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STATE OF CALIFORNIA
FRANCHISE TAX BOARD

PUBLIC MEETING

TUESDAY, SEPTEMBER 30, 2014

GERALD GOLDBERG AUDITORIUM

9646 BUTTERFIELD WAY

SACRAMENTO, CALIFORNIA

REPORTED BY:

KATHRYN S. SWANK
CSR NO. 13061

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ATTENDEES

BOARD MEMBERS:

MARCY JO MANDEL

JEROME E. HORTON

ERAINA ORTEGA

STAFF:

SELVI STANISLAUS, EXECUTIVE OFFICER

COLLEEN BERWICK

JEANNE HARRIMAN

CARL JOSEPH

ROBERT MORENO

JANELYN NELSON

NANCY PARKER

ALLEN WILSON

COUNSEL:

JOZEL L. BRUNETT

BRUCE LANGSTON

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SACRAMENTO, CALIFORNIA

TUESDAY, SEPTEMBER 30, 2014, 1:30 P.M.

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MEMBER MANDEL: Good afternoon. This is the scheduled time for the meeting of the Franchise Tax Board.

Would the secretary please call the roll to determine if a quorum is present.

MS. BERWICK: Member Horton?

MEMBER HORTON: Present.

MS. BERWICK: Chief Eraina Ortega for Member Cohen?

MEMBER ORTEGA: Here.

MS. BERWICK: Deputy Controller Marcy Jo Mandel for Chair Chiang.

MEMBER MANDEL: Present.

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

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

The first item, Members, is the approval of

1 minutes. We have the minutes of the July 1st, 2014,
2 board meeting.

3 MEMBER HORTON: Move adoption of the minutes as
4 is.

5 (Inaudible "second")

6 MEMBER MANDEL: It's been moved and seconded.
7 Without objection, that's the Board's order.

8 The second item is the 2013 Supervisory Bonus and
9 2014 Superior Accomplishment Award Recipients.

10 Robert Moreno is here to entertain us with a
11 PowerPoint presentation, so we will be going over to the
12 side table.

13 MEMBER HORTON: Drum roll, please.

14 (Laughter)

15 MR. MORENO: Well, thank you, Madam Chair and
16 Members of the Board. Good afternoon. My name is
17 Robert Moreno, and I'm the manager responsible for
18 administering the department's award programs. You may
19 remember me from a board meeting held last September,
20 where I had the pleasure of publicizing that year's
21 award recipients. Well, today I'm honored to be back in
22 front of you to recognize staff who have received awards
23 this past year. The department has been recognizing
24 staff for their superior performance through the
25 Superior Accomplishment Award Program and Supervisory

1 Bonus Award Programs for the past 28 years.

2 As you know -- but I will repeat it for some of
3 the benefit of our audience -- this is a statewide
4 program administered by Cal HR that recognizes
5 individuals and teams for their superior performance and
6 contributions to the efficiency and cost savings to
7 state government.

8 By now you are probably very familiar with this
9 slide. It's a layout of FTB's strategic goals, and
10 these awards programs support one of the department's
11 goals -- strong organization. This past year, we
12 recognize 31 individuals and 11 teams through the
13 Superior Accomplishment Award Program and 14 supervisors
14 through the Supervisory Bonus Award Program. We hold
15 award ceremonies in July for staff and again in October
16 for our supervisors. These are very special ceremonies,
17 not only for the recipients but also for the department.

18 In a few moments I'm going to show you a slide
19 show of our award recipients. But first I would like to
20 remind you what the atmosphere is like on the day of the
21 ceremony. This auditorium: Standing room only, filled
22 with excitement. Some recipients, they come all dressed
23 up. Last year I referred to it as dressed to the nines,
24 a reference I'm not sure everyone in the audience
25 understood. Recipients, they bring their children,

1 spouses, even their parents.

2 During the ceremony, you can see family members
3 sitting right here in the front row, proudly waiting for
4 their family members' names to be announced. And to
5 make this event even more special, Selvi always makes it
6 a point to get here, talk with the recipients, meet
7 their family members, and introduce the family members
8 to the audience, making it a memorable event for all.
9 Coworkers, they come out for supporting and cheering as
10 their peers walk across the stage to receive their
11 award.

12 And we also set up video conferencing with our
13 field offices so they can be part of the ceremony. When
14 we have a ceremony in our field offices -- we have a
15 ceremony in the field offices, we can stream it live
16 here so we can be part of their ceremony. Our goal is
17 to make this an exciting and proud moment for
18 recipients, regardless of their location.

