Franchise Tax Board
FY 2005/06 Budget Development
Summary of Budget Change Proposals

No.	BCP ISSUE	2005/06 COST ESTIMATE (in thousands)	PYs	SUMMARY
	Tax Gap Proposals:			
1	**Abusive Tax Shelters**	**$1,799**	**17.1**	This proposal requests funding for the balance of the Abusive Tax Shelter Special Task Force that was described in the FY 2004/05 May Revise. The task force was funded for one-half year at 42 positions and 23.2 PYs in FY 2004/05. The full-year impact of the initial augmentation and this request will bring the task force to its full size of 57 PYs. Additional funding and positions will increase revenue benefits to $128 million in FY 2005/06 and $176 million in FY 2006/07.
2	**Tax Amnesty**	**$1,012**	**5.3**	This proposal requests funding for year two of the Administration's proposed amnesty program. This program accelerates and/or increases revenue by creating an amnesty program for those taxpayers that fail to file income tax returns, underreport income on previously filed income tax returns, or fail to pay any taxes previously assessed. This program begins in FY 2004/05 and runs from February 1, 2005 through March 31, 2005 and will apply for taxpayers subject to the Personal Income Tax (PIT) and Corporation Tax (CT) laws.
3	**Tax Gap Enforcement Provisions**	**$11,462**	**129.6**	This proposal requests funding that will allow the department to address several issues that contribute to the State's tax gap that is estimated to be $6.5 billion annually. The proposal will represent a broad and multifaceted approach to the tax gap problem by implementing strategies that include using additional information sources to identify nonfilers, an informant reward program, questionable wage withholding, pursuit of criminal underground activities, implementing a criminal misdemeanor program and a crackdown on tax preparers using fraudulent methods.
4	**Integrated Audit System**	**$439**	**1.9**	This proposal requests funding for an Independent Verification & Validation (IV&V) vendor to oversee the procurement process of the Integrated Audit System (IAS) project. The IAS project is expected to generate additional revenue by improving the efficiency and effectiveness of the Audit Program. While the IAS project development and implementation is not scheduled to begin until FY 2007/08, the requested resources are necessary for initial review and oversight of the procurement phase of the project.
Proposals for FTB's Critical Operations				
	Continuation of Previously Approved Proposals:			
5	**Phase III**	**$5,060**	**0.0**	This proposal requests funding to facilitate the continued relocation of staff and operations to the new State Office buildings and to renovate the existing Central Office space to accommodate staff relocating from leased facilities in the HWY 50 corridor. Funding requested in this BCP will provide for modular systems furniture disassembly/reassembly/cleaning and expenditures for the essential building operating costs, including salaries, increased utilities, expendable supplies and preventative maintenance.
6	**Hyatt Case**	**$1,245**	**0.0**	This proposal requests an augmentation to continue FTB's defense against a lawsuit filed by a taxpayer in the State of Nevada. The department is defending a lawsuit filed in a Nevada court by a taxpayer who is pursuing an award, potentially in excess of $200 million, for alleged damages incurred as a result of the departments methods in conducting an audit and assessment.

Franchise Tax Board
FY 2005/06 Budget Development
Summary of Budget Change Proposals

No.	BCP ISSUE	2005/06 COST ESTIMATE (in thousands)	PYs	SUMMARY
	Information Technology (IT) Infrastructure /1:			
7	**Enterprisewide Customer Service Platform II (ECSP II)**	**$4,360**	**0.0**	This proposal requests a one-time augmentation to replace the CallWise system that reached end of life in June 2002, the Interactive Voice Response system that will reach end of life in September 2004 and the Softgen System that will no longer meet the department's needs.
8	**Enterprise Printer Replacement**	**$751**	**0.0**	This proposal requests an augmentation to replace three end of life printers. These printers must be replaced in order to maintain FTB's current revenue generating production workloads.
9	**Image Processing & Cashiering Systems (IPACS)**	**$1,079**	**0.0**	This proposal requests a one-time augmentation to purchase three Scan-Optics SO Series high-speed scanners to replace three existing Scan-Optics 9000T scanners that have reached the end of their useful life. The IPACS System is a critical component of the FTB's image processing and cashiering system.
10	**Tandem Himalaya Replacement**	**$465**	**0.0**	This proposal requests a one-time augmentation to replace the Tandem Himalaya K10000 application server and D series operating system that will reach end of life on December 31, 2005. The Tandem Himalaya system is the FTB's manual cashiering and data capture system.
11	**SSN Privacy (SB 25)**	**$698**	**0.0**	This proposal requests an augmentation to comply with the enactment of SB 25, Chapter 907, Statutes of 2003. SB 25 prohibits the department from printing an individual's social security number (SSN) on any materials that are mailed to the taxpayer after January 1, 2007.
	Child Support Proposals			
12	**CA Child Support Automation Child Support Enforcement (CSE)**	**TBD**	**TBD**	The project will have an increased need for funding for development of the statewide automation system. The additional funding is primarily for consultant dollars needed to pay the Business Partner as deliverables are met.
13	**CA Child Support Automation State Disbursement Unit (SDU)**	**TBD**	**TBD**	This proposal will request an augmentation based on a FSR to be submitted in September 2004. An alternative procurement is currently underway to contract with a service provider for this SDU component of the statewide automation system. The SDU component will be responsible for the collection, distribution and payment of child support collections.

/1 All proposals supported by FSR's
Approved by Agency
Submitted to DOF

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
1		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	00 All Tax Programs		

TITLE OF PROPOSED CHANGE:

Abusive Tax Shelter Task Force

SUMMARY OF PROPOSED CHANGE:

Provide funding of $1,799,000 and 17.1 PYs to fund the balance of the Abusive Tax Shelter Special Task Force to combat abusive tax shelters. When fully funded and staffed, the Task Force will be able increase General Fund revenues benefits to $128 million in FY 2005/06.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[ ] YES [X] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [ ] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [X] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR [ ] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 1	**DATE**	**July 26, 2004**	**Title of Proposed Change:**
			Abusive Tax Shelter Task Force
PROGRAM	**ELEMENT**		**COMPONENT**
Tax Programs	**All Tax Programs**		

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages *a/*	.0	18.0	$ 0	$ 1,133,000
Salary Savings	.0	-.9	$ 0	-$ 57,000
Net Total Salaries and Wages	.0	17.1	$ 0	$ 1,076,000
Staff Benefits b/			$ 0	$ 371,000
Total Personal Services			$ 0	$ 1,447,000
Operating Expenses and Equipment				
General Expenses /1			$ 0	$ 165,000
Printing /2			0	2,000
Communications /3			0	14,000
Postage			0	0
Travel-In-State /4			0	72,000
Travel Out-of-State /5			0	84,000
Training			0	0
Facilities Operations /6			0	6,000
Utilities			0	0
Cons & Prof Svs - Interdept'l			0	0
Cons & Prof Svs - External			0	0
Consolidated Data Center			0	0
California Health and Human Services Agency Data Center			( )	( )
Stephen P. Teale Data Center			( )	( )
Data Processing /7			0	9,000
Equipment			0	0
Other Items of Exp (Specify Below)			0	0
Total Operating Expense & Equipment			$ 0	$ 352,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 General Expense for Branch @ $367, and for Depart'l $433 per position. Plus minor equipment @ $6322 per position. PCs @ $1300 for desktop (5) and $2500 for laptop (14) per position.
/2 Departmental $107 per position.
/3 Departmental $793 per position.
/4 Travel costs for auditors to perform in-state field audits.
/5 Travel costs for to perform out-of-state field audits.
/6 Departmental $315 per position.
/8 Departmental $315 per position.
/7 Software for PCs@$500 per PC.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 352,000
SPECIAL ITEMS OF EXPENSE d/		
	$ 0	$ 0
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 1,799,000

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund	1730	001	0001	$ 0	$ 1,799,000
				0	0
				0	0
				0	0
				0	0
				0	0
				0	0
Reimbursements	1730	501	0995	0	0
Totals				$ 0	$ 1,799,000

	Current Year	Budget Year
LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund	1730	001	0001	$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
Reimbursements				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES

Positions		Positions CY	Positions BY	Salary Range		Amount CY	Amount BY
Audit Division							
Program Spec III	PERM	0.0	2.0	$ 6,330	$ 6,979	$ 0	$ 160,000
Program Spec II	PERM	0.0	7.0	$ 5,208	$ 6,329	$ 0	$ 485,000
Program Spec I	PERM	0.0	4.0	$ 4,743	$ 5,763	$ 0	$ 252,000
Assoc Tax Auditor	PERM	0.0	3.0	$ 4,316	$ 5,247	$ 0	$ 172,000
Tax Program Tech I, Ftb	PERM	0.0	1.0	$ 2,465	$ 2,998	$ 0	$ 33,000
Tax Technician, Ftb	PERM	0.0	1.0	$ 2,331	$ 2,835	$ 0	$ 31,000
Total Audit Division		.0	18.0			$ 0	$ 1,133,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	18.0				
Total Salaries and Wages	Positions	.0	18.0			$ 0	$ 1,133,000
	Part Yr Adj	.0	.0				
	P.Y.s	.0	18.0				

Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2005/06

Staff Benefits	2004/05	2005/06
OASDI /1	$ 0	$ 67,000
Dental /2	0	9,000
Health /3	0	103,000
Retirement /4	0	160,000
Vision /5	0	2,000
Medicare /6	0	16,000
Worker's Comp /7	0	12,000
Industrial Disability /8	0	1,000
Non Industrial Disability /9	0	1,000
Unemployment Insurance /10	0	0
Total Staff Benefits	$ 0	$ 371,000

1/ For permanent and overtime, 6.2% of net salary.
2/ For permanent, $500 per net personnel year.
3/ For permanent, $6,000 per net personnel year.
4/ For permanent, 14.843% of net salary.
5/ For permanent, $100 per net personnel year.
6/ 1.45% of net salary for permanent.
7/ 1.12% of net salary for permanent.
8/ 0.1% of net salary for permanent.
9/ 0.11% of net salary for permanent.
10/ 12.89% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Budget Change Proposal	**BCP No. 1**
Abusive Tax Shelter Task Force	**Date: July 26, 2004**

A. Nature of Request

This proposal requests funding of $1.8 million and 17.1 PYs to augment the audit program and allow it to fund the balance of the Abusive Tax Shelter Special Task Force that was described in the FY 2004/05 May revise. In FY 2004/05 the audit program was augmented for one-half year at 42 positions and 23.2 PYs. The full-year impact of the FY 2004/05 augmentation and this request will allow the audit program to utilize 60 positions (57 PYs) for the Abusive Tax Shelter Task Force. Additional funding and positions will allow the audit program to increase abusive tax shelter revenue benefits to $128 million in FY 2005/06 and $176 million in FY 2006/07 while maintaining its current coverage of existing audit workloads.

B. Background

In recent years individuals and business entities have increasingly taken advantage of abusive tax shelters. Abusive tax shelters are transactions marketed with the promise of excessive tax benefits. These transactions lack economic purpose other than reducing taxes and typically involve the use of multiple layers of domestic and foreign corporations and pass-through entities including partnerships, S corporations, and trusts to hide the abusive shelter from review by government revenue agencies.

The IRS is vigorously pursuing taxpayers participating in apparent abusive tax shelters. They are focusing on tax return preparers and the promoters of these investment schemes, as well as pursuing penalties and criminal prosecution for these cases. They have established the Office of Tax Shelter Analysis (OTSA) as a service-wide focal point for shelter compliance initiatives. OTSA is responsible for planning, coordinating, and providing assistance to examiners working with abusive tax shelter issues.

FTB has taken a lead role in addressing this area of non-compliance and is implementing an Abusive Tax Shelter Task Force similar to IRS efforts. Task Force responsibilities include:

- Coordinating FTB's response to abusive tax shelters.
- Collecting and analyzing information about abusive tax shelters.
- Developing strategies to identify organizers, promoters, and participants in abusive tax shelters.
- Ensuring compliance with tax shelter registration requirements.
- Providing litigation support on abusive tax shelter cases.
- Utilizing economists and financial experts to assist with identification of tax shelters.

- Coordinating efforts and sharing information with federal and state tax authorities, as well as foreign tax authorities where appropriate.

However, the complex nature of abusive tax shelters, and the extensive staff time required pursuing such cases, places new and increased demands on FTB's existing enforcement efforts. The audit program identified additional resource needs totaling 57 PYs (60 positions) and $3.5 million in consultant services, which will allow FTB to expand its efforts in the area of abusive tax shelters without negatively impacting existing audit efforts. Due to operational and hiring limitations, FTB requested only 42 positions and the consultant services during FY 2004/05. The balance of 18 positions (17.1 PYs) is being requested in FY 2005/06.

C. State Level Considerations

The additional resources provided by the FY 2004/05 augmentation and this BCP will increase revenue benefits by $128 million in FY 2005/06. Revenue benefits will peak at $176 million in the subsequent year.

The emphasis placed upon this high profile non-compliance issue will encourage future self-compliance by taxpayers who might otherwise continue to utilize abusive tax shelters as a way to circumvent their tax obligation. In addition, it will provide taxpayers with assurance that the state takes this non-compliance seriously and wants to see that the tax burden is shared appropriately.

D. Facility/Capital Outlay Considerations

The facilities funding requested in this BCP is $315 per position. The dollar figure was derived using the actual average cost per position of the facility costs. The standard costs requested in this BCP will be sufficient to provide for on-going facility cost for the 18 continuing positions.

E. Justification

During year FY 2004/05, the Abusive Tax Shelter Task Force expected to generate $56 million (adjusted for timing and discounted for cash) for the General Fund. In FY 2005/06 with this augmentation, benefits will increase to $128 million. Costs for the generation of additional revenue in FY 2005/06 will be $1.8 million and 17.1 PYs.

The expanded audit efforts will encourage self-compliance in the long-term (which is not a quantifiable revenue increase). Taxpayers will have a better tax administration that will be able to assure more taxpayers are paying their fair share. This proposal is consistent with FTB's Strategic Goal #2 to promote fair and effective tax administration.

F. Analysis of all feasible alternatives

Alternative #1 - For FY 2005/06 provide funding of $1.8 million and 17.1 PYs to allow the audit program to fund the completion of an abusive tax shelter task force and increase the number of audit resources for the abusive tax shelter workloads.

The fully funded task force will increase audit revenue by $128 million (adjusted for timing and discounted for cash) in FY 2005/06. In FY 2006/07, the total projected revenue for the Audit Program will increase by $176 million (adjusted for timing and cash.)

Alternative #2 - Provide no additional funding to work abusive tax shelter audits.

Do not provide additional resources. The Audit Program will continue to work as many of these audits as possible with current staffing resources.

G. Timetable

Additional staff can be hired and begin training in July of 2005. These new auditors will be conducting audits after a three-month training period.

H. Recommendations

Alternative #1 is recommended. This proposal would 1) generate additional tax revenues needed to fund state operations; 2) provide an increased audit presence which discourages non-compliance; 3) help to provide assurance to self-compliant taxpayers that everyone with a valid tax liability pays their fair share for government services; and 4) carry out the administration of tax laws.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
2		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	10 Tax Programs		

TITLE OF PROPOSED CHANGE:

Tax Amnesty

SUMMARY OF PROPOSED CHANGE:

Provide funding of $1,012,000 and 5.3 PYs to accommodate the post Amnesty implementation activities as outlined by this proposal and the corresponding Feasibility Study Report (FSR).

This program was proposed by the Administration in order to accelerate and/or increase revenue by creating an amnesty program for those taxpayers that fail to file income tax returns, underreport income on previously filed income tax returns, or fail to pay any taxes previously assessed.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☒ ONE-TIME COST ☐ FULL-YEAR COSTS ☐ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☐ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE **July 20, 2004** PROJECT # **FTB FSR 04-07** FSR ☒ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 2	**DATE 07/26/2004**	**Title of Proposed Change:**
		Tax Amnesty
PROGRAM	**ELEMENT**	**COMPONENT**
Tax Programs	**Tax Programs**	

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	5.5	$ 0	$ 319,000
Salary Savings	.0	-.2	$ 0	-$ 12,000
Net Total Salaries and Wages	.0	5.3	$ 0	$ 307,000
Staff Benefits b/			$ 0	$ 90,000
Total Personal Services			$ 0	$ 397,000
Operating Expenses and Equipment				
General Expenses /1			$ 0	$ 5,000
Printing /2			0	136,000
Communications /3			0	7,000
Postage /4			0	465,000
Travel-In-State			0	0
Travel Out-of-State			0	0
Training			0	0
Facilities Operations /5			0	2,000
Utilities			0	0
Cons & Prof Svs - Interdept'l			0	0
Cons & Prof Svs - External			0	0
Consolidated Data Center			0	0
California Health and Human Services Agency Data Center			( )	( )
Stephen P. Teale Data Center			( )	( )
Data Processing			0	0
Equipment			0	0
Other Items of Exp (Specify Below)			0	0
Total Operating Expense & Equipment			$ 0	$ 615,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 General expense @ $367 per position Division costs and $433 per position Departmental costs.
/2 Costs for printing approximately 1,500,000 statements of tax due.
/3 Communication costs associated with additional phone calls.
/4 Costs for mailing approximately 1,500,000 statements of tax due.
/5 Departmental $315 per position.

				Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT				$ 0	$ 615,000
SPECIAL ITEMS OF EXPENSE d/					
_____				$ 0	$ 0
_____					
PROGRAM ADMINISTRATION				$ 0	$ 0
Distributed Admin				$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES				$ 0	$ 1,012,000
Source of Funds	**Appropriation No.**				
	Org	Ref	Fund		
General Fund	1730	001	0001	$ 0	$ 1,012,000
				0	0
				0	0
				0	0
				0	0
				0	0
				0	0
Reimbursements	1730	501	0995	0	0
Totals				$ 0	$ 1,012,000
LOCAL ASSISTANCE				$(0)	$(0)
Source of Funds	**Appropriation No.**				
	Org	Ref	Fund		
General Fund	1730	001	0001	$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
Reimbursements				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES

Positions		Positions CY	Positions BY	Salary Range		Amount CY	Amount BY
Filing Division							
Tax Technician, Ftb - Rg B	OT					$ 0	$ 6,000
Tax Technician, Ftb - Rg B	TEMP	0.0	1.0	$ 2,632	$ 3,201	$ 0	$ 35,000
Tax Technician, Ftb - Rg B	TEMP	0.0	0.5	$ 2,632	$ 3,201	$ 0	$ 17,000
Total Filing Division		.0	1.5			$ 0	$ 58,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	1.5				
Technology Services Division							
Staff Info Sys Analyst Spec	OT					$ 0	$ 11,000
Assoc Info Systems Analyst	**Limited-Term	0.0	2.0	$ 4,316	$ 5,247	$ 0	$ 115,000
Assoc Info Systems Analyst	**Limited-Term	0.0	2.0	$ 4,316	$ 5,247	$ 0	$ 115,000
Assoc Info Systems Analyst	OT					$ 0	$ 9,000
Assoc Info Systems Analyst	OT					$ 0	$ 11,000
Total Technology Services Division		.0	4.0			$ 0	$ 261,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	4.0				
Total Salaries and Wages	Positions	.0	5.5			$ 0	$ 319,000
	Part Yr Adj	.0	.0				
	P.Y.s	.0	5.5				

****Positions are 2 year Limited-Term**

Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2005/06

Staff Benefits	2004/05	2005/06
OASDI /1	$ 0	$ 18,000
Dental /2	0	2,000
Health /3	0	23,000
Retirement /4	0	32,000
Vision /5	0	0
Medicare /6	0	5,000
Worker's Comp /7	0	3,000
Industrial Disability /8	0	0
Non Industrial Disability /9	0	0
Unemployment Insurance /10	0	7,000
Total Staff Benefits	$ 0	$ 90,000

1/ For permanent and overtime, 6.2% of net salary.
2/ For permanent, $500 per net personnel year.
3/ For permanent, $6,000 per net personnel year.
4/ For permanent, 14.843% of net salary.
5/ For permanent, $100 per net personnel year.
6/ 1.45% of net salary for permanent.
7/ 1.12% of net salary for permanent.
8/ 0.1% of net salary for permanent.
9/ 0.11% of net salary for permanent.
10/ 12.89% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2005/2006

Budget Change Proposal	**BCP No. 2**
Tax Amnesty	**Date: July 26, 2004**

A. Nature of Request

The Franchise Tax Board (FTB) requests $1,012,000 and 5.5 positions (5.3 PYs) to continue with post Amnesty implementation activities. Although the Amnesty Program will end on March 31, 2005, there will be post-implementation workloads that will continue through FY 2005/06.

The Amnesty program will generate $70 million accelerated revenue in FY 2005/06.

B. Background/History

This funding request represents year two of the Administration's proposed amnesty program. This program accelerates and/or increases revenue by creating an amnesty program for those taxpayers that fail to file income tax returns, underreport income on previously filed income tax returns, or fail to pay any taxes previously assessed. This program begins in FY 2004/05 and runs from February 1, 2005 through March 31, 2005 and will apply for taxpayers subject to the Personal Income Tax (PIT) and Corporation Tax (CT) laws.

Tax Amnesty is a program designed to increase revenue and address those taxpayers that contribute to the overall tax gap. It is an opportunity for individuals and businesses to pay back taxes without penalties, fees, or fear of criminal prosecution. The Amnesty Program applies to taxable years beginning before January 1, 2003, and is expected to generate $555 million ($200 million in new revenue and $355 million in accelerated revenues) in the 2004/05 Fiscal Year. Funding for the FY 2004/05 workloads was addressed as a May Revise issue and SB1100 is the authority for the Amnesty Program.

C. State Level Considerations

The FTB will comply with SB 1100 and implement post Amnesty activities with the additional resources requested.

D. Justification

It is the intent of the Legislation to increase revenue and address those taxpayers that are nonfilers who contribute to the overall tax gap. This mandate also supports FTB's Strategic Goal #2 – Promote Fair and Effective Tax Administration.

E. Analysis of All Feasible Alternatives

Alternative #1 – Provide additional funding of $1,012,000 and 5.5 positions (5.3 PYs) in FY 2005/06 to continue with post Amnesty program activities in order to generate $70 million in accelerated revenue.

The costs to implement this program as detailed in the approved FSR include $329,000 for IT and $683,000 for program needs.

With the approval of additional funding, the FTB will be able to continue with complex and mission critical system processes for the Business Entities Tax System (BETS) which include implementing new Amnesty business rules, issuing Amnesty notices and billings, processing Amnesty tax returns and payments, and assessing new Amnesty penalties and interest for those who do not comply. This workload requires 2 limited-term positions plus some overtime.

In addition, extensive maintenance is required to keep FTB's complex and intricate collection system running smoothly and able to recover from production problems. Difficulties in production can occur when adding new functionality for installment agreements for corporations and modifying the archive process in order to retain Amnesty cases longer than provided for by current parameters. This workload requires 2 limited-term positions plus some overtime.

Other critical program activities include additional phone calls (estimated at 12,000 calls in FY 2005/06) and mailing approximately 1,500,000 notices. This workload requires 1.5 temporary help positions plus some overtime.

Alternative #2 – Provide no additional funding.

If funding is not approved, FTB cannot continue supporting post Amnesty activities without redirecting and consequently compromising other existing mission critical programs and the state of California will not benefit from the additional $70 million accelerated revenue generated by the Amnesty effort.

While the Amnesty time period is relatively short, the impact on collections and system functionality is much greater due to the time period taxpayers are able to pay off their liabilities and the related workload to monitor for future non-compliance for the 2005 and 2006 tax years.

F. Timetable

Funding to be provided on July 1, 2005. Refer to the FSR timetable for more detail.

G. Recommendation

Alternative #1 is recommended. This alternative provides for additional funding of $1,012,000 and 5.5 positions (5.3 PYs) to continue with critical post Amnesty activities such as: assessing new Amnesty penalties and interest for those who do not comply with Amnesty and adding new functionality for installment agreements for corporations.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
3		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	00 All Tax Programs		

TITLE OF PROPOSED CHANGE:

Tax Gap Enforcement Provisions

SUMMARY OF PROPOSED CHANGE:

This proposal requests $11,462,000 and 129.6 PYs (136.5 positions) to address California's income tax gap. This proposal includes several compliance activities that will generate revenue in the short term as as well as enhance overall voluntary tax compliance in the long term. The anticipated revenue/benefit to the State of California for FY 2004/05 is $39 million, increasing to nearly $82 million by FY 2007/08.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[X] YES [ ] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [X] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [X] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE. **PENDING**

DATE PROJECT # **04-10** FSR [X] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

Franchise Tax Board
FY 2005/06 Tax Gap Enforcement Provisions BCP

(Dollars in thousands)

ALLOTMENTS	Issue #1 Detection of Preparers Filing Fraudulent Returns		Issue #2 Audit Staff Augmentation		Issue #3 Additional Information Sources		Issue #4 Informant Reward Program		Issue #5 Questionable Wage Withholding		Issue #6 Underground Economy Criminal Investigations		Issue #7 Misdemeanor Prosecution Program		BY 2005/06 Tax Gap Enforcement Total	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services																
Total Salaries and Wages	36.5	1,487	31.0	1,674	17.0	648	3.0	209	16.0	920	19.0	990	14.0	742	136.5	$6,670
Salary Savings	-1.6	-67	-1.6	-83	-1.0	-33	-0.2	-9	-0.8	-45	-1	-50	-0.7	-37	-6.9	-$324
Net Salaries and Wages	34.9	1,420	29.4	1,591	16.0	615	2.8	200	15.2	875	18.0	940	13.3	705	129.6	$6,346
Staff Benefits		566		573		251		62		306		343		257		$2,358
Net Total Personal Services	34.9	1,986	29.4	2,164	16.0	866	2.8	262	15.2	1,181	18.0	1,283	13.3	962	129.6	$8,704
Operating Expense & Equipment																
General Expense		267		260		144		25		132		109		116		$1,053
Printing		4		3		2		0		3		2		1		$15
Communications		25		25		13		2		15		31		30		$141
Postage		0		0		0		0		11		0		0		$11
Travel-In-State		0		0		0		0		0		64		40		$104
Travel-Out-of-State		0		0		0		0		0		0		0		$0
Training		0		0		0		0		0		0		0		$0
Facilities Operations		11		10		5		1		5		63		70		$165
Utilities		0		0		0		0		0		0		0		$0
Cons & Prof Svs - External		300		0		450		0		0		300		0		$1,050
Data Processing		16		16		10		2		8		7		7		$66
Equipment		0		0		0		0		153		0		0		$153
Total OE & E		623		314		624		30		327		576		264		$2,758
Total Expenditures	**34.9**	**2,609**	**29.4**	**2,478**	**16.0**	**1,490**	**2.8**	**292**	**15.2**	**1,508**	**18.0**	**1,859**	**13.3**	**1,226**	**129.6**	**11,462**
FUNDING																
General Fund (1730-001-0001)		2,609		2,478		1,490		292		1,508		1,859		1,226		11,462
Total		**2,609**		**2,478**		**1,490**		**292**		**1,508**		**1,859**		**1,226**		**$11,462**
PROGRAM																
10 Tax Programs:																
Personal Income Tax (PIT)		2,462		2,478		1,490		166		1,508		1,859		1,226		11,189
Bank & Corporation (B&C)		147		0		0		126		0		0		0		273
Total		**2,609**		**2,478**		**1,490**		**292**		**1,508**		**1,859**		**1,226**		**$11,462**
ANTICIPATED 2005/06 REVENUE/BENEFITS		**$13,100**		**$8,700**		**$10,000**		**$800**		**$3,000**		**$1,200**		**$2,500**		**$39,300**
ANTICIPATED 2007/08 REVENUE/BENEFITS		**$11,300**		**$13,000**		**$13,200**		**$1,200**		**$35,000**		**$4,000**		**$4,000**		**$81,700**

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 3	**DATE** 9-Aug-04	**Title of Proposed Change:** **Tax Gap Enforcement Provisions**
PROGRAM	**ELEMENT**	**COMPONENT**
Tax Programs	**All Tax Programs**	

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	136.5	$ 0	$ 6,670,000
Salary Savings	.0	-6.9	$ 0	-$ 324,000
Net Total Salaries and Wages	.0	129.6	$ 0	$ 6,346,000
Staff Benefits b/			$ 0	$ 2,358,000
Total Personal Services			$ 0	$ 8,704,000

Operating Expenses and Equipment	Current Year	Budget Year
General Expenses /1	$ 0	$ 1,053,000
Printing /2	0	15,000
Communications /3	0	141,000
Postage /4	0	11,000
Travel-In-State /5	0	104,000
Travel Out-of-State	0	0
Training	0	0
Facilities Operations /6	0	165,000
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External /7	0	1,050,000
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /8	0	66,000
Equipment /9	0	153,000
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 2,758,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 General Expense for Branch @ $367, and for Depart'l $433 per position. Plus minor equipment @ $6322 per position as needed. PCs @$1300 per position as needed, and 17 notebooks @ $2500.
/2 Departmental $107 per position, plus $1K printing for envelopes.
/3 Departmental $793 per position, plus $2K megacom costs, and $35K wiring for W. Covina.
/4 Postage costs.
/5 Travel for investigations.
/6 Depart'l $315 per position and additional W. Covina costs ($25K Sec, $15K Fac, $83K Rent).
/7 Proposed contract services for City Business Tax information and media costs.
/8 Software for PCs@$500 per PC.
/9 Hardware costs include $75K for DISK trays, and $78K for backup (tape library frame, tapes and printer).

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 2,758,000
SPECIAL ITEMS OF EXPENSE d/		
	$ 0	$ 0
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 11,462,000

Source of Funds	**Appropriation No.** Org - Ref - Fund				
General Fund	1730	001	0001	$ 0	$ 11,462,000
				0	0
				0	0
				0	0
				0	0
				0	0
				0	0
Reimbursements	1730	501	0995	0	0
Totals				$ 0	$ 11,462,000

LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund				
General Fund	1730	001	0001	$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
Reimbursements				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES

Positions		Positions CY	Positions BY	Salary Range		Amount CY	Amount BY
Audit Division							
Program Spec I	PERM	0.0	5.0	$ 4,743	$ 5,763	$ 0	$ 315,000
Administrator I	PERM	0.0	2.0	$ 4,743	$ 5,763	$ 0	$ 126,000
Assoc Tax Auditor	PERM	0.0	23.0	$ 4,316	$ 5,247	$ 0	$ 1,320,000
Staff Serv Analyst Gen - Rg B	PERM	0.0	1.0	$ 2,850	$ 3,465	$ 0	$ 38,000
Tax Program Tech I, Ftb	PERM	0.0	4.0	$ 2,465	$ 2,998	$ 0	$ 131,000
Total Audit Division		.0	35.0			$ 0	$ 1,930,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	35.0				
Financial Management Division							
Acctg Officer Spec	PERM	0.0	1.0	$ 3,589	$ 4,363	$ 0	$ 48,000
Total Financial Management Division		.0	1.0			$ 0	$ 48,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	1.0				
Accounts Receivable Management Division							
Investigation Spec II, Ftb	PERM	0.0	1.0	$ 5,123	$ 6,188	$ 0	$ 68,000
Administrator I	PERM	0.0	1.0	$ 4,743	$ 5,763	$ 0	$ 63,000
Assoc Tax Auditor	PERM	0.0	17.0	$ 4,316	$ 5,247	$ 0	$ 975,000
Investigation Spec I, Ftb	PERM	0.0	5.0	$ 4,246	$ 5,120	$ 0	$ 281,000
Tax Technician, Ftb - Rg B	PERM	0.0	5.0	$ 2,632	$ 3,201	$ 0	$ 175,000
Tax Program Tech I, Ftb	PERM	0.0	1.0	$ 2,465	$ 2,998	$ 0	$ 33,000
Tax Technician, Ftb	PERM	0.0	4.0	$ 2,331	$ 2,835	$ 0	$ 124,000
Total Accounts Receivable Management Division		.0	34.0			$ 0	$ 1,719,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	34.0				
Administrative Services Division							
Compliance Rep, Ftb - Rg B	OT					$ 0	$ 26,000
Mailing Machines Operator II	OT					$ 0	$ 1,000
Staff Operations Specialist/Ftb	PERM	0.0	1.0	$ 4,516	$ 5,489	$ 0	$ 60,000
Assoc Operations Spec/Ftb	PERM	0.0	1.0	$ 4,111	$ 4,997	$ 0	$ 55,000
Total Administrative Services Division		.0	2.0			$ 0	$ 142,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	2.0				

