

Franchise Tax Board
 FY 2009/10 Budget Development
 Summary of Proposed
 Budget Change Proposals

BCP #	BCP ISSUE	2009/10 Revenue	2009/10 Cost Estimate	Positions	Summary
		(In Thousands)			
1	Enterprise Data to Revenue Project (EDR) Pending FSR Submittal Placeholder Sent to Agency 08/20		TBD	TBD	This request represents the first year of a multi-year Project Oversight (IV&V) Contract estimated at \$9.3 million over the life of the EDR project. EDR is the first project of the Tax System Modernization project that will: --More fully automate and integrate how we process returns. --Image all paper returns. --Expand return data capture and return validation. --Make return and 3rd Party data available enterprise-wide. --Provide enterprise services to enhance and replace redundant functionality.
2	Workload Growth Sent to Agency 08/20		\$4,096	0.0	This BCP requests an augmentation of \$4.1 million to increase the processing capacity and storage for both the Mainframe and the Enterprise Customer, Asset, Income and Return (ECAIR) data warehouse. These systems are essential components of our revenue programs and processes.
3	IT Refresh (includes Tape Storage) Sent to Agency 08/20		\$5,084	4.0	This BCP requests \$5.1 million and 4 temporary help positions in FY 2009/10 to sustain the on-going IT infrastructure that supports the revenue activities of the department. This multi-year augmentation will fund a realistic replacement structure for desktop/notebook personal computers, servers, software, network printers/copiers, and other equipment as it reaches "end-of-life" (such as mainframe printer, mainframe tape library, and server tape drives).
4	Call Center Resources Sent to Agency 08/20		\$6,300	96.0	This BCP requests 96 positions to restore staffing levels to Contact Centers and supporting business areas. This request supports the Department's objective of answering 95% of taxpayer and tax practitioner calls, and responding to 80% of those calls within two minutes.
5	Underground Economy Criminal Investigation Sent to Agency 8/12	\$3,800	\$1,084	10.0	This BCP requests 10 positions and associated funding to work Underground Economy Criminal cases in the Investigations Bureau. Since these positions will replace 10 limited term positions that will expire in FY 2009/10, this request would not represent an increase in audits. If this request is denied, FTB will not be able to assess approximately \$100 million in unreported income for current inventory cases and we will lose out on millions of dollars in revenue from future cases of unreported income.
6	Financial Institution Record Match (FIRM) and Payor File Reengineering Sent to Agency 08/20	\$38,000	\$2,453	7.0	This proposal requests additional funding and positions to implement pending legislation that will require financial institutions doing business in California to match information on delinquent tax and non tax debtors against their customer records. Revenue projections for the first three years are \$38, \$66, and \$104 million respectively.
7	Out-of-State Collections Sent to Agency 08/12	600	\$200	0.0	Implement an out-of-state contract collections litigation program using the contract collection process to hire collection-oriented attorneys or law firms on a contingency basis to pursue collections through involuntary methods (obtaining judgments, filing liens, and under strictly monitored conditions seizing assets). FTB should be able to profitably collect enough of these accounts to make the effort well worthwhile.
8	Vehicle Registration Collections Sent to Agency 8/12	\$162,000	\$1,543	24.0	This BCP requests 24 positions and associated funding to enable the VRC Program to continue to meet the increased workload demands and collection requirements. Since these positions will replace 24 two-year limited term positions that will expire in FY 2009/10, this request would not represent an increase in collections.
TOTAL		\$204,400	\$20,760	141	

FRANCHISE TAX BOARD
Fiscal Year 2009/10

**Budget Change Proposal – Placeholder
Enterprise Data to Revenue Project**

**BCP No. 1
Date: August 12, 2008**

A. NATURE OF REQUEST

This Budget Change Proposal (BCP) is being submitted pending completion of the Feasibility Study Report (FSR). The Franchise Tax Board (FTB) is requesting funding of approximately \$5 million and 58 positions for FY 2009/10 to begin implementation of the Enterprise Data to Revenue (EDR) project, which is strategically directed at providing profound revenue generating and cost saving solutions. This proposal represents the first year of the EDR project, in which the total project and program cost augmentation are estimated to be \$200 million for FYs 2009/10 through 2015/16. Revenue generated from this project is anticipated to be \$500 million to \$1 billion annually beginning in FY 2012/13.