19 Now, I would like to read each of the nominations
20 individually and share all their wonderful
21 accomplishments, but that would probably take this whole
22 board meeting and then some. I would like to share a
23 statement that Selvi has made in the past to award
24 recipients. She said, "You are the cream of the cream
25 of the crop." And I believe that sums up just how

1 special these recipients and these accomplishments are
2 to this department, especially when you take into
3 account, there are over 6200 employees at FTB who are
4 eligible to receive these awards, yet only 117 were
5 chosen as recipients. That's about 2 percent of FTB's
6 workforce, so definitely an achievement to be proud of.

7 So now that you have an idea of the atmosphere on
8 the day of the ceremony, let's meet the recipients of
9 the 2013 Supervisory Bonus and 2014 Superior
10 Accomplishment Award Programs.

11 Once again, I prepared a slide show with photos
12 of recipients and short descriptions of their
13 accomplishments. All the accomplishments support one or
14 more of our strategic goals and they are organized by
15 the goal they supported the most.

16 So without further ado, please sit back, relax,
17 and enjoy this year's slide show.

18 (Slide show presentation)

19 MR. MORENO: Well, I hope you enjoyed the slide
20 show, and I just have to say that having the board once
21 again entertain this presentation in a board meeting
22 just makes these awards that much more special.

23 Okay. So the last slide here is a picture of the
24 hallway where photos of the recipients are displayed and
25 will remain until next year's recipients are awarded.

1 So any time you're here at FTB, come on by the first
2 floor of the Sacramento building. But wait, today you
3 don't have to walk that far. We have several of the
4 recipients sitting proudly in the audience, and at this
5 point, it would be my honor to turn it over to Madam
6 Chair.

7 MEMBER MANDEL: Thank you. He said several. I
8 think lots is a better word. Really, really appreciate
9 everybody's hard work.

10 And can I see all the recipients in the audience?
11 Please stand so we can acknowledge you. Award
12 recipients.

13 (Applause)

14 MEMBER HORTON: It is obvious that every one of
15 you are blessed in some way with a special gift, but
16 it's more evident that it's what you do every day that
17 makes you special people. Thank you so very much for
18 all of your work and your dedication to the people of
19 the state of California and for making the difference in
20 their lives.

21 MEMBER MANDEL: Thank you.

22 MR. MORENO: Great. And that concludes my
23 presentation. So thank you.

24 MEMBER MANDEL: Thank you.

25 You know, we're ditto-ditto on your comments.

1 (Laughter)

2 MEMBER MANDEL: The next item is also a
3 PowerPoint. The next item, 3, is the Taxpayer Centric
4 Service Goal Update. And Allen Wilson from the filing
5 division and Janelyn Nelson from accounts receivable are
6 coming up -- accounts receivable management division --
7 to talk to us about this item.

8 Whenever you are ready, you may go.

9 MR. WILSON: Good afternoon, Board Members. My
10 name is Allen Wilson from the filing division.

11 MS. NELSON: And I'm Janelyn Nelson from the
12 accounts receivable management division.

13 MR. WILSON: And together we're going to give you
14 an update today on our taxpayer centric service goal.
15 As you know, October is just around the corner, and with
16 it come a lot of nationally recognized days, some of
17 which we don't necessarily celebrate here at FTB, like
18 National Virus Day or World Smile Day. There's even one
19 called Ship in a Bottle Day. But there is one important
20 holiday that we celebrate here, and that's National
21 Customer Service Week.

22 And we are not advancing.

23 Thank you.

24 So we are celebrating customer service needs here
25 at FTB, realizing the importance of providing good

1 customer service, and we're always looking for ways to
2 improve the customer service we provide by reaching out
3 to our taxpayers, understanding what they need, in order
4 to meet their filing obligations.

5 Some of our most basic e-filing services are the
6 first to note, and this chart shows the increase in
7 e-activity over the years. And I'm really glad just to
8 see that all those lines are going to the right and up.
9 The top line represents personal income tax returns that
10 are filed electronically. Over 80 percent of taxpayers
11 do so. Over 60 percent of taxpayers receive their
12 refund through direct deposit. And over 40 percent of
13 taxpayers make their payments electronically.

14 Something that is not shown here is business
15 entities, who also file electronically, and over
16 50 percent so far are doing so, and we see that as a
17 room -- an area where we can make some improvement.

18 MS. NELSON: We consider our website to be our
19 primary service channel. That's because we offer
20 customers self-service options, 24 hours a day, seven
21 days a week. Let me tell you about some services we
22 offer on our website.

23 It is hard to remember a day when we did not have
24 online banking, but back in 1993, electronic funds
25 transfer was a big deal. Legislation was enacted in

1 order for us to provide this service for a bank or
2 corporation and became the foundation of many of our
3 future e-services.

