

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2011/12
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

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

TITLE OF PROPOSED CHANGE:

Audit Workload Growth

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) requests funding of \$3.2 million and 34 positions (31.6 PYs) in FY 2011/12 to work discretionary workloads in the Audit Program above the 4:1 Cost Benefit Ratio (CBR). This funding will allow FTB to increase the state's General Fund revenues through its audit activities by issuing additional tax assessments. This proposal is estimated to generate revenue of \$6.5 million in FY 2011/12, increasing to \$13 million in subsequent years.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
Pending Board Approval			
FTB PROGRAM APPROVAL:			
DEPARTMENT APPROVAL:			DATE

DOES THIS BCP CONTAIN INFORMATION TECHNOLOGY (IT) COMPONENTS? YES OR NO
IF YES, DEPARTMENTAL CHIEF INFORMATION SIGNATURE _____ DATE _____

FOR IT REQUESTS, SPECIFY THE DATE A SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO), OR PREVIOUSLY BY THE DEPARTMENT OF FINANCE.

DATE _____ PROJECT # _____ FSR OR _____ SPR

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.

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE: _____ PPBA: _____

BCP #	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
	August 13, 2010	Audit Workload Growth						
PROGRAM	ELEMENT	COMPONENT						
Tax Programs	All Tax Programs							
Total Salaries & Wages a/			.0	34.0	34.0	\$ 0	\$ 2,170,000	\$ 2,170,000
Salary Savings			.0	-2.4	-2.4	\$ 0	-\$ 145,000	-\$ 145,000
Net Total Salaries and Wages			.0	31.6	31.6	\$ 0	\$ 2,025,000	\$ 2,025,000
Staff Benefits b/						\$ 0	\$ 770,000	\$ 770,000
Total Personal Services						\$ 0	\$ 2,795,000	\$ 2,795,000
Operating Expenses and Equipment								
General Expenses /1						\$ 0	\$ 69,000	\$ 24,000
Printing /2						0	2,000	2,000
Communications /3						0	32,000	32,000
Travel-In-State /4						0	35,000	35,000
Travel Out of State /5						0	168,000	168,000
Training /6						0	8,000	0
Facilities Operations						0	0	0
Cons & Prof Svs - Interdept'l						0	0	0
Cons & Prof Svs - External						0	0	0
Consolidated Data Center						0	0	0
California Health and Human Services Agency Data Center						()	()	()
Stephen P. Teale Data Center						()	()	()
Software/Hardware/Minor Equipment /7						0	97,000	32,000
Other Items of Exp (Specify Below)						0	0	0
Total Operating Expense & Equipment						\$ 0	\$ 411,000	\$ 293,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
 b/ Detail provided on following pages.
 /1 General Expense @ \$709 per position. Plus minor equipment @ \$1116 per new position. In addition \$7,000 for cell phones, blackberries, air cards and rolling pedestals.
 /2 Printing Cost @ \$70 per position.
 /3 Communication Cost @ \$844 per position plus \$3,000 for cell phones, blackberries, and air cards service charges.
 /4 Travel expenses for in-state auditors and legal staff.
 /5 Travel expenses for out-of-state auditors.
 /6 Training for new auditors.
 /7 Software and hardware for notebooks and desktops, plus additional software, supplies and ongoing maintenance.

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 411,000	\$ 293,000

SPECIAL ITEMS OF EXPENSE d/

\$ 0	\$ 0	\$ 0
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PROGRAM ADMINISTRATION
Distributed Admin

\$ 0	\$ 0	\$ 0
\$ 0	\$ 0	\$ 0

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0	\$ 3,206,000	\$ 3,088,000
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Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements	1730		501		0995
Totals					

\$ 0	\$ 3,206,000	\$ 3,088,000
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
\$ 0	\$ 3,206,000	\$ 3,088,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements					
Totals					

\$(0)	\$(0)	\$(0)
\$ 0	\$ 0	\$ 0
0	0	0
0	0	0
0	0	0
0	0	0
0	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.

