receipts over \$2 million that receives a credit agreement. The purpose of the review of the taxpayer's books and records is to determine compliance with the credit agreement, which is negotiated by GO-Biz and approved by the California Competes Tax Credit Committee.

When the program first started in 2014-15, it was estimated FTB would review 50 agreements per fiscal year. To date, the California Competes Tax Credit Committee has approved 324 agreements for businesses with gross receipts greater than \$2 million. The Committee approves approximately 180 agreements for review each fiscal year. Based on the number of mandated agreements received for review, additional resources are needed to address this mandated workload. Additional resources at the Associate Tax Auditor, Program Specialist I and Program Specialist II classifications are requested due to the varying complexity of the agreement reviews, depending on the size of the business and amount of information available for review.

Credit agreements are awarded through 2017-18. Each agreement has a five-year period in which established milestones must be met. In order to earn the credit and be able to claim it on the tax return, a business must meet the milestones for a taxable year as specified in the credit agreement. If a business is not able to meet a milestone in the current taxable year, it has up to the fifth year to meet all its milestones. In addition, a business must maintain its milestones for three additional years. FTB must review every business that receives a credit agreement, unless it is a small business. The purpose of a review is to ensure the business is compliant with the credit agreement. If additional resources are not available to perform the reviews, FTB must redirect staff from existing audit workloads resulting in a reduction of revenue of \$17.6 million per year.

Per AB 93 and in order to complete the audit reviews timely, FTB requests:

- Continue four limited term positions set to expire June 30, 2017  
(3 Program Specialist I; 1 Program Specialist II)  
FTB received four limited term staff through the 2014-15 BCP. Two were effective 1/1/15 and two effective 7/1/15, all are due to expire June 30, 2017. The first two staff hired worked on learning and understanding CA Competes, developed procedures for the review process and performed various necessary tasks to get the workload up and running. Since the additional two staff have been hired the staff continued to establish review procedures, update the external website FAQ as part of the education and outreach effort for the review process, and 18 cases have been opened for review. These staff are expected to close 40 additional cases during 2016-17 and 40 cases each year through 2019-20.
- New limited term positions  
(1 Administrator II; 2 Program Specialist II; 4 Program Specialist I; 3 Associate Tax Auditors)  
The ten additional positions are needed to review these mandated cases so the department does not end up with large backlogs. The Administrator will oversee the day to day operations, including planning, organizing and directing the work of the staff. The Program Specialist IIs will provide review to other staff as well as work the larger and most complex agreements. The Program Specialist Is will work some of the

## Analysis of Problem

larger and more complex agreements and the Associate Tax Auditors will work the smaller and less complex agreements. It is expected that the working staff will each close approximately 10 cases per year.

If resources are not approved to perform this mandated workload, the impact would be the following:

- Statute requires FTB to review the taxpayers' books and records for compliance with the agreements executed between the taxpayers and GO-Biz. FTB will not be in compliance with statute if the department does not have the resources to timely perform this required function.
- Potential revenue loss due to redirecting of staff from revenue generating workloads to perform this mandated workload. Revenue loss of \$17.6 million per year.
- Credit recipients are accountable for maintaining their milestones as agreed upon with GO-Biz. If FTB does not timely complete the review function, this accountability may be diminished and potential non-compliance will not be addressed.

It is anticipated that there will still be cases to review in 2020-21 and later years and FTB will re-evaluate the need to continue funding for resources to complete these mandated reviews. The last group of agreements are planned to be approved in June 2018. Since each agreement has five-year milestones, FTB may not be able to review this last group of agreements until the business meets its milestones in the fifth year. This would be in addition to any other prior approved agreements that have not been reviewed by 2019-20.

### E. Outcomes and Accountability

It is the responsibility of FTB to administer the provisions included in AB 93. The Audit Division Chief directs the examination of income tax audits of individuals and businesses. It is also the Audit Division Chief's responsibility to perform this mandated review.

#### Projected Outcomes

Workload Measure	2016-17	2017-18	2018-19	2019-20	2020-21 <sup>(2)</sup>	2021-22
Beginning Inventory	309	449	499	369	239	239
Actual New Cases	0	0	0	0	0	0
Estimated New Cases	180	180	0	0	0	0
<b>Total Cases</b>	<b>489</b>	<b>629</b>	<b>499</b>	<b>369</b>	<b>239</b>	<b>239</b>
Estimated Closed Cases <sup>(1)</sup>	40	130	130	130	0	0
Ending Inventory -Cases Closed	449	499	369	239	239	239

(1) The estimated closed cases for fiscal years 2016-17 through 2019-20 is computed as follows: 1,850 hours/staff member working CCTC with an average of 185 hours to complete each case, equals 10 closed cases per staff per fiscal year. Thirteen staff will be assigned to work CCTC starting in 2017-18, resulting in an estimated 130 closed cases per fiscal year.