4 Six years later, we launched our first
5 interactive web application called Check Refund Status.
6 This web application remains FTB's most popular
7 application, where over 2 million taxpayers check the
8 status of their refund annually.

9 MR. WILSON: Beginning in 2002 we took
10 information that you could get by calling our automated
11 phone line and made it available online, 24/7, through
12 MyFTB account. You are able to receive your balance due
13 and payment information, and over the years we've made
14 enhancements to it so that you are able to update
15 account information, including your mailing address and
16 phone number. And, in fact, since 2010, over 100,000
17 taxpayers have taken advantage of this customer service
18 option.

19 We've also provided more account information so
20 that they can view payments, estimate payments. They
21 are also able to see their wage and withholding
22 information and FTB-issued 1099s.

23 MS. NELSON: While paying taxes isn't
24 particularly fun as a taxpayer, when you do make that
25 payment, we want to make sure it gets there on time and

1 without problems.

2 In 2002, we introduced Web Pay. That gives our
3 individual taxpayers the option to make electronic
4 payments, ensuring that payments get posted to their
5 account immediately.

6 In 2010, we have expanded this service to allow
7 our business entities, which was very well received.
8 Over the last four years we have received between
9 600,000 to 700,000 web payments each year.

10 Unfortunately, not every taxpayer can make
11 payment in full. So for those who find themselves in
12 financial hardship, we provide an online service to
13 apply for installment agreement. The online service
14 lets our taxpayers verify their eligibility, specify the
15 payment amount, and also check the status of their
16 request. Since 2011, over 230,000 installment agreement
17 requests were submitted online.

18 MR. WILSON: E-filing wasn't new in 2003. But
19 the first free direct-to-government application called
20 Cal File was. We were excited to bring this application
21 forward to taxpayers, and over the years we've made
22 enhancements to it, to where now you are actually able
23 to import information into the Cal File application,
24 including wage and withholding information and address
25 information. And starting this year, you are able to

1 file not only your current tax return, but you can also
2 file the prior tax return, if you have not done so yet.

3 So far this year, we have a record 270,000
4 taxpayers who have taken advantage of this customer
5 service option and filed their return, bringing the
6 total Cal File returns to over 2.2 million returns.

7 Another free direct-to-government option added in
8 2007, through the unwavering support of Chairman Chiang,
9 was Ready Return. Ready Return was the first
10 application to import data into a return and make it
11 ready to file. All the taxpayer had to do was check the
12 information for accuracy, make any changes, and submit
13 it. And we're happy to report that 75,000 customers
14 have used this to meet their filing obligation this
15 year.

16 MS. NELSON: Virtual Hold is a new technology
17 offered in our contact centers that allows our callers
18 to choose to either wait on hold or receive a call back
19 at a specified time, allowing them to keep their place
20 in line. The average call-back time is about 40
21 minutes. 70 percent of our callers chose to avail the
22 Virtual Hold.

23 We also have live chat. Live chat lets our
24 customers to ask general questions right from our public
25 website. In 2012, we expanded to answer general

1 personal income tax questions and the support of our
2 installment agreement program. This has been a very
3 popular program with over 158,000 chats over the last
4 year.

5 And the best part, our customer service
6 representatives can handle up to four chats at one time,
7 depending on the type of chat.

8 We also revamped our external website in 2011,
9 and made it much easier for our customers to find what
10 they are looking for. We created a more intuitive
11 navigation and clearer links that they use the most.

12 MR. WILSON: Prior to 2012 the business needed a
13 letter of good standing. Not only did they have to pay
14 \$20 to get it, but they had to send an application
15 through the mail or go down to a district office and
16 wait in line to get that letter. Beginning in 2012, we
17 offered a free online self-service application, and in
18 2013 alone, over 200,000 customers have taken advantage
19 of that service option.

20 Now we want to move forward to what is next for
21 taxpayers. We've been listening to our customers, and
22 one of the things that they say they want to be able to
23 do is access our website through their mobile devices.
24 We've already added a couple enhancements to our
25 website, and in the next year we plan to make all of our

1 website mobile-optimized, so that whatever smart device
2 you are using, whether it's a mobile phone or a tablet
3 or notebook, you will be able to see the enhanced
4 website.

5 Something else that we're very excited about --
6 I'm sure you have heard about -- is our enhanced MyFTB
7 account coming in 2015. We're going to be making a lot
8 of enhancements to that and allow new online access
9 to -- more information about your account. So that will
10 include not only your account details but also where
11 your return might be in the processing status. You will
12 also be able to find a copy of your tax return, so we
13 will have an image of tax returns on there so you won't
14 have to request that from us.