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions	Positions			Salary Range	CY	Amount		
	CY 2010/11	BY 2011/12	BY + 1 2012/13			BY	BY + 1	
Administrative Services Division								
Personnel Specialist - Rg B PERM	0.0	1.0	1.0	\$ 2,993	\$ 3,640	\$ 0	\$ 40,000	\$ 40,000
Total Administrative Services Division	.0	1.0	1.0			\$ 0	\$ 40,000	\$ 40,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Audit Division								
Administrator II PERM	0.0	1.0	1.0	\$ 5,573	\$ 7,113	\$ 0	\$ 81,000	\$ 81,000
Administrator I PERM	0.0	2.0	2.0	\$ 5,076	\$ 6,476	\$ 0	\$ 144,000	\$ 144,000
Office Tech Gen PERM	0.0	1.0	1.0	\$ 2,638	\$ 3,209	\$ 0	\$ 35,000	\$ 35,000
Assoc Tax Auditor PERM	0.0	25.0	25.0	\$ 4,619	\$ 5,897	\$ 0	\$ 1,635,000	\$ 1,635,000
Student Assistant TEMP	0.0	1.0	1.0	\$ 1,458	\$ 1,558	\$ 0	\$ 18,000	\$ 18,000
Total Audit Division	.0	30.0	30.0			\$ 0	\$ 1,913,000	\$ 1,913,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	30.0	30.0					
Legal Division								
Tax Counsel III Spec PERM	0.0	1.0	1.0	\$ 7,682	\$ 9,478	\$ 0	\$ 103,000	\$ 103,000
Total Legal Division	.0	1.0	1.0			\$ 0	\$ 103,000	\$ 103,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Finance & Executive Services Division								
Acctg Officer Spec PERM	0.0	1.0	1.0	\$ 3,841	\$ 4,670	\$ 0	\$ 51,000	\$ 51,000
Total Finance & Executive Services Division	.0	1.0	1.0			\$ 0	\$ 51,000	\$ 51,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Technology Services Division								
Assoc Info Systems Analyst PERM	0.0	1.0	1.0	\$ 4,619	\$ 5,897	\$ 0	\$ 63,000	\$ 63,000
Total Technology Services Division	.0	1.0	1.0			\$ 0	\$ 63,000	\$ 63,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Total Salaries and Wages								
Positions	.0	34.0	34.0			\$ 0	\$ 2,170,000	\$ 2,170,000
Part Yr Adj	.0	.0	.0					
P.Y.s	.0	34.0	34.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2011/12**

Staff Benefits	2010/11	2011/12	2012/13
OASDI /1	\$ 0	\$ 123,000	\$ 123,000
Dental /2	0	15,000	15,000
Health /3	0	244,000	244,000
Retirement /4	0	339,000	339,000
Vision /5	0	3,000	3,000
Medicare /6	0	30,000	30,000
Worker's Comp /7	0	12,000	12,000
Industrial Disability /8	0	1,000	1,000
Non Industrial Disability /9	0	1,000	1,000
Unemployment Insurance /10	0	2,000	2,000
Total Staff Benefits	\$ 0	\$ 770,000	\$ 770,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,007 per net personnel year.
- 4/ For permanent, 16.917% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.58% of net salary for permanent.
- 8/ 0.06% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 8.95% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2011/12**

**Budget Change Proposal
Audit Workload Growth**

**BCP No.
Date: August 13, 2010**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests funding of \$3.2 million and 34 positions (31.6 PYs) in FY 2011/12 to work discretionary workloads in the Audit Program above the 4:1 Cost Benefit Ratio (CBR). This funding will allow FTB to increase the state's General Fund revenues through its audit activities by issuing additional tax assessments. This proposal is estimated to generate revenue of \$6.5 million in FY 2011/12, increasing to \$13 million in subsequent years.

B. BACKGROUND/HISTORY

FTB's Audit Program is responsible for conducting examinations of taxpayer income tax returns and claims for refund in order to determine the propriety of self-assessed tax liabilities. The Audit Program encourages self-compliance by administering the income tax audit program in a timely, responsible, and fair manner, and employs various methods to identify areas of noncompliance.