Filing Division									
Assoc Tax Auditor	OT						$	0	$ 8,000
Assoc Operations Spec/Ftb	OT						$	0	$ 2,000
Tax Technician, Ftb - Rg B	OT						$	0	$ 9,000
Sr Compliance Rep.,Ftb	OT						$	0	$ 7,000
Administrator I	PERM	0.0	1.0	$ 4,743	$ 5,763		$	0	$ 63,000
Staff Prog Analyst Spec	PERM	0.0	1.0	$ 4,732	$ 5,754		$	0	$ 63,000
Staff Operations Specialist/Ftb	PERM	0.0	1.0	$ 4,516	$ 5,489		$	0	$ 60,000
Sr Compliance Rep.,Ftb	PERM	0.0	2.0	$ 4,316	$ 5,247		$	0	$ 115,000
Assoc Tax Auditor	PERM	0.0	7.0	$ 4,316	$ 5,247		$	0	$ 402,000
Asst Info Systems Analyst - Rg B	PERM	0.0	1.0	$ 2,994	$ 3,465		$	0	$ 39,000
Tax Program Supervisor	PERM	0.0	1.0	$ 2,898	$ 3,524		$	0	$ 39,000
Customer Service Specialist - Rg B	PERM	0.0	1.0	$ 2,850	$ 3,465		$	0	$ 38,000
Tax Program Tech II,Ftb	PERM	0.0	19.0	$ 2,757	$ 3,353		$	0	$ 697,000
Tax Technician, Ftb - Rg B	PERM	0.0	4.0	$ 2,632	$ 3,201		$	0	$ 140,000
Tax Program Tech I, Ftb	PERM	0.0	10.0	$ 2,465	$ 2,998		$	0	$ 328,000
Key Data Operator - Rg B	PI	0.0	3.5	$ 2,289	$ 2,780		$	0	$ 106,000
Seasonal Clerk	TEMP	0.0	2.0	$ 1,325	$ 1,514		$	0	$ 34,000
Total Filing Division		.0	53.5				$	0	$ 2,150,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	53.5						
Technology Services Division									
Sr Programmer Analyst Spec	PERM	0.0	2.0	$ 5,206	$ 6,327		$	0	$ 138,000
Sys Software Spec II Tech	PERM	0.0	1.0	$ 5,196	$ 6,316		$	0	$ 69,000
Staff Info Sys Analyst Spec	PERM	0.0	4.0	$ 4,732	$ 5,754		$	0	$ 252,000
Staff Operations Specialist/Ftb	PERM	0.0	1.0	$ 4,516	$ 5,489		$	0	$ 60,000
Assoc Operations Spec/Ftb	PERM	0.0	3.0	$ 4,111	$ 4,997		$	0	$ 164,000
Total Technology Services Division		.0	11.0				$	0	$ 683,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	11.0						
Total Salaries and Wages	Positions	.0	136.5				$	0	$ 6,672,000
	Part Yr Adj	.0	.0						
	P.Y.s	.0	136.5						

Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2005/06

Staff Benefits	2004/05	2005/06
OASDI /1	$ 0	$ 393,000
Dental /2	0	64,000
Health /3	0	765,000
Retirement /4	0	928,000
Vision /5	0	12,000
Medicare /6	0	93,000
Worker's Comp /7	0	71,000
Industrial Disability /8	0	7,000
Non Industrial Disability /9	0	7,000
Unemployment Insurance /10	0	18,000
Total Staff Benefits	$ 0	$ 2,358,000

1/ For permanent and overtime, 6.2% of net salary.
2/ For permanent, $500 per net personnel year.
3/ For permanent, $6,000 per net personnel year.
4/ For permanent, 14.843% of net salary.
5/ For permanent, $100 per net personnel year.
6/ 1.45% of net salary for permanent.
7/ 1.12% of net salary for permanent.
8/ 0.1% of net salary for permanent.
9/ 0.11% of net salary for permanent.
10/ 12.89% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Budget Change Proposal	**BCP No. 3**
Tax Gap Enforcement Provisions	**Date: August 9, 2004**

A. Nature of Request

This proposal requests funding of $11.5 million and 129.6 PYs (136.5 positions) to address California's estimated $6.5 billion income tax gap. The income tax gap consists of several categories of tax noncompliance. Therefore, this proposal includes a group of proposed initiatives intended to attack the problem in a comprehensive manner by increasing enforcement of existing statutes, by undertaking new deterrent measures and by creating public awareness of the consequences of tax-related cheating. The following measures work most effectively as a group, rather than as separate and disconnected proposals:

1. Enhanced detection of tax preparers filing fraudulent returns
2. Audit staff augmentation
3. Additional information sources to identify nonfilers
4. Informant reward program
5. Questionable wage withholding detection
6. Underground economy criminal investigations
7. Misdemeanor prosecution program

Undertaking these initiatives in FY 2005/06, following the implementation of a tax amnesty program for FY 2004/05, will enable Franchise Tax Board (FTB) to begin attacking the growing tax gap compliance problem beyond current budgeted levels. This will generate revenue in the short term as well as enhance overall voluntary tax compliance in the long term.

FTB estimates these tax gap enforcement efforts will produce revenue benefits of $39 million in FY 2005/06, increasing to $67 million in FY 2006/07, and nearly $82 million in FY 2007/08. In the third year, approximately 57 percent of the total revenue is new (currently uncollected) revenue, with the remainder being accelerated revenue, i.e., revenue that is collected one year earlier.

B. Background

The tax gap is defined as the difference between what taxpayers owe and what they voluntarily pay. California's income tax gap has grown over the years from an estimated $2 billion dollars annually in the 1980s to an estimated $6.5 billion today. This estimate is based on the Internal Revenue Service (IRS) calculations of the federal tax gap, and it does not include those revenues lost to abusive tax shelters or unknown illegal activities. In addition, the estimate does not include taxes administered by the Employment Development Department or the Board of Equalization.

Revenue agencies historically have addressed tax cheating, nonfiling and erroneous filing through a variety of program activities funded according to a “return-on-investment” methodology. For example, a $1: $5 cost-to-benefit ratio (CBR) traditionally has been the yardstick to use when considering the expansion of FTB’s existing compliance programs. While the CBR approach correctly attributes short-term revenue associated with a specific business activity, such as auditing tax returns, it does not reflect the longer term benefits that result from undertaking a “holistic” set of compliance activities such as the programs described in this BCP. These benefits consist of increased voluntary compliance on the part of individual and business entity taxpayers who will choose to file accurately and pay what they owe in the future, rather than join the ranks of those who fail to file and pay or those who misreport income and claim excessive deductions or credits.

IRS data shows that taxpayers voluntarily pay about 85 percent of the income taxes they owe. As this percentage applies to California for FY 2004/05, it is estimated that California income tax receipts collected through voluntary means will total $45.6 billion. Apart from the one-time Voluntary Compliance Initiative that allowed taxpayers who participated in abusive tax shelters to come forward in 2004/05 and pay back taxes, about $2 billion will be collected through FTB’s traditional tax compliance programs.

Voluntary compliance varies based on source of income, particularly for those who earn wages compared to those who are self-employed. IRS statistics show that:

- Wage earners report nearly 99 percent of their wages.
- Self employed individuals, who operate formally, report 68 percent of their business income.
- “Informal suppliers,” self-employed individuals operating informally on a cash basis, report just 19 percent of such income on their tax returns.

Implementing the tax gap enforcement measures described in this BCP will produce new revenue and will accelerate revenue. But more importantly, these measures will cause taxpayer behavioral changes in favor of self-compliance over the long term and the state’s tax base will increase. New and accelerated revenue estimates have been developed for each of the component measures in this proposal.

Changing the attitudes and behavior of taxpayers who now cheat or are considering cheating, and reassuring honest taxpayers that they are doing the right thing, requires that we enforce the tax laws vigorously and that we tell taxpayers that they will get caught if they cheat. Enforcement efforts lose their effectiveness if only a few taxpayers know that FTB has stepped-up its programs. Therefore, closely tied to this proposal, is an education and publicity element. Informing the public of these new efforts through the media will help the provisions have a much broader impact on taxpayer behavior than the result of a single enforcement action on an individual taxpayer.

Publicity and education will:

- Encourage future self-compliance by taxpayers who are currently circumventing their tax obligations.
- Deter others who are considering noncompliance
- Reassure compliant taxpayers that paying their fair share is the right thing to do.

Special attention has been made in developing these proposals to minimize new burdens placed on employers and other businesses involved in providing information to the government or taking other actions required to comply with tax laws. Nevertheless, FTB recognizes that additional information reporting burdens will be imposed on a few industry groups for the measure that calls for more income reporting to identify nonfilers.

Proposed Tax Gap Enforcement Measures

1. Enhanced Detection of Tax Preparers Filing Fraudulent Returns
Resource Need: $2.6 million / 34.9 PYs (36.5 positions)
Revenue Benefit: FY 2005/06 $13.1 million and $11.3 million beginning in FY 2006/07

This proposal will expand FTB's program to identify tax preparers who file fraudulent tax returns claiming fictitious credits to claim refunds. These preparers typically file returns for hundreds of taxpayers each claiming a fraudulent credit. During the initial processing of tax returns, FTB detects preparers filing these claims. For FY 2003/04 FTB prevented $2.5 million in fraudulent refunds from being issued. An additional $1.2 million is still being collected from refunds issued prior to detection. The list of potentially fraudulent preparers examined and verified during the year was accomplished by temporarily shifting resources. This resulted in backlogs in other return processing areas.

For FY 2004/05, FTB already has identified more than 250 questionable preparers, but with current resources, staff will only be able to work the client lists for 50 of these preparers. This BCP would expand the work done during the initial processing of returns by assigning additional staff for fraud detection during the filing process. In addition, this BCP would provide additional staff for FTB's Audit Program to work the more complex issues and to assess preparer penalties. The preparer penalties are $250 - $1,000 per return based on the level of willful or reckless conduct by the preparer.

Currently many tax preparers preparing fraudulent returns escape with no consequence due to FTB's inability to devote appropriate resources to this effort. Instituting the preparer penalty, increasing the enforcement effort during the filing process, and addressing the more complex issues will reduce fraudulent refunds and provides a strong deterrent to tax preparers considering such fraudulent practices.

FTB Audit Program's work on the more complex issues and assessment of preparer penalties will generate $840,000. The majority of the revenue benefits, $12.3 million, will be generated from work during the processing of returns.

2. Audit Staff Augmentation
Resource Need: $2.5 million / 29.4 PYs (31 Positions)
Revenue Benefit: FY 2005/06 $8.7 million and $13 million beginning in FY 2006/07

The mission of FTB's Audit Program is to encourage self-compliance by administering the income tax audit program in a timely, responsible, and fair manner. This program generates approximately $1.2 billion in revenue for the General Fund by conducting audits on individual taxpayers and business entities. In addition, the program denies about $150 million each year in incorrect claims for refund.

The Audit Program's discretionary workloads are prioritized by CBR ratios. The workload benefits (revenue) are compared to the expense of conducting the audits. Audit models are then ranked according to CBR and resources are allocated to audit models based upon CBR ranking. In the past, FTB has requested funding for all models with a CBR of $1: $5 or greater. However, at times audit models have been funded as low as $1: $2 CBR.

Currently, the audit program has discretionary audit workloads and a claim workload with a CBR as low as $1: $4. The claim workload is an audit of refund claims filed by taxpayers who believe they have overpaid their taxes. By auditing these claims, the audit program would protect (deny) existing self-assessed tax of $1.2 million annually. Current staff resources are not sufficient to cover these additional discretionary workloads below the $1: $5 CBR level. By adding auditor positions to FTB's workforce, the Audit Program will generate additional revenue at the $1: $4 CBR margin and will have flexibility to redirect audit staff to workloads above the $1: $5 level as they are discovered.

The following workloads have been identified as those that will provide significant additional revenue:

- Automated Audit – This workload involves less complex, single-issue audits above $1: $4 CBR. FTB uses an audit selection system to compare California against federal tax return data for income and deduction discrepancies between state and federal tax returns. It is capable of producing fully automated notices of proposed assessments. This workload will generate $1.4 million in FY 2005/06 and $2.2 million in FY 2006/07.
- Professional Audits - Workloads for Personal Income Tax (PIT), Pass-Through Entities and General C Corporations will increase to include additional audits of complex issues with CBRs as low as $1: $4. In addition, as indicated above, a claim for refund workload would protect already collected self-assessed dollars of $1.2 million. This workload will generate $5.3 million in FY 2005/06 and $8.7 beginning in FY 2006/07.
- Unreported Income Detection Audits - This workload will utilize income information reported to FTB and used in the nonfiler program to identify taxpayers underreporting their income. This workload will generate $2.1 million beginning in FY 2005/06.

3. Additional Information Sources to Identify Nonfilers

Resource Need: $1.5 million / 16 PYs (17 positions)
Revenue Benefit: FY 2005/06 $10 million increasing to $11 million in FY 2006/07, $13.2 million in FY 2007/08 and $17 million in FY 2009/10

This component will identify an estimated 37,000 individuals who fail to file personal income tax returns. Many individuals in this group are self-employed, engage in "underground economy" transactions, and fail to file or underreport their income when filing. Many of these individuals currently escape detection by FTB because information about their financial transactions is captured by other agencies or businesses but not reported to FTB.

FTB's personal income tax nonfiler compliance program identifies a large population of taxpayers who have not filed their income tax returns. The result is that each year more

than 200,000 tax returns are filed and $350-$450 million in taxes are collected through compliance efforts. FTB relies on automated data processing functionality to receive, process and match information from a variety of sources to identify and notify potential nonfilers. When FTB's current automated filing enforcement system was implemented a few years ago, it was built with the ability to accept new types of income information data sources as they became available. This request proposes to add six additional income information sources to identify nonfilers:

- Department of Social Services day care and residential care provider information – estimated nonfilers that will be identified: 4,300
- Motor fuel information from BOE for self-employed truckers – estimated number of nonfilers that will be identified: 1,700
- Alcohol Beverage Control information – estimated number of nonfilers that will be identified: 3,600
- Check cashing transaction reports from check cashing businesses – estimated number of nonfilers that will be identified: 11,200
- 1099 information reports on real estate commissions paid to real estate agents from escrow/title companies – estimated number of nonfilers that will be identified: 2,200
- City business tax information – estimated number of nonfilers that will be identified: 14,300

The first year of this process will require payers or holders of the information to implement the new requirement. The income information itself would be transmitted to FTB at the end of the first year.

THIRD PARTY REPORTING IMPACT

Two of the information sources require legislation: check cashing businesses and 1099 reporting on real estate commissions. No objections have been raised thus far from check cashing businesses, but several parties, including the California Land Title Association and the California Taxpayers Association, have raised concerns about the proposed burden of 1099 reporting requirement for real estate commissions. Concerns include arguments that escrow companies currently are not required for federal purposes to prepare 1099 information reports. In addition, industry has indicated that there are no automated systems in place to report on commissions. At its June 2004 meeting, the three-member Franchise Tax Board directed staff of the department to meet with industry representatives to attempt to reach an accord with industry on the burdens imposed by this proposal. Staff will do so during the Fall of 2004.

The 1983 Revenue and Taxation Code Section 19557 authorized a state mandated city business tax (CBT) reporting requirement for all cities that assess a business tax and maintain computerized record-keeping systems. In 1999, the statute was repealed. Reimbursement costs had skyrocketed and there was little or no accountability of why funds were being paid.

FTB was asked to conduct a more fiscally responsible, non-mandated CBT pilot. Finance funded the pilot with approximately $1,000,000 payable to cities for use of their data based roughly on a $1: $5 cost-to-benefit ratio and 13 cities were invited to participate. The results from the CBT Pilot for the 1999 tax year were disappointing and

generated less revenue than expected. As a result, only a portion of the $1,000,000 was paid out based on the cost/benefit formula.

Although the pilot was originally scheduled for two years, the CBT Pilot was discontinued after one year due to budget concerns and directions to discontinue non-mission critical contracts provided under the Executive Order D-49-01. Today, through our INC System, we have a more efficient data matching process that will better utilize the CBT information. We will be able to match more cases per dollar cost. Additionally, cities have indicated their desire to participate in this process at a reduced cost.

4. Informant Reward Program
Resource Need: $292,000 / 2.8 PYs (3 positions)
Revenue Benefit: FY 2005/06 $ 0.8 million and $1.2 million beginning in FY 2006/07

This component of the tax gap BCP will initiate an informant reward program to help combat illegal tax evasion. The program will provide an additional method for the FTB to find tax evaders that our audit and investigation programs normally miss. FTB anticipates that it will conduct approximately 50 audits per year as a result of this information. We need only pursue tips regarding tax issues that are relevant to California law only. We believe that most informants looking for a reward will provide tips to both the IRS and FTB (or to the IRS alone) because the higher federal tax rate will lead to higher rewards.

5. Questionable Wage Withholding
Resource Need: $1.5 million / 15.2 PYs (16 Positions)
Revenue Benefit: FY 2005/06 $3 million increasing to $35 million in FY 2007/08

We estimate that 80,000–100,000 individuals do not have sufficient money withheld from their wages to pay their tax liability at the end of each year. Because some taxpayers do not have adequate withholding, they are faced with a significant tax bill at the end of the year that many are unable to pay in a timely fashion. California's withholding process is designed to help taxpayers pay their taxes as they earn their income. In addition, some taxpayers try to avoid paying their share of taxes by claiming excessive exemptions on their W 4/DE 4s.

Our selection criteria may include taxpayers claiming fewer than 10 allowances. The program focuses only on taxpayers who are seriously underwithheld. Taxpayers contacted will be those whose primary income are from wages and have a history of being underwithheld and not voluntarily paying their taxes. The selection criteria is consistent with both IRS's program and FTB's past policy.

This proposal will address taxpayers:

- that are underwithheld for two years, and
- their previous year balance due is at least $500, and
- at least 80 percent of their income is from wages.

This proposal would re-engineer a questionable wage withholding program to educate employers and employees about the withholding process and their responsibilities and use existing enforcement authority to take involuntary action and change the

withholding allowances on those under withholders filing inappropriate W 4/DE 4s. This proposal will also reduce the number of wage garnishments issued through employers.

EMPLOYER IMPACT
We estimate that approximately 64,000 employers will be contacted to either provide copies of withholding documents or to change an employee's withholding, These employees are the same taxpayers that are likely to receive a wage levy due to their being underwithheld. By contacting employers early on in the process to ensure that taxpayers are properly withheld throughout the year we will eliminate the need for issuing approximately 30,000 wage levies annually to employers.