15 Copies of notices and correspondence will be
16 uploaded, and you will also receive an alert if
17 something has been posted to your account including a
18 notice or a mandatory EFT notification.

19 We talked about live chat earlier and how it was
20 limited to general questions. Through MyFTB account,
21 you will be able to discuss account-specific information
22 because you will have been authenticated to have that
23 chat with our service rep.

24 And then finally, you will be able to file a
25 protest online through MyFTB Account.

1 MS. NELSON: Currently, taxpayers can request a
2 bill delay by calling our contact centers. These
3 taxpayers are still in the voluntary collection process.
4 They either receive an income tax notice due or their
5 final notice. The majority of this request are approved
6 without the financial statements because they are still
7 in the voluntary cycle. This automation, Automated Bill
8 Delay, will provide the same service without having to
9 speak with an FTB representative. Through a web
10 application or an interactive voice response system, the
11 new program will allow taxpayers the ability to make a
12 one-time 30-day delay of their bill.

13 We also want to provide the same option for our
14 compliant taxpayers who are currently in an existing
15 installment agreement payment plan. We are working on a
16 web application and an interactive voice response system
17 that will allow them to skip an installment payment,
18 which extends their payment plan by the same number of
19 months. This option's Automated Bill Delay and
20 Automated Skip Installment Agreement will better serve
21 our taxpayers and allows our contact center
22 representatives to assist taxpayers with more urgent
23 collection issues.

24 Our focus at FTB isn't just for our taxpayers.
25 We recognize that our taxpayer practitioner community is

1 an important segment of our customer base. So now I
2 would like to tell you what we have planned for them.

3 By the end of the year, we plan to launch the Ask
4 An Attorney Program, available on our website and a
5 direct link from tax practitioners and taxpayers to FTB.
6 This will provide an avenue to get their questions
7 answered by a subject matter expert quickly and
8 efficiently.

9 Our audit and legal staff will continue to
10 move -- to reach out to more subject matter experts in
11 the private sector, regarding specific aspects of tax
12 code application and look for opportunities to promote
13 consistency and accuracy of tax code applications.

14 We also recently developed a brochure to help
15 taxpayers understand the different requirements for
16 relief under the Innocent Joint Filer Relief Program.
17 This will be included on our website and distributed to
18 our external stakeholders, including our tax
19 practitioners, family law attorneys, family court, and
20 taxpayer community.

21 MR. WILSON: We continue to add tremendous amount
22 of resources to our website that are available to tax
23 practitioners, including legal documents and rulings.
24 We've also added recent legislation, important tax
25 issues, and information from our interested parties'

1 meetings, including the public comments' input and
2 feedback that we receive during those IPMs. We also
3 have tax law presentations using our audit and legal
4 staff. We have presentations at the Silicon Valley
5 Summit, Tax Executive Institute, Council on State
6 Taxation, various bar associations, and the B of E Tax
7 Professional Development Seminars.

8 MS. NELSON: To help our tax professionals better
9 serve their clients, we plan to offer the following
10 enhancements in 2015: Tax professionals will now be
11 able to set a client list page through MyFTB. This page
12 will show all their clients in a single listing,
13 allowing quick access to each of their clients' account
14 information. When a new power of attorney is received
15 by FTB, the client will be associated with existing tax
16 professionals in MyFTB listing.

17 So soon we'll have the functionality to send
18 automatic e-mail updates to tax professionals when their
19 client receives a notice from FTB. We will give them a
20 link that takes them directly to the client's MyFTB
21 account, where they can see an electronic copy of the
22 notice sent.

23 MR. WILSON: So that concludes our presentation
24 of our customer service efforts, but we don't stop right
25 there. In fact, we currently have a customer

1 satisfaction survey that's ongoing, and we look forward
2 to bringing the results of that to you at a future board
3 meeting.

4 Do you have any questions for us?

5 MEMBER MANDEL: Great. Thank you very much.

6 Any questions? Mr. Horton?

7 MEMBER HORTON: Thank you, Madam Chair.

8 First, you know, gratitude to all the work that
9 you guys have been doing on behalf of our customer base,
10 which also includes our employees.

11 I wanted to just make a suggestion, if I can. On
12 the slide, there was one area where we -- you indicated
13 to ask -- ask an attorney. We have some very talented
14 attorneys at the Franchise Tax Board, but we also have
15 other individuals who are experts who are not attorneys.
16 Will they be participating in that? And if so, should
17 we say, "Ask An Expert"?

18 BRUNETT: That's a good point. Yes. We will
19 have -- in addition to our attorneys in our legal
20 division, we have program specialists that work on the
21 legal issues, and they will be involved as well.