The Audit Program's discretionary workloads are prioritized by CBR where workload benefits (revenue) are compared to the costs of conducting the audits. The Audit Program regularly evaluates its modeling process and individual audit models, to identify potentially higher CBR workloads. Audit models are then ranked according to CBR, and resources are generally allocated to the models based upon that ranking. As part of the 2008/09 budget, FTB's professional audit program was funded at a 4:1 CBR.

However, through a regular evaluation of its audit models, the Audit Program has identified additional higher CBR discretionary workloads available for assignment, and consistent with traditional practices, has begun to reallocate existing resources to these higher CBR workloads. As a result, the Audit Program is currently funded down to only the higher CBR workloads in the 4:1 CBR range.¹ This means without an increase to the Audit Program's resources, certain established workloads in the 4:1 CBR workplan that would normally have been completed will go unassigned. Therefore, FTB requests additional funding and 30 positions to augment its Audit Program. Approving this request will allow the Audit Program to foster increased tax compliance and increase state revenues by completing the newly identified higher CBR workloads without reducing its presence in established 4:1 CBR workloads.

We are also requesting one position to provide the necessary staff resources for the expected increased legal workloads. The Legal Division provides upfront analysis and guidance to audit staff on certain complex legal issues. This proactive assistance ensures that cases are better developed and the department's position is substantiated. We also anticipate a proportionate increase in docketed protests, appeals, litigation, regulations, and rulings.

¹ For example, currently FTB is funded to work down to approximately the 4.5:1 CBR level. With additional resources FTB would be funded to work significantly deeper in to the 4:1 CBR workloads.

C. STATE LEVEL CONSIDERATIONS

The FTB continues comprehensive efforts to further reduce the tax gap in our state. By providing additional staff resources, the state will benefit from increased tax revenue of \$6.5 million in FY 2011/2012 and \$13 million in subsequent years. Implementing this proposal does not directly impact other state agencies.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The Audit Program has begun to implement a mobile workforce concept in several offices. The mobile workforce concept provides the Audit Program with the flexibility to increase staffing levels without incurring significant additional facility costs. Instead, these staff are provided with various tools which allow for a productive mobile workforce environment. In addition, the San Diego field office would require a build out of an existing storage room to accommodate additional staff as a result of this proposal. Department of General Services has agreed to provide the funding to complete this renovation.

E. JUSTIFICATION

This proposal will generate \$6.5 million in contributions for the General Fund in the first year, and \$13 million in annual contributions in subsequent fiscal years. The cost for the generation of revenue will be \$3 million ongoing (\$3.2 million first year). The expanded audit presence resulting from this proposal will also encourage additional self-compliance in the long-term and protect self-assessed tax revenue already received. Further, taxpayers will have a better tax administration that will be able to assure more taxpayers are paying their fair share.

F. OUTCOMES AND ACCOUNTABILITY

The Audit Program Division Chief is responsible for the appropriate allocation of resources to the workloads identified in the program. If additional workloads are identified in higher CBR levels, then it is the responsibility of the Audit Division Chief to redirect resources to the highest CBR workloads and identify resources for the lower CBR workloads that are left unfunded as a result of that redirection.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Approve the full request for \$3.2 million and 34 positions.

Augment FTB staff by 31.6 PYs to work discretionary workloads above 4:1 CBR. This alternative will generate additional revenue of \$13 million annually (\$6.5 million in the first year).

Alternative 2: Provide no additional funding and continue with current staffing.

Do not provide additional resources. The Audit Program will continue to operate with its current level of resources and work the highest CBR workloads available, consistent with past practices. By not funding this request, the state will forgo \$13 million in additional cash revenue annually.

H. TIMETABLE

FTB requests funding be provided on July 1, 2011. New auditors will be hired and begin training in July 2011 and thereafter begin issuing audit assessments.

I. RECOMMENDATION

Alternative 1 is recommended. This alternative provides the funding necessary to achieve the desired objective of increasing revenue for the General Fund and maintaining the revenue baseline already funded. This proposal would:

- Generate \$13 million annually in cash starting in FY 2012/13 (\$6.5 million in FY 2011/12) that is needed to fund state operations;
- Provide FTB with additional flexibility to increase its audit presence in emerging workloads without sacrificing its presence in traditional workloads;
- Help provide assurance to self-compliant taxpayers that everyone with a valid tax liability pays their fair share for government services.