Deterrent Effect

The following two provisions are recommended for their deterrent effect. While both provisions improve compliance and raise revenue, their primary purpose is to increase the state's tax base through a deterrent effort. The revenue from the deterrent effect is not included in the revenue estimates. Direct revenue from the enforcement action is shown in the proposals. Convincing taxpayers to correctly report their income upfront requires that we reassure honest taxpayers by enforcing the tax laws and let taxpayers know that if they cheat they will get caught.

6. Underground Economy Criminal Investigation

Resource Need: $1.9 million / 18.0 PYs (19 positions)
Revenue Benefit: FY 2005/06 $1.2 million increasing to $4 million in FY 2007/08

The purpose of this request is to expand the felony investigations program in order to enhance the State's ability to enforce the criminal revenue and taxation code sections, thereby closing the tax gap. The Franchise Tax Board's (FTB) Investigation Bureau has a pilot cash pay/underground economy investigations unit. Their evaluation of California's growing tax gap problem has identified between $300 and $610 million in unreported income and is expected to assess between $45 and $82.5 million in tax on this unreported income.

The current inventory of open criminal tax investigation cases exceeds the Investigations Bureau's available resources. This augmentation will enable the Investigations Bureau to implement new efficiencies to accelerate the resolution of existing criminal tax investigation cases and pursue a significant number of additional cases.

Many individuals who will be investigated live lavish lifestyles with million dollar homes and expensive automobiles and yet have not paid taxes in years. FTB has been able to find these individuals by using Suspicious Activity Reports (SARs) that are prepared as a result of the Banking Secrecy Act amendments of 1986. This Act addresses the problem of money laundering. SARs have become a new source of information provided by the U.S. Treasury for the specific use of law enforcement officials.

7. Misdemeanor Prosecution Program

Resource Need: $1.2 million / 13.3 PYs (14 positions)
Revenue Benefit: FY 2005/06 $2.5 million increasing to $4 million in FY 2006/07

This component of the tax gap proposal will establish a misdemeanor program in FTB's Investigations Bureau. The primary purpose is to step-up deterrence by prosecuting more taxpayers and broadly publicizing the cases. The proposed program will strengthen the deterrent effect of FTB's criminal enforcement program by extending it through all socioeconomic groups. This program will help ensure a fair and equitable tax burden among all taxpayers, and will result in a comprehensive across-the-board criminal enforcement effort to thwart tax evasion and the underground economy.

The primary focus of a misdemeanor program is to provide a strong deterrent effect by publicizing the prosecution of noncompliant taxpayers. Misdemeanor cases take less time to investigate and can also be investigated by lower level staff.

This request proposes new techniques to effectively leverage FTB staff and resources against the underground economy. This proposal provides a stronger deterrent effect and a comprehensive enforcement approach to the underground economy. It focuses on taxpayers who are participating in tax evasion and the underground economy, yet not warranting felony prosecution.

This proposal will:

- Establish a misdemeanor enforcement program that actively pursues nonfiler and under-reporters.
- Include noncompliant business entities in both civil and criminal investigations, especially suspended corporations that are conducting business activities in California.
- Issue misdemeanors and criminally prosecute individuals and entities that fail to respond to our collection and filing enforcement notices.

Currently, the Investigations Bureau devotes its staff resources exclusively to felony prosecutions for several reasons, including

- The large quantity of egregious felony cases, many of which have significant revenue potential.
- The deterrent effect of criminal prosecution on felony cases.

C. <u>State Level Considerations</u>

Voluntary Compliance and Deterrence: Closely tied to this proposal is an education and publicity element. Informing the public of these new provisions through the media will help the individual proposals have a much broader impact on taxpayer behavior and the tax base than the result of a single enforcement action on an individual taxpayer. The emphasis placed upon these provisions through publicity and education will encourage future self-compliance by taxpayers who are currently circumventing their tax obligation, deter others who are considering noncompliance, and reassure those compliant taxpayers that pay their fair share.

These proposals are directed to noncompliant taxpayers. Taking action to begin closing the tax gap results in more equitable taxation for those taxpayers who voluntarily comply with the State's tax laws.

This package of proposals places few new burdens on businesses. Nevertheless, there are a few noteworthy impacts to check cashing businesses and escrow/title companies that pay real estate commissions. In addition, the proposed questionable wage withholding program will impose a new burden on some employers. This burden will be partially offset by a reduction in wage garnishments.

D. Facility/Capital Outlay Considerations

This BCP includes facility funding in the amount of $312 per position. The standard dollar figure was derived using the actual average cost per position of the facility costs. This standard cost will be sufficient to provide for the on-gong facility cost for the positions requested.

In addition to the standard cost per position described above, funding of $123,000 is requested for district office lease space and associated security needs. Issue #6 – Underground Economy and Issue #7 – Misdemeanor Program both require additional positions in the West Covina District Office. This office is near capacity. The non-standard funding requested assumes that additional leased space can be procured adjacent to the existing office.

E. Justification

This proposal attacks segments of the tax gap in a comprehensive manner by increasing enforcement of existing statutes, by undertaking new deterrent measures and by creating public awareness of the consequences of tax-related cheating. This proposal generates immediate revenue for the state and increases the tax base in the long term through increased voluntary compliance on the parts of individual and business entity taxpayers.

F. Analysis of all feasible alternatives

Alternative 1: Provide funding $11.5 and 129.6 PYs (136.5 Positions) to fund the tax gap enforcement proposals and increase the number of enforcement resources for this effort.

This alternative takes a holistic approach and attacks the tax gap in a comprehensive manner by increasing enforcement of existing statutes, by undertaking new deterrent measures and by creating public awareness of the consequences of tax-related cheating.

This approach increases immediate revenue by $39 million through enforcement actions or by stopping refund claims. The total projected revenue for the enforcement effort will be increased to nearly $82 million in FY 2007/08. These measures will also cause taxpayer behavioral changes in favor of self-compliance over the long term. As a result, the state's tax base will increase.

Alternative 2: Provide no additional funding to work the enforcement proposals.

Do not provide additional resources. The department will continue to operate with current level of resources and address their workloads as they have done in the past.

Alternative 3: Provide funding for some of the enforcement proposals.

This will decrease revenue from that provided in Alternative one. This will also decrease the deterrent effect of these enforcement provisions.

G. Timetable

Staff can be hired and begin training in July 2005. Enforcement activities will begin after the conclusion of the training activities.

H. Recommendations

To achieve the desired objective of increasing revenue for the General Fund, and encouraging self-compliance, the department recommends Alternative 1. This proposal would:

- Provide an increased enforcement presence that discourages non-compliance and protects the current and future tax base.
- Help to provide assurance to self-compliant taxpayers that California is taking steps to close the tax gap.
- Generate additional tax revenues needed to fund state operations.

If we do not take immediate steps to address California's rising tax gap, we will see it continue to grow as evidenced by the 300 percent growth from the 1980s to the tax gap of over $6.5 billion today. Compliant businesses will increasingly be at a disadvantage when competing for business against their noncompliant competitors. In our voluntary tax system, most taxpayers comply because it is the right thing to do. Unfortunately, some taxpayers comply only because they believe they will get caught if they do not.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
4		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	10 Personal Income Tax		

TITLE OF PROPOSED CHANGE:

Integrated Audit System (IAS)

SUMMARY OF PROPOSED CHANGE:

Provide funding of $439,000 and 1.9 PYs to begin development of the Integrated Audit System project. Upon completion, the project will provide the Audit Program the ability to identify and address areas of taxpayer non-compliance, reduce unnecessary taxpayer intrusion, encourage voluntary compliance with the state's tax laws and provide the technology to improve communication with taxpayers. The project is expected to generate $150-$170 million in additional benefits during its development and $50-$60 million in ongoing annual benefits.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[ ] YES [X] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [ ] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [X] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

PROJECT # **FSR will be submitted late September** FSR [X] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 4	**DATE**	**July 26, 2004**	**Title of Proposed Change:**
			Integrated Audit System (IAS)
PROGRAM	**ELEMENT**		**COMPONENT**
Tax Programs	**Personal Income Tax**		

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	2.0	$ 0	$ 132,000
Salary Savings	.0	-.1	$ 0	-$ 7,000
Net Total Salaries and Wages	.0	1.9	$ 0	$ 125,000
Staff Benefits b/			$ 0	$ 42,000
Total Personal Services			$ 0	$ 167,000

Operating Expenses and Equipment		
General Expenses /1	$ 0	$ 17,000
Printing	0	0
Communications /2	0	2,000
Postage	0	0
Travel-In-State	0	0
Travel Out-of-State	0	0
Training	0	0
Facilities Operations /3	0	1,000
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External /4	0	251,000
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /5	0	1,000
Equipment	0	0
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 272,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 General Expense for Branch @ $367, and for Depart'l $433 per position. Plus minor equipment @ $6322 per position, including modular furniture. PCs @$1300 per position.
/2 Departmental $793 per position.
/3 Departmental $315 per position.
/4 Consultant costs for independent verification and validation (IV&V). Also includes $31,000 for DGS costs.
/5 Software for PCs@$500 per PC.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 272,000
SPECIAL ITEMS OF EXPENSE d/		
	$ 0	$ 0
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 439,000

Source of Funds	**Appropriation No.** Org - Ref - Fund				
General Fund	1730	001	0001	$ 0	$ 439,000
				0	0
				0	0
				0	0
				0	0
				0	0
				0	0
Reimbursements	1730	501	0995	0	0
Totals				$ 0	$ 439,000

LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund				
General Fund	1730	001	0001	$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
Reimbursements				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES

Positions		Positions CY	Positions BY	Salary Range		Amount CY	Amount BY
Audit Division							
Sr Operations Specialist/Ftb	PERM	0.0	2.0	$ 4,960	$ 6,028	$ 0	$ 132,000
Total Audit Division		.0	2.0			$ 0	$ 132,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	2.0				
Total Salaries and Wages	Positions	.0	2.0			$ 0	$ 132,000
	Part Yr Adj	.0	.0				
	P.Y.s	.0	2.0				

Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2005/06

Staff Benefits	2004/05	2005/06
OASDI /1	$ 0	$ 8,000
Dental /2	0	1,000
Health /3	0	11,000
Retirement /4	0	19,000
Vision /5	0	0
Medicare /6	0	2,000
Worker's Comp /7	0	1,000
Industrial Disability /8	0	0
Non Industrial Disability /9	0	0
Unemployment Insurance /10	0	0
Total Staff Benefits	$ 0	$ 42,000

1/ For permanent and overtime, 6.2% of net salary.
2/ For permanent, $500 per net personnel year.
3/ For permanent, $6,000 per net personnel year.
4/ For permanent, 14.843% of net salary.
5/ For permanent, $100 per net personnel year.
6/ 1.45% of net salary for permanent.
7/ 1.12% of net salary for permanent.
8/ 0.1% of net salary for permanent.
9/ 0.11% of net salary for permanent.
10/ 12.89% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Budget Change Proposal	**BCP No. 4**
Integrated Audit System (IAS)	**Date: July 26, 2004**

A. Nature of Request

The Audit Program is requesting $439,000, including 1.9 PYs and $251,000 for an Independent Verification & Validation (IV&V) oversight vendor and DGS costs, for the Integrated Audit System (IAS) procurement process. It is estimated that this project would deliver between $220 and $240 million in additional benefits during the development period and $50-$60 million in annual ongoing benefits. The project will be fully implemented in FY 2010/11 and will incur a development cost in a range of $75 to $85 million.

The IAS project is expected to improve the efficiency and effectiveness of the Audit Program, provide the ability to utilize more sophisticated audit modeling techniques, and transition the Filing Enforcement data warehouse into a format that will respond to Audit's business queries. As more facets of tax return processing and return data capture are automated, the IAS will position the Audit Program to take advantage of information that becomes available in electronic format.

IAS project development and implementation is not scheduled to begin until FY 2006/07. The requested resources are necessary for initial review and oversight of the procurement phase of the project.

B. Background

An IAS Feasibility Study Report (FSR) was submitted for Department of Finance (DOF) approval in 2003. At the suggestion of DOF, FTB withdrew the proposal for FY 2004/05. DOF understood FTB's need to replace older systems but expressed concerns about moving forward with a large IT project given the budget climate of that time.

After the FSR was submitted in 2003, the Audit Program determined that additional effort is required to the foundation provided by the Filing Enforcement data warehouse so that it can be configured to answer Audit's business questions.

An IAS project would address the following business problems:

- Audit data is stored in separate stovepipe systems that cannot share data, and these systems do not provide data cleansing and matching functions to efficiently use data. Therefore, FTB auditors are unable to make the best use of available taxpayer information to identify and select the most productive audits.
- Existing audit modeling technology lacks the sophistication required to identify the most productive audits.

- Aging audit IT systems are inflexible and cannot be enhanced sufficiently to quickly adapt to changing trends in evasive tax strategies to identify, prioritize and select the most productive audits.
- FTB's Audit Program and Filing Enforcement Program do not have easy access to additional sources of data to identify both filers and non-filers who may have unreported income.
- Current audit systems do not enable electronic communication with taxpayers and their representatives.

FTB plans to resubmit a revised IAS FSR in September 2004 that adjusts project timelines in light of new oversight requirements, reevaluates project costs and benefits, and expands the project scope to include work on the data warehouse.

C. State Level Considerations

The IAS proposal is aimed at identifying and addressing areas of taxpayer non-compliance. Once implemented, this project will allow the audit program to maximize the use of its existing resources by selecting those audits with the highest probability of non-compliance and reducing the number of audits that result in no change (that is, audits of correctly filed tax returns). In addition, this project will allow FTB to reduce unnecessary taxpayer intrusion, provide the technology to transform the way taxpayers interact with the audit program and encourage voluntary compliance with the state's tax laws.

Taxpayer income information is currently received from other state agencies as well as the federal government. Whether additional data can be collected from these agencies will be dependent upon the availability of that data in electronic format. It is anticipated that associated costs and impact to other agencies will be minimal.

D. Facility/Capital Outlay Considerations

No impact to facility/capital.

E. Justification

This proposal is consistent with the FTB Strategic Plan, in endeavoring to deliver efficient and high-quality business results by making a cost effective investment in FTB's infrastructure and to promote fair and effective tax administration.

F. Analysis of all feasible alternatives

Alternative #1: Augment FTB's budget by 1.9 PYs ($188,000) and $220,000 for Independent Verification & Validation to complete procurement for IAS, and $31,000 for DGS costs.

The two positions are for a project controller and a project administrative specialist that will be used during project initiation and throughout the project development and implementation. The $220,000 for the Independent Verification & Validation vendor will assist in overseeing the procurement of a vendor business partner for the project. This alternative will allow the department to partner with a consultant to develop the most

effective ways of pursuing an integrated audit system. This system will position FTB's Audit Program to make the most effective use of electronic data to identify and select returns for audit with the most significant non-compliance issues. Focusing audit efforts will reduce intrusion on compliant taxpayers.

In addition, an integrated audit system will provide auditors the tools to efficiently audit those returns that provide high cost / benefit ratios. It is estimated that an integrated audit system could secure an additional $220-$240 million during the six years development period and $50-$60 million annually in ongoing benefits. In addition, the project will reduce the volume of no change cases (because better audit selection will reduce the number of audits on correctly filed returns) and provide taxpayers with the electronic service channels they expect from state government. The scope of the project and related benefits will be further defined in the IAS FSR and refined by the business partner in their project proposal. It is estimated that the total cost for the project will be in the range of $75 to $85 million.

Alternative #2: Do not augment FTB's budget by 1.9 PYs ($188,000) and $220,000 for IV&V and $31,000 for DGS costs.

This alternative will result in a lost opportunity to launch the study and procurement process of an integrated audit system that could make maximum use of audit's existing resources to effectively and efficiently select and examine the most audit-worthy tax returns. This alternative would forgo estimated on-going benefits of $50-$60 million.

G. Timetable

Provide funding by July 1, 2005. Additional timetable information will be provided in September 2004 with the FSR.