22 MEMBER HORTON: Okay.

23 BRUNETT: So yeah.

24 MEMBER HORTON: Then the recommendation would be
25 to change the language to say, "Ask An Expert."

1 BRUNETT: We can do that. Certainly. Good
2 suggestion.

3 MEMBER MANDEL: Anything else? Thank you very
4 much.

5 MR. WILSON: Thank you very much.

6 MEMBER MANDEL: Our next item is Item 4,
7 Regulation Matters. We don't need the screen anymore.
8 We can go back.

9 The first item is Proposed Regulation 18416.5,
10 Alternative Communications method. And Nancy Parker is
11 here for that one.

12 MS. PARKER: Good afternoon. My name is Nancy
13 Parker. I'm an attorney from the Franchise Tax Board
14 here to request permission to proceed with the formal
15 regulatory process to adopt Proposed Regulation 18416.5,
16 relating to implementation of the use of an alternative
17 communication method.

18 The purpose of the proposed regulation is to
19 implement an electronic alternative communication method
20 authorized under Revenue and Taxation Code 18416.5.
21 That section, adopted in 2010, authorizes the Franchise
22 Tax Board to establish rules governing the use of
23 electronic means of communication with taxpayers and
24 their authorized representatives, allowing FTB to send
25 notifications to taxpayers by electronic means instead

1 of U.S. mail.

2 Under the terms of the proposed regulation,
3 taxpayers, or their authorized representatives, will
4 receive an e-mail notification, that a notice,
5 statement, or bill or other notification, is available
6 for viewing in a taxpayer's secure folder on MyFTB,
7 which is FTB's proposed secure internet website for
8 taxpayer information.

9 The regulation has been drafted to allow other
10 forms of electronic communication as the technology
11 develops for their new needs of communication. This
12 regulation also establishes rules that would allow the
13 taxpayer, or their authorized representative, to
14 electronically file a protest notification or other
15 communications within MyFTB.

16 FTB held two interested parties meetings,
17 discussing the proposed regulation. The first meeting
18 was held in March 2014, which staff received input from
19 the public in order to produce a draft.

20 At our second interested parties meeting in
21 August, a draft of the proposed regulation was discussed
22 with the public. The language of the proposed
23 regulation was generally acceptable to the parties in
24 attendance. We received comments on how specific
25 features of the MyFTB folder would work, and staff was

1 able to address these concerns based on the current
2 proposed features of MyFTB.

3 Additionally, there will be another opportunity
4 for public hearing as part of the APA process, so there
5 will be additional opportunities for public comment.

6 Staff believes that this proposed regulation
7 provides appropriate criteria and guidance in
8 implementing the alternative communication method
9 provided in Revenue and Taxation Code 18416.5.

10 I request permission to commence the formal
11 regulatory process. If the board has any questions --
12 if this board has any questions, I would be happy to
13 answer them.

14 MEMBER MANDEL: Thank you.

15 So I understand that getting this regulation
16 through formal rulemaking and adopted is preparatory to
17 some of the items that we just heard about, right?

18 MS. PARKER: Yes. The features of the tax
19 centric services.

20 MEMBER MANDEL: Right.

21 So do we have an estimate of when we think it's
22 going to get through the process?

23 MS. PARKER: I believe we were estimating --
24 depending on OAL's process. But we're hoping it's going
25 to be implemented by July 1st --

1 MEMBER MANDEL: Okay. Great.

2 MS. PARKER: -- is when we anticipate this
3 regulation to be effective as well.

4 MEMBER MANDEL: Okay. Any other questions?

5 Nope.

6 Is there a motion?

7 MEMBER HORTON: So move.

8 ORTEGA: Second.

9 MEMBER MANDEL: It's been moved and seconded.

10 Without any objection, that will be the
11 board's --

12 MEMBER HORTON: Just clearing the throat.

13 MEMBER MANDEL: That's the board's order.

14 Thank you, Nancy.

15 The next subitem is Proposed Regulation 25137-1,
16 Apportionment and Allocation of Partnership Income; and
17 Proposed Regulation 17951-4, Income from a Business,
18 Trade or Profession. And Carl Joseph is here on this
19 one -- on these two.

20 MR. JOSEPH: Yes. Good afternoon. On these two.

21 My name is Carl Joseph. I'm counsel from
22 Multistate Tax Affairs here at the Franchise Tax Board.

23 The rulemaking -- the process that we have here
24 began well back in 2008, when we held an interested
25 parties meetings to begin to talk about the longstanding

1 rules that we've had for partnerships. The last time
2 this regulation had been amended at all was in 1985.
3 Unfortunately -- well -- or fortunately, for that
4 person, shortly after we started that process, the
5 person who was in charge of it retired from the FTB, and
6 the process did not move forward for a while. I picked
7 the process back up in 2013 and held a second interested
8 parties meeting, where we kind of limited the scope a
9 little bit, tried to get a little more focused on what
10 we wanted to handle, and we got a lot of good input from
11 the public in that October 2013 meeting.