(2) FTB will re-evaluate ongoing need based on remaining inventory levels and status of the credit which currently expires June 30, 2018.

### F. Analysis of All Feasible Alternatives

**Alternative #1: Augment FTB's budget by \$1.7 million limited term funding for 2017-18 and \$1.6 million for 2018-19 and 2019-20, to administer the provisions as mandated in this bill.**

The 2017-18 funding request of \$1.7 million (extend the original four limited term positions and add an additional ten limited term positions) will provide the needed resources for FTB to comply with the mandates of the California Competes Tax Credit. Because all of the cases will not be closed by 2019-20, FTB will re-evaluate the need to continue some limited term funding to meet the mandates of this bill.

## Analysis of Problem

**Alternative #2: Augment FTB's budget by \$1.1 million limited term funding for 2017-18 and \$1 million for 2018-19 and 2019-20, to administer the provisions as mandated in this bill.**

The 2017-18 funding request of \$1.1 million (extend the original four limited term positions and add an additional five limited term positions) will cause a re-direct of five staff from revenue generated activities to this mandated workload, creating a potential revenue loss of \$6.8 million (Cash) per year to the department and state. Because all of the cases will not be closed by 2019-20, FTB will re-evaluate the need to continue some limited term funding to meet the mandates of this bill.

**Alternative #3: Augment FTB's budget by \$463,000 to only extend limited term funding for four limited term positions set to expire 6-30-17.**

Only extending the limited term funding for four positions will cause a re-direct of ten staff from revenue generated activities to this mandated workload, creating a potential revenue loss of \$12.2 million (Cash) per year to the department and state. Because all of the cases will not be closed by 2019-20, FTB will re-evaluate the need to continue some limited term funding to meet the mandates of this bill.

**Alternative #4: Do not approve funding and redirect staff to stay in compliance.**

This approach requires FTB to re-direct 14 staff from revenue generating activities in order to stay in compliance with this mandated workload, creating a potential revenue loss of \$17.6 million (Cash) per year to the department and state.

### G. Implementation Plan

June 2017 – All documents to establish positions are prepared and approved by the FTB Budget Officer and forwarded to DOF.

July 2017 – DOF notifies FTB of position approval.

July 2017 – Positions are established and FTB begins hiring.

### H. Supplemental Information

Facility Costs – reconfiguring and purchasing additional workstations.

### I. Recommendation

FTB recommends that Alternative 1 be approved. Approval of this alternative will ensure that the FTB has the adequate resources to fully comply with the mandates and statutes of the California Competes Tax Credit.

Position Workload Metrics - 2017-18 Legislative AB 93 - California Competes Tax Credit