H. Recommendations

Alternative #1 is recommended. The selection of Alternative #1 will allow the department to proceed with procurement of an IV&V vendor to oversee the procurement of the Integrated Audit System project business partner. The IAS project will deliver updated technology by replacing Audit's many aging business applications and provide the tools to manage and prioritize case selection, increase yield of cases worked, identify additional non-filers, and reduce taxpayer intrusion. In so doing, the system will provide substantial additional revenue for the State of California and increase taxpayer satisfaction with FTB's programs. Upon completion, the project is expected to generate an additional $50-$60 million in annual benefits. Project objectives and associated benefits streams will be further defined in the feasibility study process.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
5		1730	Franchise Tax Board
PROGRAM	**ELEMENT**	**COMPONENT**	
Various	Various		

TITLE OF PROPOSED CHANGE:

Phase III Building- Move-In Occupancy Costs

SUMMARY OF PROPOSED CHANGE:

Provide $5,060,000 to facilitate the relocation of staff and operations to the new State Office Buildings and to fund additional maintenance and operating costs.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[ ] YES [X] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [X] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [ ] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? Yes

[X] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR [ ] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 5	**DATE**	**July 26, 2004**	**Title of Proposed Change:**
			Phase III Building- Move-In Occupancy Costs
PROGRAM	**ELEMENT**		**COMPONENT**
Various	**Various**		

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	.0	$ 0	$ 0
Salary Savings	.0	.0	$ 0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0	$ 0
Staff Benefits b/			$ 0	$ 0
Total Personal Services			$ 0	$ 0

Operating Expenses and Equipment		
General Expenses /1	$ 0	$ 7,646,000
Printing	0	0
Communications /2	0	-256,000
Postage	0	0
Travel-In-State	0	0
Travel Out-of-State	0	0
Training	0	0
Facilities Operations /3	0	-2,463,000
Utilities /4	0	133,000
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External	0	0
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing	0	0
Equipment	0	0
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 5,060,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Includes $6,695,000 for disassembling, cleaning, reassembling and for new Haworth component parts to complete workstations; $404,000 for additional supplies and maintenance commodities, and service contracts costs; and $547,000 for additional move costs.
/2 Reduction of $256,000 from cancellation of telecom/data and trunk lines associated with the leased spaces.
/3 Includes a reduction of $5,947,000 in rents associated with the cancellation of leased spaces. Also includes $3,484,000 to reimburse DGS for maintenance and operations costs associated with Phase III buildings.
/4 Additional increase in utility costs.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 5,060,000
SPECIAL ITEMS OF EXPENSE d/		
_____	$ 0	$ 0
_____		
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 5,060,000

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund - Tax	1730	001	0001	$ 0	$ 4,592,000
General Fund - HRA	1730	001	0001	0	63,000
General Fund - PRA	1730	001	0001	0	16,000
General Fund - Child Supp Prgm 40	1730	001	0001	0	62,000
DMV - Motor Vehicle acct	1730	001	0044	0	21,000
DMV - Lic Fee Acct	1730	001	0064	0	40,000
Court Ordered Debt	1730	001	0242	0	64,000
Reimbursements-Child Supp Prgm 40	1730	505	0995	0	119,000
Reimbursements - Contract Prgm 70	1730	501	0995	0	83,000
Totals				$ 0	$ 5,060,000

LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
				$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Budget Change Proposal	**BCP No. 5**
Phase III – Move-In and Occupancy Costs	**Date: July 26, 2004**

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of $5.06 million to facilitate the continued relocation of staff and operations to the new State Office Project (also referred to as Phase III) including the renovation and occupancy of its existing Butterfield office buildings. The following FY 2005/06 expenditures and projected savings are associated with the move and occupancy of the Phase III project based on the current construction schedule:

- $ 4,021,000 - Maintenance and Operating Costs
- $ 6,695,000 - Modular Systems Furniture Disassembly/Reassembly/Cleaning Contract
- $ 547,000 - Move Contract
- -$ 6,203,000 - Savings resulting from cancellation of 294,176 square feet of leased office space

Following occupancy of the State Office Project, FTB will have successfully relocated staff and operations from approximately 463,000 square feet of leased facilities currently located within the Sacramento Highway 50 corridor to the new Phase III office buildings. The consolidation of the FTB organization at the expanded Butterfield campus will streamline FTB's local operations. The projected rent savings in FY 2005/06, which includes the added cancellation of 294,176 square feet of leased space and cancellation of certain telecommunications and data contracts, is estimated at $6.2 million.

B. Background/History

The Phase III project is based on Senate Bill 1589 (Chapter 328/1998) authorizing the Department of General Services to use lease revenue funds for the acquisition of land, design, and construction of the State Office Project. The consolidation strategies expressed in FTB's 1995 Master Plan Report and confirmed in the subsequent 1998 Update supported the authorizing legislation. The consolidation of FTB staff currently housed in leased space at the expanded Butterfield campus is consistent with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements, and will result in FTB operating efficiencies.

The State Office Project includes construction of a central plant, warehouse, Town Center, new office buildings and renovation of its existing Butterfield office and warehouse facilities. The maintenance and operation of those facilities will be the

responsibility of the Department of General Services, Building and Property Management Branch (BPMB). Expenditures for the essential building operating costs, such as BPMB salaries, increased utilities, expendable supplies, and preventative maintenance programs, will be paid by FTB. Services and equipment required for FTB's occupancy that will impact FTB's baseline support budget are not funded by the State Office Project, and are the subject of this funding request:

1. **Maintenance and Operating Costs - $4.021 Million**

The current 851,000 square foot Butterfield office and warehouse facility will expand to approximately 1,851,000 square feet upon completion of the State Office Project. FTB received funding in FY 2003/04 and FY 2004/05 based on Department of Finance (DOF) recognized staffing standards for BPMB provided property management, buildings and grounds maintenance, and associated trades. This request is consistent with the state policy on staffing new state office buildings and is critical to the hiring and training of staff in order to maintain service levels and maintenance programs. The estimated salaries were based on the DGS Price Book for FY 2004/05 with a 5% adjustment for an inflationary salary increase.

In summary, FTB requests an augmentation in FY 2005/06 of $3.484 million to fund the full year salaries relative to the new BPMB staff based on the associated FY 2004/05 effective dates; $404K for the expenses relative to a full year costs for increased supplies and essential building maintenance commodities and service contracts; and $133K for increased utilities. These total a funding need of $4.021 million for maintenance and operating costs in FY 2005/06.

2. **Modular System Furniture - $6.695 Million; Multi-Year Contract for Modular System Furniture Disassembly/Reassembly/Cleaning Contract.**

Consolidation of FTB operations at the expanded Butterfield campus by relocation of staff occupying approximately 463,000 square feet of leased space will be accomplished in multiple stages pursuant to the State Office Project construction schedule. Consistent with the Department of Finance recommendations and sustainable building practices, FTB is committed to re-using its existing modular system furniture (modular) to the maximum extent possible for the renovation moves. The re-use of modular compared to the purchase of new Haworth modular represents a savings of approximately $1 million in FY 2005/06.

Integral to the re-use is the procurement of a multi-year contract for the professional services of a vendor to disassemble, reassemble and clean the modular in a timely manner. FTB does not have staff that is trained or authorized to accomplish these tasks. Because the components vacated may not meet the requirements for the immediate subsequent occupancy stage, the purchase of new modular components to augment inventory is necessary to complete the modular installations. At present, the modular space planning for the FY 2005/06 renovation moves are in the preliminary design stage. Estimating the re-use and new product costs for this phase of the Phase III Project is difficult as component requirements have not yet been

identified or inventories confirmed. These figures will be refined as space planning progresses. The projected cost associated with the disassembling, reassembling, cleaning and new components is approximated at $2.79 million for the Phase III office moves and $3.905 million for the renovation occupancies, totaling an estimated cost of $6.695 million in FY 2005/06.

Denial of this proposal will prohibit re-use of FTB's existing modular inventory; require purchase of new modular and conflict with sustainable building design practices. Delays in modular installation may obligate FTB to incur double rental costs for State Office Project space that is available for occupancy at an estimated cost of $5.9 million in FY 2005/06.

3. Move Contract - $547,000

Consolidation of FTB operations at the expanded Butterfield campus requires the phased relocation of furniture and staff located in 463,000 square feet of leased space to the new State Office Project. Occupancy of the new Phase III office building and subsequent renovation moves will be complete in FY 2005/06. An estimated $1.24 million is needed to fund the balance of the new office moves ($222K) and associated renovation move phases ($1.02 million). FTB's budget for FY 2005/06 includes an appropriation of $693K for move related expenses, therefore, leaving an approximate funding need of $547K. The FY 2005/06 renovation estimates are preliminary and will be refined as space planning progresses.

Denial of this proposal will prohibit the modular re-use activities. Delays in modular installation may obligate FTB to incur double rental costs for State Office Project space as discussed above.

4. Lease Savings – ($6,203,000)

The FTB will be the major tenant of the new State Office and Warehouse Facilities at Butterfield Way. This relocation has department-wide implications in that all segments of the FTB organization will be affected by the multi-year phased occupancy of the State Office Project. Following occupancy of the State Office Project, FTB will have successfully relocated staff and operations from approximately 463,000 square feet of leased facilities currently located within the Sacramento Highway 50 corridor to the new Phase III office buildings. The consolidation of the FTB organization at the expanded Butterfield campus will streamline FTB's local operations.

Based on the current move schedule, the projected annual rent savings in FY 2005/06 resulting from the added cancellation of 294,176 square feet of leased space is $5.94 million. Telecommunications and data contract savings are estimated to total $256K for a combined annual lease savings amount of $6.2 million.

C. State Level Consideration:

In accordance with Executive Order D-16-00 the goal of the State Office Project is to construct, renovate, operate and maintain facilities that are models of energy, water and materials efficiency while providing a healthy, productive indoor and outdoor environment for staff. This Project will be a long-term benefit to the State of California.

This is a request to adequately maintain and efficiently utilize the programmed facilities. This investment will garner the long-term benefits of energy cost savings, delivery of efficient state services, protection of investment of state funds, and reduction of rental and operating costs. To continue leasing space to meet FTB program requirements conflicts with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements.

D. Facility/Capital Outlay Consideration:

Failure to appropriately furnish the new Phase III facility and renovated office buildings, or failure to staff the operating and maintenance functions at the expanded campus, will result in program inefficiencies, possible voided warranties, premature equipment failure and inability for FTB to achieve energy efficiency goals. All of these consequences deteriorate the infrastructure established by the State Office Project investment.

E. Justification:

The consolidation of FTB staff with the State Office Project supports FTB's 1995 and 1998 Master Plan Update, and will allow for improved communications and efficiencies for FTB pursuant to FTB Strategic Goal #3 to build a strong organization. Strategic Goal #4 to deliver efficient business results is dependent on suitable facilities for staff. This funding request further supports this same goal as FTB resources are allocated based on the overall long-term benefits to our customers, our organization, and California as a whole. Appropriately operating and maintaining the facility will reduce long-term costs associated with deferred maintenance and ensure the energy efficiencies inherent in the State Office Project design.

F. Analysis of All Feasible Alternatives:

Alternative #1 – Approve $5.06 million for the relocation of FTB staff and equipment, increased operating and maintenance costs and furnishings refurbishment contracts.

This alternative recommends the requisite funding for timely relocation of staff and appropriate operation and maintenance of the facilities at the expanded Butterfield site. This will allow the department to cover the one-time relocation and increased operating and maintenance costs associated with its occupancy of the State Office Project, and provide the current level of service.

Alternative #2 – Do not approve funding request.

If this funding request is not approved, the FTB will be unable to consolidate to the Butterfield site in a timely manner. Delays in occupying the facilities in FY 2005/06 will adversely affect FTB's operations and level of service, and cause FTB to incur double rental costs consisting of an undetermined rental cost for the Phase III buildings that are ready to be occupied along with lease and other costs estimated at $6.2 million in FY 2005/06. In addition, energy efficiencies and the resultant savings will not be realized if the new facility is not adequately maintained.

F. Time Table:

Increase support funding effective July 1, 2005.

G. Recommendation:

Alternative #1 is recommended. This enables the department to relocate in a timely manner and operate efficiently without impacting its ability to provide the current level of service.

MATERIAL FOR BUDGET CHANGE PROPOSAL NO. 6 TO FOLLOW

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
7		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
Various	Various		

TITLE OF PROPOSED CHANGE:

Enterprise-wide Customer Service Platform II (ECSP II)

SUMMARY OF PROPOSED CHANGE:

This BCP requests a one-time Operating Expense and Equipment augmentation of $4,360,000 in FY 2005/06 to replace the CallWise system that reached end of life in June 2002, the Interative Voice Response (IVR) system that will reach end of life in September 2004, and Softgen.

REQUIRES LEGISLATION
- [ ] YES
- [x] NO

CODE SECTION(S) TO BE AMENDED/ADDED

BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
- [x] ONE-TIME COST
- [ ] FULL-YEAR COSTS
- [ ] FACILITIES/CAPITAL COSTS
- [ ] FUTURE SAVINGS
- [ ] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

- [ ] YES
- [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE **PENDING**

DATE PROJECT # **FSR 03-10** FSR [x] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 7	**DATE 07/26/2004**	**Title of Proposed Change:**
		ECSP II
PROGRAM	**ELEMENT**	**COMPONENT**
Various	**Various**	

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	.0	$ 0	$ 0
Salary Savings	.0	.0	$ 0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0	$ 0
Staff Benefits b/			$ 0	$ 0
Total Personal Services			$ 0	$ 0

Operating Expenses and Equipment		
General Expenses	$ 0	$ 0
Printing	0	0
Communications	0	0
Postage	0	0
Travel-In-State	0	0
Travel Out-of-State	0	0
Training	0	0
Facilities Operations	0	0
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External /1	0	886,000
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /2	0	3,114,000
Equipment /3	0	360,000
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 4,360,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Software Customization - $640,000, Project Oversight - $200,000, Contract Services Training - $46,000.
/2 Server operating system software, IVR System software and licenses.
/3 Production, development, test servers, network interface, voice processing cards and digital tape back-up system.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 4,360,000
SPECIAL ITEMS OF EXPENSE d/		
_____	$ 0	$ 0
_____		
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 4,360,000

Source of Funds		**Appropriation No.** Org	Ref	Fund	Current Year	Budget Year
General Fund	Tax	1730	001	0001	$ 0	$ 3,051,000
General Fund	HRA	1730	001	0001	0	1,048,000
General Fund	CS	1730	001	0001	0	29,000
Motor Vehicle Account		1730	001	0044		29,000
Motor Vehicle Lic Fee Acct		1730	001	0064		58,000
Court Collections		1730	001	0242	0	87,000
Reimbursements		1730	505	0995	0	58,000
Totals					$ 0	$ 4,360,000

	Current Year	Budget Year
LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org	Ref	Fund	Current Year	Budget Year
General Fund				0	0
Court Collections				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Budget Change Proposal **BCP No. 7**

Enterprise-wide Customer Service Platform II (ECSP II) **Date: July 26, 2004**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests a one-time Operating Expense and Equipment (OE&E) augmentation of $4.36 million in FY 2005/06 to replace the Enterprise-wide Customer Service Platform. Within this platform is the CallWise system that reached end of life in June 2002, the Interactive Voice Response (IVR) system that will reach end of life in September 2004, and Softgen. This project will implement a new platform with unified communication that utilizes Computer Telephony Integration (CTI). CTI technology not only effectively replaces end-of-life hardware and software but also integrates IVR, Automatic Call Distributor (ACD) call management software and some agent desktop applications as a single package.

B. BACKGROUND/HISTORY

The FTB is responsible for the administration of the Personal Income Tax Law, the Bank and Corporation Tax Law, and the Homeowner and Renter Assistance program. In addition, it is responsible for audits pursuant to the Political Reform Act; collection of delinquent child support payments, vehicle registration fees, and other debts as authorized or required by the Legislature; and settlements of civil tax matter disputes which are the subject of protest, appeals or refund claims.

Communication between FTB and its customers occurs primarily by telephone. FTB is committed to providing optimum access to all customers to promote compliance with California tax law for individuals and business entities throughout the world. Workload demand is monitored frequently and customer service personnel are shifted on a daily basis to better accommodate customer demand during peak workload periods.

The two largest call centers within FTB are the Taxpayer Services Center Section (TSCS) and the Individual Tax Collection Call Center. These call centers respond to the majority of customer inquiries received by telephone or correspondence. Agents provide assistance related to general tax law, filing requirements, return preparation, forms requests, refund status, estimate payments, enforcement notices, bills and account resolution. FTB has several other small call centers devoted to the collection of both tax and non-tax debts owed to the state.

There are three major components to the departments telecommunication platform:

Interactive Voice Response
The IVR is the cornerstone of FTB's customer service platform and is the first point of contact for approximately 6.9 million customers per year calling to obtain information or resolve an account problem. All IVR communications are received from the EADS Private Branch Exchange (PBX) switch. The existing system supports 28 applications in both English and

Spanish and supports call centers throughout the department. Approximately half of these customer contacts are resolved within the IVR system. The IVR system will reach end of life in September 2004.

Callwise System

Another component of the platform is the CallWise system that captures statistical information from the PBX to provide information to effectively manage FTB's call centers. This system enables managers and supervisors to monitor call center activities in real-time and through historical reports. Essential call center functions include managing and staffing for call volumes, tracking call types, recording threatening calls and monitoring and recording agent calls for quality assurance purposes. These tracking and monitoring tools are at the heart of call center management. FTB has significantly improved service to customers using these tools, and has been able to analyze call patterns to determine ways to improve outreach and communication efforts. However, these tools are limited based on the existing system. In addition, the CallWise system is not accessible to some users on a daily basis due to user growth, consequently exceeding system capacity. The CallWise system reached end of life in June 2002.