12 I took that back, and we drafted language, and
13 then brought an explanation of language, as well as the
14 draft language itself, forward to a third interested
15 parties meeting in July of 2014. That is the language,
16 for the most part, that you see in your rulemaking -- in
17 your binder today.

18 There were some comments received at the
19 July 8th, 2014, third interested parties meeting that
20 caused me to make some changes in the language, and
21 those are reflected here as well. One of the things
22 that the public was very concerned about was that the
23 regulatory language be prospective in nature. This is
24 because there are some taxpayers who have outstanding
25 cases with us, pending a protest and possibly

1 settlement, where they have taken positions that are
2 going to be inconsistent with what the -- they believe
3 was law at the time, but would be reflective of what the
4 new -- the new law will change what they believe the law
5 was at the time that they filed their return.

6 Taking into account their need to be able to
7 continue to move forward in their process, I have added
8 language to the proposed regulations to say that the
9 regulatory language will be prospective in nature. In
10 your board binder, we also put in a sentence that says
11 that, from our perspective, we believe that staff --
12 that it is reflective of existing law, but because of
13 the issues of fairness for the individuals who have
14 taken contrary positions, we believe that prospectivity
15 is appropriate in this case and that no inference should
16 be drawn from that.

17 If we have cases outstanding in prior years,
18 staff will be relying on the regulation as it was
19 written in those years to support the position that we
20 have taken in those matters and not -- not the language
21 that's being proposed on a prospective basis here.

22 All that being said, we are ready to commence the
23 formal regulatory process and move into the formal
24 hearing and receive formal comments on rulemaking.

25 MEMBER MANDEL: Any questions on these

1 regulations?

2 MEMBER HORTON: Madam Chair, no questions.

3 But I just wanted to share with Carl -- I did
4 this prior -- was that the language kind of creates
5 somewhat of an oxymoron, but, you know, I understand the
6 reason for it. Very supportive of the regulation being
7 prospective, but, in doing so, it seems to imply that
8 it's more than just a clarification. So I think it's
9 important for the general public and the practitioners
10 and all of the cases that are in the pipeline, that we
11 take an extra effort to, sort of, educate them about
12 what we're saying here.

13 MR. JOSEPH: Yes.

14 MEMBER HORTON: And at the same time, go over or
15 somehow clarify existing law, existing regulation, in
16 the Franchise Tax Board's position currently,
17 irrespective of this action.

18 MR. JONES: Understood.

19 Thank you.

20 MEMBER MANDEL: Thank you.

21 Anything else?

22 MEMBER HORTON: Move approval.

23 (Inaudible "second")

24 MEMBER MANDEL: Okay. It's been moved and
25 seconded.

1 And without objection then, that will be the
2 board's order.

3 Thank you. Thank you, Carl and Nancy.

4 We're on Item 5, which is Administrative Matters.
5 We have three subitems, and Jeanne Harriman has got them
6 all.

7 The first one is the 2015/16 proposed budget
8 change proposals, and I think there's three of them.
9 Every part has a little extra part. Jeanne.

10 MS. HARRIMAN: All right. Good afternoon. I
11 Jeanne Harriman of the Financial Management Bureau. As
12 noted, today I will be providing information and seeking
13 approval on items included under Item 5a, Administrative
14 Issues.

15 Item 5a includes three budget change proposals
16 we're submitting for approval for resource needs in the
17 beginning -- beginning of fiscal year 15/16. The first
18 proposal is related to a mainframe workload growth
19 proposal, where we are seeking about 5.5 million, over
20 each of the next four years, to accommodate an upgrade
21 to our mainframe as well as our capacity power.

22 This proposal also includes a request for ongoing
23 funding of 5.5 million to allow for future upgrades on
24 an ongoing basis to be paid out of baseline funding.
25 These requests for items and expenses are consistent

1 with the amounts recorded and reported and the emphasis
2 on reporting exemption request approved by the
3 California Department of Technology on July 28th.

4 The second BCP request is related to resources
5 for ongoing EDR project. Fiscal year 15/16 is the
6 fifth year of the five-and-a-half-year project. This
7 time the EDR project is on schedule and meeting
8 projected revenue across the project life to date. The
9 BCP presented for 15/16 requests resources totaling
10 \$52.2 million. We're requesting 68 perm and 86 temp
11 help positions. These staff members will be doing work
12 in our filing process area as well as working on new
13 tools and deliverables associated with authenticated
14 live chat, which you heard about earlier, as well as
15 fraud detection.