Section Name	Classification	Resource Type (Perm, LT, TH, OT)	Tasks (workloads)	2017/18 Volume	Production Rate	Hours (Volume/Rate)	New Positions Requested	Risk Impact if Position(s) Not Approved
Technical Resource & Services Bureau (PUC 346)	Program Specialist I	Limited Term Funding	<p>Staff in this classification will review the larger and more complex entities' agreements. The tasks for each review include:</p> <ul style="list-style-type: none"> <li>• sending initial contact letter,</li> <li>• obtaining and processing power of attorney (if applicable),</li> <li>• requesting information to support the milestone commitments per agreement,</li> <li>• organizing and performing analysis of the information received,</li> <li>• documenting the review/verification of the agreement requirements,</li> <li>• making a recommendation whether the taxpayer is in compliance with the agreement, and</li> <li>• communicating with taxpayers and/or representatives of the reviewer's finding, as well as throughout the review process.</li> <li>• communicating with Go-Biz on any possible breaches and any resulting impacts (e.g. issuing notices)</li> </ul> <p>*includes 3 limited term positions due to expire 6/30/2017</p>	70	10 agreements per position	12,950	7	<p>Without the additional positions, the risk impacts are as follows:</p> <ul style="list-style-type: none"> <li>• Potential for significantly large backlog of the mandated workload.</li> <li>• Cases will take longer to complete due to lack of expertise for the review process.</li> <li>• Re-direct of staff from revenue generated activity to work this mandated workload, creating a revenue loss to the department.</li> <li>• Compliance with the agreements may be reduced due to lack of resources to complete the reviews.</li> <li>• Politically sensitivity of the CCTC may cause negative press to the department or the CCTC program.</li> </ul>
Technical Resource & Services Bureau (PUC 346)	Program Specialist II	Limited Term Funding	<p>Staff in this classification will review the larger and most complex entities' agreements. The tasks for each review include:</p> <ul style="list-style-type: none"> <li>• sending initial contact letter,</li> <li>• obtaining and processing power of attorney (if applicable),</li> <li>• requesting information to support the milestone commitments per agreement,</li> <li>• organizing and performing analysis of the information received,</li> <li>• documenting the review/verification of the agreement requirements,</li> <li>• making a recommendation whether the taxpayer is in compliance with the agreement, and</li> <li>• communicating with taxpayers and/or representatives of the reviewer's finding, as well as throughout the review process.</li> <li>• communicating with Go-Biz on any possible breaches and any resulting impacts (e.g. issuing notices)</li> </ul> <p>*includes 1 limited term position due to expire 6/30/2017</p>	30	10 agreements per position	5,550	3	<p>Without the additional positions, the risk impacts are as follows:</p> <ul style="list-style-type: none"> <li>• Potential for significantly large backlog of the mandated workload.</li> <li>• Cases will take longer to complete due to lack of expertise for the review process.</li> <li>• Re-direct of staff from revenue generated activity to work this mandated workload, creating a potential revenue loss to the department.</li> <li>• Compliance to the agreements may be reduced due to lack of resources to complete the reviews.</li> <li>• Politically sensitivity of the CCTC may cause negative press to the department or the CCTC program.</li> <li>• Lack of assurance that review recommendations are accurate.</li> </ul>
Technical Resource & Services Bureau (PUC 346)	Associate Tax Auditor	Limited Term Funding	<p>Staff in this classification will review the smaller entities and less complex agreements. The tasks for each review include:</p> <ul style="list-style-type: none"> <li>• sending initial contact letter,</li> <li>• obtaining and processing power of attorney (if applicable),</li> <li>• requesting information to support the milestone commitments per agreement,</li> <li>• organizing and performing analysis of the information received,</li> <li>• documenting the review/verification of the agreement requirements,</li> <li>• making a recommendation whether the taxpayer is in compliance with the agreement, and</li> <li>• communicating with taxpayers and/or representatives of the reviewer's finding, as well as throughout the review process.</li> <li>• communicating with Go-Biz on any possible breaches and any resulting impacts (e.g. issuing notices)</li> </ul>	30	10 agreements per position	5,550	3	<p>Without the additional positions, the risk impacts are as follows:</p> <ul style="list-style-type: none"> <li>• Potential for significantly large backlog of the mandated workload.</li> <li>• Re-direct of staff from revenue generated activity to work this mandated workload, creating a potential revenue loss to the department.</li> <li>• Compliance to the agreements may be reduced due to lack of resources to complete the reviews.</li> <li>• Politically sensitivity of the CCTC may cause negative press to the department or the CCTC program.</li> </ul>
Technical Resource & Services Bureau (PUC 346)	Administrator II	Limited Term Funding	<p>The agreements requiring review range from small entities (including partnerships, LLC's, S corporations, etc.) to large multinational corporations. As an administrator II, the incumbent will perform the following tasks:</p> <ul style="list-style-type: none"> <li>• plan, organize and direct the work of staff,</li> <li>• provide technical expertise and apprise program management of issues significantly impacting audit programs and policies,</li> <li>• develop the skills and technical expertise of team members through training, mentoring, attending field appointment as necessary, and case reviews to make recommendations impacting the workload or external agency,</li> <li>• oversee the day-to-day operation of staff, and</li> <li>• maintain good communication with impacted internal and external stakeholders to ensure the exchange of information critical to operational goals, effectiveness, and teamwork.</li> </ul>	N/A	N/A	1,850	1	<p>Without the additional position, the risk impacts are as follows:</p> <ul style="list-style-type: none"> <li>• Supervision to daily operations will suffer resulting in loss of productivity and efficiencies and accuracy due to lack of guidance, which may put the department in a negative light with external agencies (e.g., GO-Biz).</li> <li>• Delay in decision making process to resolve cases or policies and procedures.</li> <li>• Given the number of staff and sensitivity and complexity of workload in the section, additional leadership is required to ensure the proper ratio between staff to leadership.</li> </ul>
<b>Total Hours/Positions</b>						<b>25,900</b>	<b>14</b>	