Computer Telephony Integration and Softgen Software

Another component of the department's telecommunication platform includes limited CTI functionality to assist in end-to-end reporting. End-to-end reporting provides the ability to track the complete customer transaction from call start through conclusion. CTI is the functional integration of business application software with telephone-based communication. Softgen, the current CTI software, provides the capability to transfer calls from the IVR to the agent. However, it is rudimentary and does not provide the capability necessary to fully utilize data to reduce call volumes and achieve greater efficiencies.

The current telecommunications platform has performed well since 1998 when it was re-engineered to use the IVR as the primary contact for all public service calls. While the EADS Telecom PBX continues to meet the department's overall needs, two key components of our telecommunications platform have reached, or are near, end of life. FTB continues to encounter specific problems with its ability to manage the customer's experience from the initial IVR connection through the completion of the call, whether the call remains within the IVR or is transferred to an agent. A communication platform, with open architecture and non-proprietary language, is essential to maintaining FTB's stated service goals and position FTB to take advantage of future technologies.

C. STATE LEVEL CONSIDERATIONS

FTB has an obligation to stakeholders and its government partners to maintain service levels and usability standards that meet or exceed those provided by other government agencies. It is anticipated that FTB will also be required to conduct more online partnerships with other state and federal agencies, and to provide customers with more seamless government services.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

There is no impact to facilities or any capital outlay considerations as a result of the replacement.

E. JUSTIFICATION

In order to continue to provide effective customer service, FTB needs an integrated voice and data customer service platform that receives, distributes and tracks each customer contact. End-to-end reporting on each contact is necessary to ensure that customers are being served as quickly and efficiently as possible. This communication platform is essential to achieve FTB's stated service goals

In the event that the IVR is not available for 12 months, 3.3 million calls normally resolved in the IVR will be routed from the PBX directly to agents, which could cost $20 million annually if staffing were available. However, FTB does not currently have the staffing to answer these additional 3.3 million calls. If customers are unable to reach FTB by phone, it is likely that their unanswered questions will result in tax returns either not being filed or being filed with incorrect information.

The department will realize a substantial revenue loss/delay if the IVR system is inoperable. When a taxpayer receives collection notices, FTB has an obligation to respond to their questions regarding those notices. Of the total calls received, approximately 48% are resolved through the IVR system. If the IVR system fails, then live agents must answer these questions. Currently, there are not enough agents available to answer these additional calls and FTB would run out of resources needed to allocate to this workload. The impact of not mailing these notices will cause a delay in FTB's ability to deposit money owed to the State, and will result in a revenue loss the State could earn by investing the money. The following table illustrates this potential revenue impact using the simple interest method at an interest rate of 1.74%. The method used to calculate the revenue loss is based on an average from the State Treasurer's Office short-term rate for calendar year 2003.

Days IVR Not Available	Total Delayed Revenue	Total Interest Lost Due to Delayed Revenue
1 Day	$837,201	$14,567
1 Week/ 5 Days	$4,186,005	$72,836
1 Month/ 20 Days	$16,744,020	$291,345
1 Year/ 239 Days	$200,000,000	$3,480,000

In order to continue to provide effective customer service, FTB needs an integrated voice and data customer service platform that receives, distributes and tracks each customer contact. End-to-end reporting on each contact is necessary to ensure that customers are being served as quickly and efficiently as possible. This communication platform is essential to achieve FTB's stated service goals. This project is consistent with the department's 2001-2005 Strategic Plan:

- Goal #1: "Become Customer Centered"
- Goal #4: "Deliver efficient and high-quality business results"
- Goal #5: "Protect customer privacy and ensure security of customer information"

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 - Augment FTB's budget by $4.36 million for FY 2005/06 to replace the existing Enterprise-wide Customer Service Platform.

This alternative is to procure and implement a unified communication platform that utilizes CTI technology to integrate IVR, ACD call management software, and some agent desktop applications as a single package. This level of integration will coordinate the voice and data transfers between the systems with the needed unified reporting across all platforms. The proposed platform also has the appropriate level of integration with FTB's current Local Area Network and CALNET network as well as other call center specific applications.

FY 2005/06 augmentation will adjust our existing baseline budget by $ 4.36 million dollars. However, beginning in October 2006, FTB will need to keep a portion of the 2005/06 augmented budget for ongoing increased maintenance activities for FYs 06/07 and subsequent. The table below details the funding needs per the Feasibility Study Report (FTB FSR 03-10).

Fiscal Year	Funding Required	Funding Type
2005/06	$4,360,000	One-time OE&E
2006/07	$433,000	Partial FY Ongoing OE&E
2007/08	$536,000	Full FY Ongoing OE&E

Alternative #2 – Augment FTB's budget by an estimated $28 million in order to implement an outsource service solution.

Under this alternative, a vendor would provide the telecommunication platform and FTB would pay the vendor a monthly fee to use the system. All of the hardware and software necessary to provide the IVR, call center management and CTI functionality would be provided by the vendor. FTB staff would continue to answer the calls.

Based on information received from vendors providing outsourced solutions, they are not able to integrate with FTB's EADS Telecom PBX, which means that FTB could not benefit from the efficiencies of an integrated system such as end-to-end reporting (provides details on the total call transaction from the time the call is answered to when it is ended). Lack of integration also means that FTB would not be able to leverage the call handling capabilities of the existing PBX and instead would require a separate system to process calls to FTB's call centers. This would lead to inefficiencies and increased costs.

This alternative does not provide the capability to migrate FTB's existing IVR applications, which would lead to increased costs and a significantly increased commitment of FTB's limited technical support resources.

This alternative will not be able to address FTB's security requirements because of the reliance on external systems to interface with FTB's databases.

Finally, the alternative is not cost-effective. The estimated costs of this alternative over a five-year period exceed $28 million, not including staff costs.

Alternative #3 – California Integrated Information Network (CIIN) contract solution

Under this alternative, a vendor under contract with CIIN, being managed by the Department of General Services, Telecommunications Division would provide the telecommunication platform. All of the hardware and software necessary to provide the IVR, call center management and CTI functionality would be provided by the vendor. FTB would pay a monthly fee to use the system. FTB staff would continue to answer the calls.

The Department of General Services, Telecommunications Division, has reviewed FTB's functional requirements for the ECSP II Project and has indicated that the services currently offered through the State's CIIN contract do not provide a complete solution to meet FTB's requirements.

G. TIMETABLE

In order to complete the timetable noted in the FSR for this project, funding must be provided on July 1, 2005. Please refer to the FSR timetable for more detail.

H. RECOMMENDATION

Alternative #1 is the recommended solution. The proposed solution meets all of the business objectives and functional requirements detailed in the Feasibility Study Report (FTB FSR 03-10) previously submitted. This alternative will provide the replacement of hardware and software that has reached its end of life and enable the FTB to maintain the needed customer service programs. It will allow FTB to implement operating system security patches and upgrades to maintain security of confidential information. Additionally, it will provide information to manage call center activities, respond to customer call patterns, and identify emerging trends. The integrated voice and data customer service platform will ensure that customers are being served as quickly and efficiently as possible, and are essential to maintain FTB's stated service goals.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
8		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
Various	Various		

TITLE OF PROPOSED CHANGE:

Enterprise Printer Replacement Project (EPR)

SUMMARY OF PROPOSED CHANGE:

Provide $751,000 of funding to replace three end-of-life printers. These printers must be replaced in order to maintain FTB's current revenue generating production workloads.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[ ] YES [X] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [X] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [ ] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE **PENDING**.

DATE PROJECT # **FSR 03-02** FSR [X] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 8	**DATE**	**Title of Proposed Change:**
		Enterprise Printer Replacement Project (EPR)
PROGRAM	**ELEMENT**	**COMPONENT**
Various	**Various**	

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	.0	$ 0	$ 0
Salary Savings	.0	.0	$ 0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0	$ 0
Staff Benefits b/			$ 0	$ 0
Total Personal Services			$ 0	$ 0

Operating Expenses and Equipment		
General Expenses	$ 0	$ 0
Printing	0	0
Communications	0	0
Postage	0	0
Travel-In-State	0	0
Travel Out-of-State	0	0
Training	0	0
Facilities Operations /1	0	7,000
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External /2	0	50,000
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /3	0	54,000
Equipment /4	0	640,000
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 751,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Includes $3,500 for plugs and breakers, and $3,500 for wire baskets.
/2 Contract Services needed to install Triplex Printer, including Pre and Post equipment.
/3 Software needed for Triplex Printer.
/4 Equipment includes 3 triplex printers costing $379,000 each, pre and post equipment costing $696,000, financed over 3 years at a 3.5% interest rate. Pre and Post equipment include: unwinders, cutters, stackers, accumulators, folders, switch boxes, etc.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 751,000
SPECIAL ITEMS OF EXPENSE d/		
_____	$ 0	$ 0
_____		
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 751,000

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund - TAX	1730	001	0001	$ 0	$ 637,000
General Fund - HRA	1730	001	0001	0	8,000
General Fund - Child Support	1730	001	0001	0	18,000
Motor Vehicle Account	1730	001	0044	0	10,000
Motor Vehicle License Fee	1730	001	0064	0	20,000
COD	1730	001	0242	0	23,000
Reimbursements Child Support	1730	505	0995	0	35,000
				0	0
				$ 0	$ 751,000

	Current Year	Budget Year
LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund - TAX	1730	001	0001	$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
				0	0
				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Budget Change Proposal	**BCP No. 8**
Enterprise Printer Replacement Project (EPR)	**Date: July 26, 2004**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests an augmentation of $751,000 to replace three end-of-life printers. These printers must be replaced in order to maintain FTB's current revenue generating production workloads. These workloads are time sensitive and must be printed, postmarked, and mailed to the taxpayer in three working days. FTB requests the replacement of the end-of-life printers with an Océ triplex printing system that is comparable to the current Océ triplex printing system purchased by the Department in August 2000[1]. This will give FTB the printing capability to meet all current and future business requirements; higher print resolution (300 & 600 dots per inch (DPI)), consistent print quality, faster print speed, increased print capacity, highlight color (key to achieving optimal responses from taxpayers), and provide comparable printing capabilities should one or more printers fail at a critical time. There is no PY impact.

B. BACKGROUND/HISTORY

The FTB collects tax revenues and operates other non-tax programs entrusted to it, at the least cost; serves the public by continually improving the quality of its products and services; and performs in a manner warranting the highest degree of public confidence in its integrity, efficiency and fairness. The department administers the Personal Income Tax Law, the Bank and Corporation Tax Law, and the Homeowner's and Renter's Assistance programs. In addition, it is responsible for audits pursuant to the Political Reform Act; collection of delinquent child support payments, vehicle registration fees, and other debts as authorized or required by the Legislature; and settlements of civil tax matter disputes which are the subject of protest, appeals, or refund claims.

Under FTB's statutory authority, the various programs administer mandatory workloads, which are supported by a full service data center, including an enterprise mainframe printing system. FTB's Computing Resource Bureau (CRB) has provided mainframe printing of bills, notices, letters, questionnaires, and in-house documents to programs throughout the department since 1963. The enterprise printing system is staffed and in production on a "24 x 365" basis and annually prints approximately 34

[1] Three Océ Page Stream 372 printers when logically connected are called an Océ triplex printing system. Throughout the remainder of the document the term triplex system refers to the Océ triplex printing system.

million pages. These printing services provide support to revenue generating programs.

FTB's enterprise printing infrastructure will not meet the immediate and long range printing needs because three of the printers will meet their end-of-life beginning December 31, 2005.

- The Océ 2240 is nine years old (purchased in 1995) and reaches its end-of-life December 31, 2005. Maintaining end-of-life equipment can result in lost production time and excessive expenses.
- The two IBM 3900s are seven years old (purchased in June 1997) and reach end-of-life December 31, 2006. When the printers reach end-of-life, IBM correspondence states that "time and material" maintenance will not be offered on these printers and replacement parts will be difficult to find.

Breakdowns on the Océ 2240 and IBM 3900s have occurred with greater frequency resulting in longer downtimes. In the last 14-months, these systems have been down a total of 254 hours or an average of 18 hours per month. For the period of January through March, 2004, the end-of-life systems have had 23, 46, and 29 hours of downtime respectively. When these end-of-life printers are out-of-service the workload must be transferred to the triplex system.

The Océ triplex system was purchased in August 2000. FTB's enterprise printing services increased its functionality and flexibility with the implementation of faster print speed, consistent print quality, 300 DPI print resolution, and highlight color printing. Enhanced print quality (high print resolution) and highlight color provide taxpayers with clear, concise notices in order to resolve account issues. The triplex system averages 24.4 million pages annually. In FY 2001/02 the triplex system printed 23 million pages, in FY 2002/03 the triplex system printed 25.6 million pages and in FY 2003/04 it is projected that the triplex system will generate 28 million pages.

The following documents must be printed on the triplex system:

- Accounts Receivable Collection System (ARCS) taxpayer letters and notices
- Integrated Nonfiler Compliance (INC), Taxpayer Information (TI) and Business Entities Tax System (BETS) letters, notices and questionnaires
- Scan documents that include bar code or Optical Character Recognition (OCR)

Currently, the Océ triplex system (purchased in August 2000) handles 70% of the Department's printing workload. If one component in the triplex system fails, the workload assigned to that system cannot be completed. In addition, the workload cannot be shifted to the end-of-life printers since these printers do not have the functionality required to print those types of documents. Therefore, until a new Océ triplex system that includes the necessary functionality of the first system is purchased, failures in the current triplex print system will require jobs to backlog until the failure can be corrected.

See Attachment 1 for Print Volume charts over a 30-month period.

C. STATE LEVEL CONSIDERATIONS

The FTB is legislatively mandated to administer California's state tax law. The replacement of the three end-of-life printers will ensure that FTB operates without interruptions to printing services in support of these administrative activities.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

There is minimal impact to facilities for the replacement of three end-of-life printers. There are no capital outlay considerations as a result of the printer replacements.

E. JUSTIFICATION

Without the replacement of the end-of-life printers (Océ 2240 and IBM 3900s), FTB will lack the ability to (1) absorb additional workloads from existing programs, (2) provide time critical documents to the business units, and (3) provide the printing functionality needed by the business programs.

Approximately 70% of FTB's current printing workload requires 300 DPI, consistent print quality, and/or the need for highlight color. Based on these requirements, the documents cannot be printed on the Océ 2240 or IBM 3900 printers. There is no workload growth capacity available for the 300 DPI documents.

If a triplex system failure occurs (single-point-of-failure), delays will take place in printing critical date sensitive letters, bills and notices to taxpayers, business units who require time critical documents, and in-source workloads from other agencies. FTB's revenue producing documents are time sensitive and must be printed, postmarked, and mailed to the taxpayer in three working days. If there is a delay in the printing and mailing of Collection notices, the interest and penalties have to be recalculated and the mailing date changed. Notice of Proposed Assessments would be delayed, and all ARCS letters and notices would be held until the triplex system can be repaired. If a component of the triplex system is out-of-service, and the workload cannot be transferred to another printer in order to continue processing, this will create delays in printing production workloads. This will result in severe economic impacts including: 1) delayed receipt of cash payments resulting in lost interest on revenue, and 2) reduced efficiencies in the Audit and Collections programs equating to delays in revenue production.

On average, a printer can be down from two to three days for parts delivery and repair. If any component of the triplex system is down, the printing of audit, collection and tax return balance due notices, would be delayed. The impact of not being able to generate and mail any notices to taxpayers would cause a delay in FTB's ability to

deposit money owed to the State, and this would result in the revenue loss the State could gain by investing the money. The delay in printing these notices is conservatively estimated at **$355,000** per day. An interest rate of 1.74 % was used based on an average from the State Treasurer's Office short-term rate for calendar year 2003.

The total revenue loss can be categorized as follows:

- Estimated reduction in interest revenue to the State on balance due notices
  - $90,700 per day
    - $62,700 for personal income tax
    - $28,000 for corporate tax

- Audit, Collections and Non-Tax Collection Programs
  - A delay in issuing a balance due notice, NPA or correspondence to the taxpayer
    - $264,000 per day

This proposal is consistent with Strategic Plan Goal #1 to "*become customer-centered*", Goal #2 to "*promote fair and effective tax administration*", and Goal #4 to "*conduct our business efficiently and effectively*."

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

ALTERNATIVE #1 – Augment FTB's budget by $751,000 to replace the three end-of-life printers with an Océ triplex printing system that is comparable to the current Océ triplex printing system (purchased August 2000).

This alternative will replace the end-of-life Oce 2240 printer, two IBM 3900 printers, three unwinders and post processing equipment with a new printing system that will give the Department the printing capability to meet all current and future business requirements; higher print resolution (300 & 600 DPI), consistent print quality, faster print speed, increased print capacity, highlight color (key in achieving optimal responses from taxpayers), and provide comparable printing capabilities should one or more printers fail at a critical time.

Alternative #1 will:

- Provide enterprise-printing services with the ability to print different types of data streams from any platform environment.
- Provide the ability to incorporate user changes as data input and output formats change.
- Meet the immediate mainframe and distributed platform users needs and the long-range flexibility and functionalities anticipated by departmental users.
- Provide capacity to meet future print needs.
- Reduce the risk of downtime by eliminating the single-point-of-failure.