16 We also will be asking for 20 technology
17 positions in this BCP that will allow us to finish the
18 deliverables associated with the EDR project, as well as
19 beginning the transitioning training, and knowledge
20 transfer from the exclusion provider to FTB when we take
21 ownership of the applications and systems, effective
22 January 1st of '17.

23 The BCP also requests funding of 41.2 million in
24 association with the vendor payment.

25 The last proposal is related to Assembly Bill

1 1424, associated with the top 500 income tax
2 delinquencies in the state. This is a request for the
3 conversion of seven limited-term positions to perm, to
4 support ongoing and permanent program needs, related to
5 the expansion of the program, as well as supporting the
6 administration of the license suspension program.
7 Previous were granted by finance and the legislature as
8 limited term, with the request to return at a later
9 point in time upon expiration of those -- to provide
10 additional information to show the ongoing need. This
11 BCP accomplishes that.

12 At this point, I'm happy to answer any questions
13 you have, and I present these proposals for approval.

14 MEMBER MANDEL: Okay. I did hear, just for
15 people who are following the board meetings, from one to
16 the next, I did hear that the authenticated live chat
17 and web services and identify theft or fraud BCP
18 concepts that we heard in -- about in July are part of
19 the EDR because they are really part of EDR. They are
20 in that EDR BCP, as you are presenting it today.

21 MS. HARRIMAN: Yes, that's correct.

22 MEMBER MANDEL: You have two other concepts that
23 were presented in July that are not incorporated. Can
24 you just -- because there might be interest, can you
25 just sort of say where we are with those and what we're

1 doing?

2 MS. HARRIMAN: Sure.

3 The other two proposals presented in July dealt
4 with resources for a court-ordered debt program, as well
5 as resources for our call center. Both of those are
6 very important to us. But what we ended up doing is, we
7 have moved those into BCP arena for 16/17 resources, as
8 opposed to 15/16. That allowed us to do a couple
9 things. That allowed us to understand for court-ordered
10 debt, the exact universe we're dealing with, and the
11 need for either perm or temp help resources. At this
12 point, we are expanding the program with the authority
13 that we currently have, with the intentions of gathering
14 stats on that, so on a long-term basis we're ready to
15 support the BCP for 16/17.

16 Much the same for call center BCP. We want to
17 make sure that the presentation that we provide to you
18 and our other stakeholders is very clear and concrete
19 about the customer service activities that we do, level
20 of accesses associated with all of them in coordination,
21 whether it's correspondence, call centers, or live chat.
22 So what we're doing is, we're doing a study to document
23 how those all work together and the level of access over
24 the prior years, to get some history and presenting that
25 as a package to support the BCP.

1 MEMBER MANDEL: Okay. And I think staff is also
2 doing some process reengineering a little bit, to try to
3 improve the -- improve with what we have.

4 MS. HARRIMAN: Yes. That is, as we're developing
5 that study that I referenced, internally, it was our
6 commitment as well, to reengineer, reevaluate workloads
7 in regards to customer service. Again, customer
8 correspondence workloads, call center workloads, or live
9 chat as it relates to today's workloads, to see what we
10 can do in the interim, prior to receipt hopefully of
11 resources, at a later point in time, in 16/17.

12 MEMBER MANDEL: Okay. Thank you.

13 Are there any questions on the BCPs? No?

14 ORTEGA: Madam Chair, I don't have any questions.
15 But as in tradition, I will abstain from the votes on
16 these items.

17 MEMBER MANDEL: That's right. Thank you.

18 MEMBER HORTON: Move approval.

19 MEMBER MANDEL: Okay. It's been moved, and I
20 will second that. And so with the Department of Finance
21 not participating, the BCPs are approved.

22 MEMBER HORTON: Chair, if I may.

23 I just wanted to thank the Department of Finance
24 for transitioning these limited term positions into
25 permanent positions, particularly when it's a

1 reoccurring revenue source for the State of California.

2 MEMBER MANDEL: I think he's encouraging that
3 Finance puts those in the government fund. I think
4 that's why she doesn't participate now.

5 (Laughter)

6 MEMBER HORTON: Just a sign of appreciation.

7 (Laughter)

8 MEMBER MANDEL: Okay. We're on contracts over a
9 million dollars.

10 MS. HARRIMAN: Proceeding on contracts under --
11 over a million dollars, excuse me, under Item 5b are
12 also presented for your approval; there are four of
13 them. Three of the contracts relate to technology
14 upgrades or extensions of maintenance contracts related
15 to storage capacity, fiber switches, and our Enterprise
16 telephone network equipment. All of these items are
17 necessary to ensure key compliance applications are
18 sufficient to support our processes, are up to date and
19 secure. Specifically, as noted in our materials, the
20 fiber switch upgrade is due to approaching end of life.
21 The upgrade is anticipated to cost \$3.5 million and will
22 include five years of ongoing maintenance.