<u>ALTERNATIVE #2</u> – Augment FTB's budget by $653,000 to replace three end-of-life printers with the purchase of two new simplex printers that are comparable to the current Océ Page Stream 744 duplex printing system[2], and two new unwinders and post processing equipment.

This alternative is for two printers only, which provide comparable functionalities to the current duplex printing system only, not the triplex system. This would assist in fulfilling many of the requirements of FTB business units. This alternative would also provide a future upgrade path to duplex highlight color printing only if the printing system is an Océ VarioStream 7400.

However, this alternative does <u>not</u> meet all business objectives and functional requirements; does <u>not</u> eliminate the single-point-of-failure of the triplex printing system; and does <u>not</u> reduce the risk of down time due to printing system failures of the triplex system. The estimated cost to upgrade this alternative at a later time for duplex highlight color $673,000 (cost estimate includes the purchase of a third Océ printer), but only if an Océ VarioStream 7400 printing system is purchased.

<u>ALTERNATIVE #3</u> – Augment FTB's budget by $955,000 to replace the three end-of-life simplex printing systems with three new simplex page-printing systems with unwinders and post processing equipment.

This alternative will use the competitive bid process to replace the three end-of-life simplex printing systems with three new simplex page-printing systems with unwinders and post processing equipment. This alternative will meet the higher print resolution requirement and provide a path for future upgrades.

However, this alternative does <u>not</u> meet all our business objectives and functional requirements; does <u>not</u> eliminate the single-point-of-failure of the triplex printing system; does <u>not</u> reduce the risk of down time due to printing system failures of the triplex system; and does <u>not</u> guarantee an upgrade path to duplex highlight color printing. In addition, this alternative increases total cost of purchasing new equipment with increased annual maintenance cost.

G. <u>TIMETABLE</u>

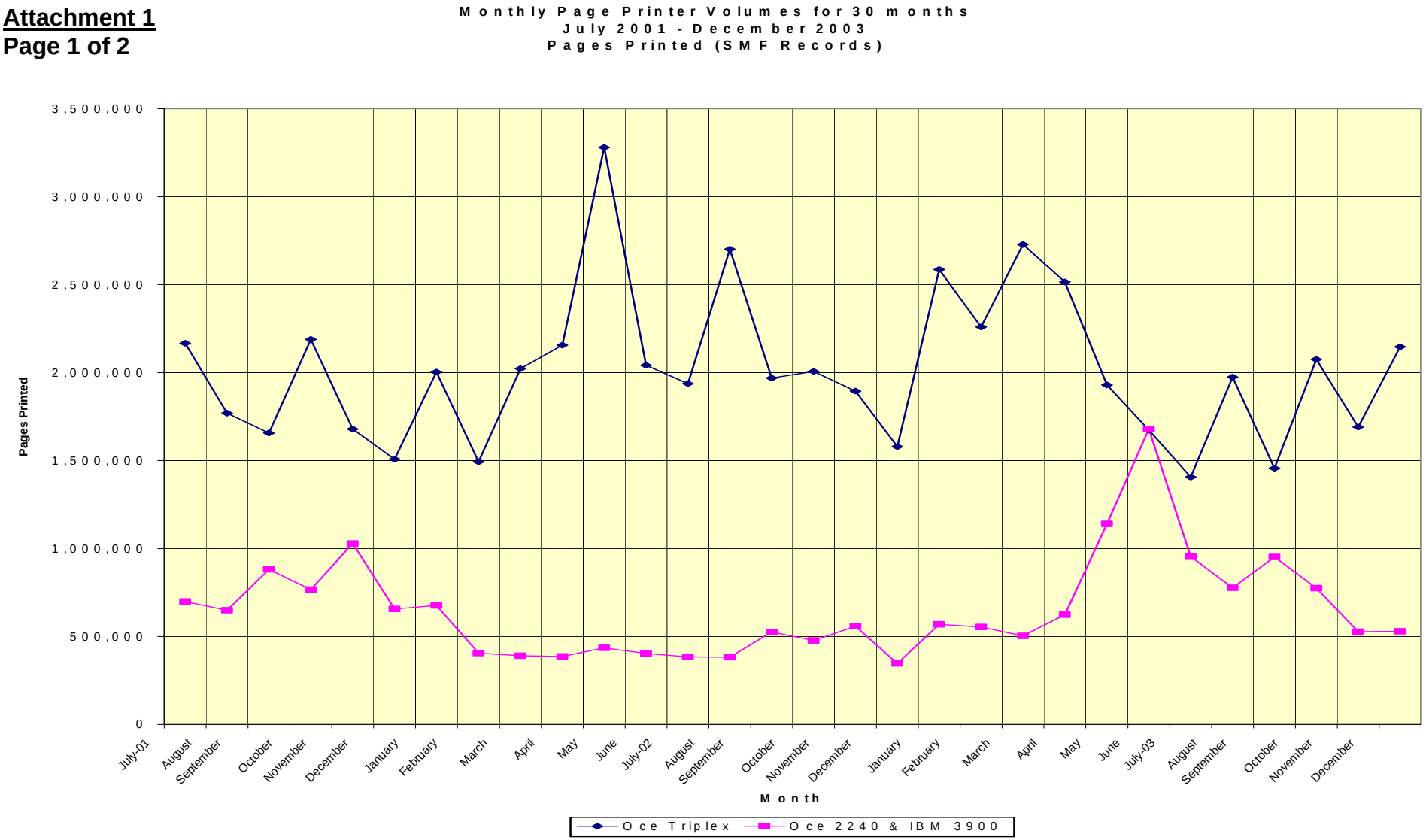
In order to complete the timetable noted in the FSR for this project, funding must be provided on July 1, 2005. Refer to the FSR timetable for more detail.

[2] Two Océ Page Stream 372 printers when logically connected are called an Océ Page Stream 744 duplex printing system.

H. RECOMMENDATION

The FTB recommends approval of Alternative #1. This Alternative is the only solution that meets all business objectives and functional requirements. The replacement of the three end-of-life printers with an Océ triplex printing system that is comparable to the current production Océ triplex printing system will allow the Department to meet all print requirements.

Attachment 1
Page 1 of 2



Attachment 1 Cont.
Page 2 of 2

Monthly Page Printer Volumes for 30 months
July 2001 – December 2003

	Oce Triplex	Oce 2240 & IBM 3900		Total Volumes
July-01	2,166,735	698,982		2,865,717
August	1,769,884	649,192		2,419,076
September	1,656,699	881,661		2,538,360
October	2,188,256	766,986		2,955,242
November	1,679,063	1,029,141		2,708,204
December	1,507,598	656,392		2,163,990
January	2,003,477	676,985		2,680,462
February	1,493,380	405,589		1,898,969
March	2,022,589	390,780		2,413,369
April	2,155,457	387,148		2,542,605
May	3,279,923	435,937		3,715,860
June	2,041,269	403,160		2,444,429
July-02	1,937,853	384,236		2,322,089
August	2,700,551	382,439		3,082,990
September	1,969,066	526,039		2,495,105
October	2,007,038	477,662		2,484,700
November	1,894,793	558,200		2,452,993
December	1,579,159	347,176		1,926,335
January	2,585,572	569,330		3,154,902
February	2,259,859	553,982		2,813,841
March	2,728,108	502,933		3,231,041
April	2,515,434	624,316		3,139,750
May	1,930,231	1,140,350		3,070,581
June	1,673,666	1,679,105		3,352,771
July-03	1,406,049	953,789		2,359,838
August	1,974,745	777,584		2,752,329
September	1,456,039	952,107		2,408,146
October	2,075,511	775,338		2,850,849
November	1,690,654	527,568		2,218,222
December	2,146,702	529,586		2,676,288
TOTALS	**60,495,360**	**19,643,693**	**75.49%**	**80,139,053**
Total 01/02	**23,964,330**	**7,381,953**	76.45%	**31,346,283**
Total 02/03	**25,781,330**	**7,745,768**	76.90%	**33,527,098**
6 months 03	**10,749,700**	**4,515,972**	70.42%	**15,265,672**

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
9		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
10 Tax Programs	10 Tax Programs		

TITLE OF PROPOSED CHANGE:

Image Processing and Cashiering Systems (IPACS)

SUMMARY OF PROPOSED CHANGE:

Provide $1,079,000 in funding to replace three high-speed scanners for the Image Processing and Cashiering Systems that have reached the end of their useful lfe.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[ ] YES [X] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [ ] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [ ] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE **PENDING**.

DATE PROJECT # **FSR 04-04** FSR [X] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 9	**DATE 07/26/04**	**Title of Proposed Change:**
		Image Processing and Cashiering Systems
PROGRAM	**ELEMENT**	**COMPONENT**
Tax Programs	**All Tax Programs**	

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	.0	$ 0	$ 0
Salary Savings	.0	.0	$ 0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0	$ 0
Staff Benefits b/			$ 0	$ 0
Total Personal Services			$ 0	$ 0

Operating Expenses and Equipment		
General Expenses	$ 0	$ 0
Printing	0	0
Communications	0	0
Postage	0	0
Travel-In-State	0	0
Travel Out-of-State	0	0
Training /1	0	10,000
Facilities Operations	0	0
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External /2	0	285,000
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /3	0	179,000
Equipment /4	0	605,000
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 1,079,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Cost of training from Scan Optics for new hardware and software.
/2 Cost to install new scanners and to customize scanner jobs for tax processing.
/3 Software purchase of $320,000 reduced by $141,000 redirected maintenance costs and includes:
Neural auxilary recognition software, document design and application development tool,
alpha numeric multi-font and alpha numeric hand print.
/4 Includes the cost for 3 scanners, 3 feeders, 3 color cameras, 3 pocket money wheels and other miscellaneous items.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 1,079,000
SPECIAL ITEMS OF EXPENSE d/		
_____	$ 0	$ 0
_____		
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 1,079,000

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund	1730	001	0001	$ 0	$ 1,079,000
				0	0
				0	0
				0	0
				0	0
				0	0
Reimbursements	1730	501	0995	0	0
Totals				$ 0	$ 1,079,000

	Current Year	Budget Year
LOCAL ASSISTANCE	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund	1730	001	0001	$ 0	$ 0
				0	0
				0	0
				0	0
Reimbursements				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

FRANCHISE TAX BOARD
Fiscal Year 2005/2006

Budget Change Proposal **BCP No. 9**

Image Processing and Cashiering Systems Scanner Replacement Project (IPACS) **Date: July 26, 2004**

A. Nature of Request

The Franchise Tax Board (FTB) requests a one-time augmentation of $1,079,000 to replace three existing Scan-Optics 9000T scanners that have reached the end of their useful life with three Scan-Optics SO Series high-speed scanners. These scanners are a critical component of FTB's image processing and cashiering system and their failure would have a serious impact on FTB's ability to cashier and deposit revenue and process tax returns and information. There is no PY impact.

B. Background/History

FTB's primary data capture processing systems include the IPACS, the Tandem Himalayan K10000 system and the Electronic Gateway. Each of these systems plays a critical role in processing tax data and cashiering revenue collected by FTB.

IPACS currently uses four Scan-Optics high-speed scanners to process over 40 million paper tax returns and documents, and all paper checks and payments, received by FTB. Three of these scanners are Scan-Optics 9000T scanners and were installed in 1998. The remaining scanner, a Scan-Optics 9000M, was installed in 2002. The 9000T scanners have a maintenance contract that will expire in March 2005. After that time, the vendor can provide a limited and costly maintenance agreement, but cannot guarantee the availability of parts after February 2006.[1]

In FY 2002-2003, IPACS was used to process over $16 billion dollars in deposits. Although FTB can use the Tandem Himalayan K10000 system if any of the older scanners fail, any system downtime, or failure, would have a severe impact on FTB's ability to process remittances in a timely manner, and would result in delayed deposits, loss of interest on these deposits, delayed refunds to taxpayers, and higher processing costs.

C. State Level Considerations

Providing the funds requested in this letter will allow FTB to minimize the risk of failure in its processing and cashiering system, and ensure the efficient and timely deposit of money into the State's General Fund.

[1] The most recent maintenance contract, which is effective until March 2005, provides one year of hardware and software support at a cost of $277,000. The original contract for the 9000T scanners provided 5 years of hardware and software maintenance, and the guarantee that parts would be available for 2 years after the original maintenance contract expired, March 2006. Original hardware/software maintenance contract cost totaled $347,000.

D. Justification

This request will allow FTB to efficiently continue providing the vital document and remittance processing functions that are necessary to ensure the stability of the State's General Fund. If this request is not approved, there is the risk of system deterioration and failure, which could result in delayed and less efficient processing of payments, tax documents and refunds.

One-day deposits in April can reach close to one billion dollars.[2] If IPACS failed and was not available to process remittances, the delay in deposits would be costly to the state. For instance, if IPACS had failed and not been available from 4/15/04 – 4/28/04, deposits of almost $4.3 billion would have been delayed, resulting in a loss of almost $1.3 million in interest. The loss of interest could have been even greater depending on how long it had taken staff to process and deposit the backlog of over one million checks that accumulated during the two-week downtime.

Finally, this request ties in with FTB's strategy to "plan and implement, refresh and replace FTB's technology infrastructure to ensure continuous high quality business results.[3]"

E. Analysis of All Feasible Alternatives

Alternative #1 - Provide $1.079 million of one-time funding to replace the three Scan-Optics 9000T scanners with three new Scan-Optics SO Series scanners.

This alternative meets FTB's objectives with the least risk. It replaces the aging scanners with familiar hardware and software, and protects FTB's ability to efficiently process returns and payments with least disruption and change to the existing workflow. The new scanners are smaller, quieter, and more energy efficient.

Alternative #2 - Replace the three Scan-Optics 9000T scanners with three new high-speed scanners from another vendor. The one-time costs for this alternative are comparable to the Modernization And Reengineering of the Cashiering System (MARCS) Project and total $9.2 million.

This alternative may meet FTB's objectives, but carries a greater risk and higher cost. The new hardware and software could present significant implementation and integration issues with FTB's existing systems.

The costs for development and implementation would be higher, as this alternative would be comparable to developing a completely new processing system.

Alternative #3 - Replace the three Scan-Optics 9000T scanners with two new Scan-Optics SO Series Scanners and two image-enabled Unisys NDP600 remittance processors. The one-time cost associated with this alternative is $1.4 million.

[2] In 2003, the largest one-day deposit was $918 million. This year, the highest deposit was $870 million.
[3] FTB's Strategic Plan 2003-2007, Goal #4 – Deliver Efficient Business Results.

This alternative carries a greater degree of risk than Alternative 1, in that it involves the introduction of new hardware and software, and a significant change to the processing and cashiering workflow. With this alternative, a portion of the scanning workload (checks and payment coupons) would be shifted to image enabled remittance processors, reducing the need for new scanners from three to two. This alternative could provide a slight improvement in efficiency, but is more costly to implement than Alternative #1.

F. Timetable

In order to complete the timetable noted in the FSR for this project, funding must be provided on July 1, 2005. Refer to FSR timetable for more detail.

G. Recommendation

Alternative #1 is recommended. It is the alternative that best meets FTB's objectives using proven hardware and software and carries the least amount of risk in terms of integration and changes to the processing workflow. It is also the least costly of the alternatives.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
10		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
Various	Various		

TITLE OF PROPOSED CHANGE:

Tandem Himalaya Replacement

SUMMARY OF PROPOSED CHANGE:

Requests a one-time augmentation of $465,000 to replace the Tandem Himalaya K10000 application server and D series operating system that will reach end on life of December 31, 2005.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
[ ] YES [X] NO		[X] ONE-TIME COST [ ] FULL-YEAR COSTS [ ] FACILITIES/CAPITAL COSTS [ ] FUTURE SAVINGS [ ] REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

[ ] YES [ ] NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE (PENDING).

DATE PROJECT # FSR 04-02 FSR [X] OR SPR [ ]

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY [ ] TIRU [ ] FSCU [ ] OSAE [ ] CALSTARS [ ]

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 10	**DATE 07/26/2004**	**Title of Proposed Change:**
		Tandem Himalaya Replacement
PROGRAM	**ELEMENT**	**COMPONENT**
Various	**Various**	

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	.0	$ 0	$ 0
Salary Savings	.0	.0	$ 0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0	$ 0
Staff Benefits b/			$ 0	$ 0
Total Personal Services			$ 0	$ 0

Operating Expenses and Equipment		
General Expenses	$ 0	0
Printing	0	0
Communications	0	0
Postage	0	0
Travel-In-State /1	0	2,000
Travel Out-of-State	0	0
Training /2	0	6,000
Facilities Operations	0	0
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External	0	0
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing /3	0	128,000
Equipment /4	0	329,000
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	465,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Training travel expenses.
/2 HP Nonstop S Series Training.
/3 Software Purhase/License.
/4 Replacement of the Himalalya K10000 Application Server and D Series Operating System with a Hewlett Packard Non-Stop S760 server and G series operating system or later equivalent.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	0	465,000
SPECIAL ITEMS OF EXPENSE d/		
	0	0
PROGRAM ADMINISTRATION	0	0
Distributed Admin	0	0
TOTAL STATE OPERATIONS EXPENDITURES	0	465,000

Source of Funds		**Appropriation No.** Org	- Ref	- Fund	Current Year	Budget Year
General Fund	Tax	1730	001	0001	$ 0	369,000
General Fund	HRA	1730	001	0001	0	27,000
General Fund	CS	1730	001	0001	0	12,000
Motor Vehicle Account		1730	001	0044	0	2,000
Motor Vehicle Lic Fee Acct		1730	001	0064	0	5,000
Court Collections		1730	001	0242	0	15,000
Reimbursements		1730	501	0995	0	13,000
Reimbursements		1730	505	0995	0	22,000
Totals					$ 0	$465,000

LOCAL ASSISTANCE	Current Year	Budget Year
	$(0)	$(0)

Source of Funds	**Appropriation No.** Org	- Ref	- Fund	Current Year	Budget Year
General Fund	1730	001	0001	$ 0	$ 0
General Fund				0	0
General Fund				0	0
Motor Vehicle Account				0	0
Motor Vehicle Lic Fee Acct				0	0
Reimbursements				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

FRANCHISE TAX BOARD
Fiscal Year 2005/2006

Budget Change Proposal	**BCP No. 10**
Tandem Himalaya Replacement	**Date: July 26, 2004**

A. Nature of Request

The Franchise Tax Board (FTB) requests a one-time Operating Expense and Equipment (OE&E) augmentation of $465,000 in FY 2005/06 to replace the Tandem Himalaya K10000 application server and D series operating system that will reach end of life on December 31, 2005. This server and system will be replaced with the Hewlett Packard Non-Stop S760 server or later equivalent compatible Non-Stop system and the series G operating system. The Tandem Himalaya system is the department's *manual* cashiering and data capture system (as opposed to the Image Processing and Cashiering System (IPACS) which is the *imaging* cashiering and data capture system).

B. Background/History

Two key functions performed by FTB are cashiering of checks and the data capture of information for FTB's major programs and workloads. These workloads can be performed by manually keying the payments and documents through the Tandem Himalaya system or by imaging the payments and documents through IPACS. The Tandem Himalaya system provides FTB with the ability to cashier and data capture 417 different formats of FTB and non-FTB documents – for many of these, it would not be cost-effective to process these documents using electronic or imaging technology.

In 2003, the Tandem Himalaya system was used to cashier nearly $5.2 billion and data capture over 12 million returns, claims, payment documents, information returns, non-tax documents, contract documents and their associated checks. This represented approximately 42% of all the documents and 23% of all the money received by FTB in 2003. The remaining 58% of documents and 77% of the money was processed using electronic or imaging technology.

The Tandem vendor has indicated that end of life of the Tandem Himalaya series D operating system will be December 31, 2005. Because the new series G operating system will not work on the current Tandem Himalaya K10000 hardware, the end of life of both the application server and operating system, are effectively December 31, 2005.

C. State Level Considerations

Replacing the current Tandem Himalaya K10000 application server and D series operating system, will ensure that FTB can continue to efficiently and effectively cashier and deposit several billion dollars and data capture several million documents each year.

D. Facility/Capital Outlay Considerations

There is no impact to facilities or any capital outlay considerations for the replacement of the Tandem Himalaya system.

E. Justification

This request supports FTB Strategic Goal #4 of delivering efficient and high quality business results. Replacing Tandem Himalaya application server and D series operating system supports this goal by ensuring that FTB can continue to efficiently and effectively cashier and deposit several billion dollars and data capture several million documents each year.

Approval of this request ensures that maximum interest on deposits is earned and that taxpayer accounts are updated so FTB can produce timely and correct refunds and billings.

If this request is not approved, the effect on the department could be catastrophic if the Tandem equipment were to fail or if the hardware and operating system are no longer supported:

- FTB would be unable to cashier and data capture a significant amount of remittances/workloads.
- Data capture could be delayed indefinitely since FTB has no other method to capture most of the workloads processed through Tandem.
- Other areas in the department and the department's systems cannot take action to resolve accounts until the Tandem Himalaya System updates the mainframe which could cost the State additional interest, due to delayed deposits and refund payouts.
- It could also cause our customers frustration and concern, which would create additional contacts to FTB.

F. Analysis of All Feasible Alternatives

Alternative #1 – Augment the department's OE&E budget by $465,000 in FY 2005/06 to replace the current Tandem Himalaya K10000 hardware and D series operating system with a Hewlett Packard Non-Stop S760 server and G series operating system or later equivalent.

This alternative ensures that FTB will continue to provide a reliable platform with support from a proven established vendor (Hewlett Packard) to meet long-term needs to efficiently and effectively cashier and deposit several billion dollars and data capture several million documents each year. This alternative also has the ability to be upgraded/expanded as needed.

Alternative #2 - Augment the department's OE&E budget by $525,000 in FY 2005/06 to replace the current Tandem Himalaya K10000 hardware and D series operating system with a Hewlett Packard Non-Stop S7600 server and G series operating system.

This alternative provides the same results and benefits as Alternative #1. However, this alternative has more capacity than FTB currently needs and would require additional licenses, system environmentals and larger storage space than alternative #1. The one-time and ongoing OE&E costs are $60,000 and $27,000 more than Alternative #1.

Alternative #3 - Do not augment the department's OE&E budget in FY 2005/06.

Without a budget augmentation, the department could suffer catastrophic failure by FTB's inability to cashier and deposit billions of dollars and data capture several million documents each year.

F. Timetable

In order to complete the timetable noted in the FSR for this project, funding must be provided on July 1, 2005. Please refer to the FSR timetable for more detail.

G. Recommendation

Alternative # 1 is recommended. This alternative meets FTB's business objectives and functional requirements in the most timely and cost effective method. By replacing the Tandem Himalaya K10000 server and the operating system series D with a Hewlett Packard Non-Stop S760 server or later equivalent compatible Non-Stop system and the series G operating system, we protect FTB's ability to deposit remittances and data capture returns, payment documents, claims, information returns and contract work, accurately, timely, and efficiently with little risk.

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP #	PRIORITY NO	ORG CODE	DEPARTMENT
11		**1730**	**Franchise Tax Board**
PROGRAM	ELEMENT	COMPONENT	
Various	Various		

TITLE OF PROPOSED CHANGE:

Social Security Number Privacy Project (SB 25)

SUMMARY OF PROPOSED CHANGE:

This proposal requests an augmentation of $698,000 to modify FTB systems as legislatively mandated by Senate Bill 25, which prohibits the printing of social security numbers on any materials that are mailed to individuals.

REQUIRES LEGISLATION	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE
☐ YES ☒ NO		☒ ONE-TIME COST ☐ FULL-YEAR COSTS ☐ FACILITIES/CAPITAL COSTS ☐ FUTURE SAVINGS ☐ REVENUE

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES ☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE. **PENDING**

DATE PROJECT # **FSR 03-20** FSR ☒ OR SPR ☒

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - FISCAL DETAIL
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

BCP # 11	**DATE**	**26-Jul-04**	**Title of Proposed Change:**
			SSN Privacy Project (SB 25)
PROGRAM	**ELEMENT**		**COMPONENT**
Various	**Various**		

	Personnel Years CY	Personnel Years BY	Current Year	Budget Year
Total Salaries & Wages a/	.0	.0	$ 0	$ 217,000
Salary Savings	.0	.0	$ 0	$ 0
Net Total Salaries and Wages	.0	.0	$ 0	$ 217,000
Staff Benefits b/			$ 0	$ 18,000
Total Personal Services			$ 0	$ 235,000

Operating Expenses and Equipment		
General Expenses	$ 0	$ 0
Printing	0	0
Communications	0	0
Postage	0	0
Travel-In-State	0	0
Travel Out-of-State	0	0
Training	0	0
Facilities Operations	0	0
Utilities	0	0
Cons & Prof Svs - Interdept'l	0	0
Cons & Prof Svs - External /1	0	463,000
Consolidated Data Center	0	0
California Health and Human Services Agency Data Center	( )	( )
Stephen P. Teale Data Center	( )	( )
Data Processing	0	0
Equipment	0	0
Other Items of Exp (Specify Below)	0	0
Total Operating Expense & Equipment	$ 0	$ 463,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
/1 Contractors needed to develop system requirements, design, code and test systems.

	Current Year	Budget Year
TOTAL OPERATING EXPENSES AND EQUIPMENT	$ 0	$ 463,000
SPECIAL ITEMS OF EXPENSE d/		
	$ 0	$ 0
PROGRAM ADMINISTRATION	$ 0	$ 0
Distributed Admin	$ 0	$ 0
TOTAL STATE OPERATIONS EXPENDITURES	$ 0	$ 698,000

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
General Fund - PIT	1730	001	0001	$ 0	$ 447,000
General Fund - HRA	1730	001	0001	0	25,000
General Fund - Child Support	1730	001	0001	0	41,000
Motor Vehicle - Lic Fee	1730	001	0064	0	22,000
Motor Vehicle Account	1730	001	0044	0	12,000
Court Order Debt	1730	001	0242	0	70,000
				0	0
Child Support Reimb	1730	505	0995	0	81,000
Totals				$ 0	$ 698,000

LOCAL ASSISTANCE	Current Year	Budget Year
	$(0)	$(0)

Source of Funds	**Appropriation No.** Org - Ref - Fund			Current Year	Budget Year
				$ 0	$ 0
				0	0
				0	0
				0	0
				0	0
				0	0
Totals				$ 0	$ 0

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES

Positions		Positions CY	Positions BY	Salary Range		Amount CY	Amount BY
Administrative Services Division							
Staff Prog Analyst Spec	OT					$ 0	$ 6,000
Staff Serv Analyst Gen - Rg B	OT					$ 0	$ 3,000
Tax Technician, Ftb - Rg B	OT					$ 0	$ 7,000
Total Administrative Services Division		.0	.0			$ 0	$ 16,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	.0				
Filing Division							
Key Data Operator - Rg B	TEMP	0.0	0.0	$ 2,289	$ 2,780	$ 0	$ 10,000
Total Filing Division		.0	.0			$ 0	$ 10,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	.0				
Technology Services Division							
Staff Prog Analyst Spec	OT		0.0			$ 0	$ 25,000
Staff Prog Analyst Spec	OT					$ 0	$ 22,000
Staff Info Sys Analyst Spec	OT					$ 0	$ 28,000
Assoc Info Systems Analyst	OT					$ 0	$ 36,000
Staff Info Sys Analyst Spec	OT					$ 0	$ 40,000
Staff Prog Analyst Spec	OT					$ 0	$ 40,000
Total Technology Services Division		.0	.0			$ 0	$ 191,000
Adjust for Part Year Positions		.0	.0				
Net Positions/ PYs before salary savings		.0	.0				
Total Salaries and Wages	Positions	.0	.0			$ 0	$ 217,000
	Part Yr Adj	.0	.0				
	P.Y.s	.0	.0				

Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2005/06

Staff Benefits	2004/05	2005/06
OASDI /1	$ 0	$ 14,000
Medicare /2	0	3,000
Unemployment Insurance /3	0	1,000
Total Staff Benefits	$ 0	$ 18,000

1/ For permanent and overtime, 6.2% of net salary.
2/ 1.45% of net salary for permanent.
3/ 12.89% of net salary for temporary help.

FRANCHISE TAX BOARD
2005/2006

Budget Change Proposal	**BCP No. 11**
Social Security Number Privacy Project (SB 25)	**Date: July 26, 2004**

A. Nature of Request

In a continuing effort to prevent identity theft, Senate Bill (SB) 25 (Chapter 907, Statutes of 2003) prohibits the department from printing an individual's social security number (SSN) on any materials that are mailed to the individual after January 1, 2007. As a result of the enactment of SB 25, the Franchise Tax Board (FTB) is requesting an augmentation of $698,000 in FY 2005/06 to modify FTB systems in compliance with the enactment of the bill. The total cost to the department for implementing this legislative mandate is $1.09 million spread over the next two fiscal years.

B. Background/History

FTB systems use the SSN/Taxpayer Identification number (TPID) as an identifying number on most notices mailed to individuals. All billings, and taxpayer communications relating to the taxpayer's account, including communications regarding audit and collection activities contain the taxpayer's SSN/TPID. SB 25 amended California Civil Code section 1798.85 (part of the Information Practices Act) to prohibit the department from:

1. Publicly posting or displaying an individual's SSN;
2. Printing an individual's SSN on any card required to access products or services;
3. Requiring an individual to transmit his or her SSN over the Internet unless the connection is secure or the SSN is encrypted;
4. Requiring an individual to use his or her SSN to access an Internet website unless a password or unique personal identification number is also required to access the website; and
5. Printing an individual's SSN on any materials that are mailed to the individual, unless state or federal law requires the SSN to be on the document. Notwithstanding this provision, applications and forms sent by mail may include SSNs.

The amended law does not prohibit FTB from using an individual's SSN as an internal identifier, including SSNs on documents mailed to third parties such as garnishments and levies, nor does it prohibit a taxpayer from using his/her SSN on their tax return.

The FTB is currently in full compliance with the provision of the amended law with the exception of the provision to remove the SSN on mailable material. The operative date for FTB per the amended law is January 1, 2007.

C. State Level Considerations

The FTB is legislatively mandated to administer California's income tax laws, which includes corresponding with taxpayers using written documentation that is mailed to individuals. This amendment limits the use of SSNs on documents mailed to individuals. This change will be nearly invisible to taxpayers in terms of how they communicate with the department and will provide them with additional protection against identity theft.

D. Facility/Capital Outlay Considerations

There is no impact to facilities or any capital outlay considerations as a result of this proposal.

E. Justification

The mission of the Franchise Tax Board is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; to serve the public by continually improving the quality of our products and services; and to perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness. This proposal fully supports FTB's Mission, Goals, and Objectives as outlined in FTB's Strategic Plan. This BCP is consistent with FTB's Strategic Goal #5 – Protect Taxpayer Privacy and Ensure Security of Taxpayer Information.

Implementing this legislation to comply with the mandate requires changes to existing forms, notices, and information systems, which must be accomplished by the operative date of January 1, 2007.

Implementation is planned as follows:

FY 2005/06 – Phase I – Implement system changes to the primary personal income tax accounting systems (Database and interface changes) of the project. Phase II – Begin notices and dependent system changes.

FY 2006/07 – Continue completion of Phase II and interface testing for all systems, then begin processing the last half of the fiscal year.

F. Analysis of All Feasible Alternatives

Alternative #1 - Augment the department's budget by $698,000 in FY 2005/06 with a combination of overtime, consultant and professional services and temporary help dollars.

This alternative would fund the IT costs to remove the SSN from notices and replace it with a unique identifier. The unique number will be used to re-associate remittance and

correspondence generated from the notice to the correct account as required by this recently enacted legislation. Total costs to implement this alternative are approximately **$1.09 million** spread over the next two fiscal years as follows:

FY 2005/06 - $ 698,000
FY 2006/07 - $ 389,000

Funding this alternative with a combination of overtime, temporary help, and contract services will allow FTB flexibility for evaluating and placing staff resource needs to specific job duties and allows for minimizing unnecessary training costs. The contract services will be used to develop system requirements, as well as design code, and test the various systems impacted by this proposal.

Alternative #2 - Augment the department's Consultant and Professional Services budget by $1.59 Million in FY 2005/06.

This alternative would allow the department to contract out the workload associated with the systems changes to remove the SSN from notices and replace it with a unique identifier. Total costs to implement this alternative are approximately **$2.31 million** spread over the next two fiscal years as follows:

FY 2005/06 - $1,594,000
FY 2006/07 - $ 715,000

Utilizing full contract services staff will allow current FTB staff to continue working other mission critical programs, however, contracting 100 percent of the project will be more costly than retaining some existing and trained FTB staff. Contract service staff would need to be fully trained to work on FTB specific systems and FTB may not be able to meet the scheduled implementation date of January 1, 2007.

Alternative #3 - Do not augment the department's budget

Under this alternative, the department will have no resources to absorb the new workload associated with the system changes and meet the scheduled operative date. The recent budget reductions eliminated FTB's flexibility to redirect resources from other mission critical programs. Without additional funding, FTB will be at risk of lawsuits and not in compliance with the provisions of California State law.

G. Timetable

The department needs to begin system programming changes in FY 2005/06 for the processing systems to be fully implemented by the legislatively mandated operative date of January 1, 2007. Fiscal Year funding costs are as follows:

FY 2005/06	Funding Type	Amount
	Overtime	$224,000
	Temp Help	11,000
	C&P Services	463,000
	Total Funds	$698,000

FY 2006/07	Funding Type	Amount
	Overtime	$154,000
	Temp Help	2,000
	C&P Services	233,000
	Total Funds	$389,300

H. Recommendation

The FTB recommends approval of Alternative 1. This alternative provides additional funding of $698,000 in overtime, temporary help, and contract services in FY 2005/06, which will enable FTB to implement the necessary system changes by the required operative date of January 1, 2007.