23 The storage array upgrade is also related to the
24 fiber switch upgrade. It's also necessary due to end of
25 life. And upgrade cost is estimated at 2 million,

1 including five years of ongoing maintenance. And then
2 FTB is looking to extend the maintenance contract on our
3 telephone network at the estimated cost of 2 million for
4 two years of ongoing maintenance.

5 The final contract is related to security
6 services for FTB's campus. The contract will currently
7 expire on December 31st. FTB will be reaching out to
8 DTS to determine service options for one-year period
9 beginning January 1st of '15 through December 31st of
10 '15. It is presumed the contracts will be available for
11 extensions at an estimated cost of \$3.1 million.

12 These items are presented for your approval. At
13 this time, I'm happy to answer any questions you have.

14 MEMBER MANDEL: Thank you.

15 Any questions on the proposed contract?

16 MEMBER HORTON: No.

17 Move approval.

18 MEMBER MANDEL: Okay. It's been moved and --

19 ORTEGA: Second.

20 MEMBER MANDEL: -- seconded.

21 And then without objection, that will be the
22 board's order.

23 Thank you.

24 And the third one is the facility action
25 requests.

1 MS. HARRIMAN: All right. The last one, under
2 Item 5c, is related to two facility items that we wish
3 to convene work with DGS on. But first, the facility
4 item related an intended move of our audit staff
5 currently working in two locations -- one in San
6 Francisco, one in Oakland, to a single location in the
7 Elihu Harris building in Oakland. The proposed
8 relocation and consolidation allows for enhanced audit
9 operations and, as well, is expected to result in
10 reduced ongoing rental costs.

11 The second facility item addresses a critical
12 need to install a dedicated air-conditioner unit in our
13 network telecom room in our Houston district office. To
14 accomplish this, FTB needs to amend its current lease on
15 the Houston district office.

16 These two items are presented for your approval,
17 and at this time I'm happy to answer any questions you
18 have.

19 MEMBER MANDEL: Thank you.

20 Any questions or a motion?

21 MEMBER HORTON: Move approval.

22 ORTEGA: Second.

23 And I just wanted to make a comment --

24 MS. HARRIMAN: Sure.

25 ORTEGA: -- on the relocation and consolidation.

1 I wanted to acknowledge that it's a challenge
2 when we ask staff to move to another location and
3 appreciate the efforts of you and everyone who is
4 addressing the challenge, to be consistent with trying
5 to move into vacant space and consolidate leases and
6 that sort of thing. That really does provide some
7 savings in the end.

8 So thank you.

9 MS. HARRIMAN: Thank you.

10 MEMBER MANDEL: Okay. So it's been moved and
11 seconded.

12 And without objection, then that will be the
13 board's order on those.

14 Thank you, Jeanne.

15 Okay. We're now on Item 6, Executive Officer's
16 Time.

17 Selvi, anything?

18 STANISLAUS: No. Nothing to report this time.

19 MEMBER MANDEL: That's okay. You don't have to
20 have anything.

21 We're on Item 7, Board Members' Time. This is
22 the members' opportunity to raise other matters of
23 interest for action. Anything?

24 MEMBER HORTON: Madam Chair, if I may.

25 MEMBER MANDEL: Sure, Mr. Horton.

1 MEMBER HORTON: I wanted to extend appreciation
2 to Carl, Kimberly, and Maureen, who participated in the
3 Ernst & Young Outreach and Education Program. They did
4 a fabulous job. I mean, I was extremely proud. I
5 actually sat there and listened to their presentation,
6 and I was really, really proud to be -- to be a member
7 of the Franchise Tax Board. Thank you so very much for
8 all that you do.

9 I know -- I'm firm in the belief that education
10 and empowerment of our taxpayers is the best enforcement
11 tool that we have as an agency. So again, thank you.

12 MEMBER MANDEL: Thank you, Mr. Horton.

13 Okay. At this time the board is going into
14 closed session to discuss pending litigation.

15 (The Board met in closed session
16 from 2:18 p.m. to 2:43 p.m.)

17 MEMBER MANDEL: The board met in closed session
18 and discussed pending litigation. We are adjourned.
19 Thank you.

20 (Proceedings concluded at
21 2:44 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 13th day of October 2014.

KATHRYN S. SWANK, CSR
Certified Shorthand Reporter
License No. 13061