The EDR project will use a solution based procurement approach to acquire a best value and innovative solution. In order to be successful in obtaining a performance based contract the department requires an augmentation to fund the following:

- 1) Project Oversight contract services
- 2) System documentation tool, consultant services, and additional program staff
- 3) Additional limited-term program staff for backlog cleanup

Resource needs will be available when the FSR is completed and submitted to the Office of the Chief Information Officer currently targeted for September 12, 2008.

B. BACKGROUND/HISTORY

Annually, FTB processes more than 15 million Personal Income Tax (PIT) returns and one million Business Entity (BE) returns, responds to more than three million phone calls, handles over seven million Internet contacts, and collects more than \$60 billion, representing nearly 67 percent of the state's general fund revenue.

Over the last two years, with the help of consultants, FTB undertook an extensive exercise to perform enterprise strategic planning for the FTB Tax Systems Information Technology Strategic Plan (ITSP). Through our planning efforts, we identified significant opportunities to make fundamental changes to return processing and to improve utilization of data. These opportunities form the basis of the EDR project. The EDR project offers opportunities to change FTB's landscape through an enterprise approach of data sharing and connecting IT systems through services resulting in significant revenue streams and cost savings.

Project Oversight Contract Services

The criticality rating and complexity of the EDR project requires Project Oversight and Independent Verification and Validation (IV&V). The augmentation requested as part of this proposal is for the Project Oversight services only. An IV&V vendor will be engaged during the EDR project system development and implementation phases and reflected in a later BCP.

System Documentation Tool, Consultant Services and Additional Program Staff

The most significant aspect of the EDR project is to reengineer the personal income tax and business entities return processes and implement a new integrated workflow. In order to effectively complete this task, we need to document the existing business processes and rules. To address this need, this proposal includes a request for a system documentation tool, consultant services and additional limited-term positions to perform the required tasks and maintain the data. If the lack of system documentation is not addressed now, prior to the system development and implementation phase, considerable system analysis and documentation will be necessary concurrent with the development and implementation of the new workflow and in a compressed project schedule. This additional analysis time and effort will increase the project risks and costs. Addressing this issue later in the process would require building the documentation from ground zero. The risk would be that some systems business processes and rules would not be adequately discovered, documented and leveraged due to the project schedule and implementation pressures. This could lead to the new workflow not meeting requirements and not achieving the revenue objectives. Additionally, because of this added risk, the cost of the system analysis and documentation would be greater because the activity would be shouldered by the project contractor versus the vendor.

Additional Program Staff for Backlog Cleanup

Besides the need to document system processes and rules, there is a need to clean up the current return processing backlogs to get ready for the reengineering and implementation of the new workflows. The current backlog negatively impacts the availability of data, revenue and customer service, and must be addressed now. The backlog is primarily business entity returns and averages nine months past due based on established performance goals. This backlog has been growing steadily over several years and is largely attributable to the growing complexity of the tax law (e.g., Limited Liability Companies) and the limited functionality, rigid design and closed architecture of our business entities system. Deferring this cleanup effort to the system development phase of the project will result in competing resources and risk the timely completion and quality of both activities, adding further risk to the EDR project. If the backlog is left unattended it will severely undermine the success of the project. Prospective vendors are also likely to view the prospects for revenue and benefits to be extremely risky and cost prohibitive resulting in fewer—and possibly even no—bid proposal submissions.

C. STATE LEVEL CONSIDERATIONS

The EDR project will significantly narrow the state's \$6.5 billion tax gap through a strategically planned Tax Systems Modernization effort consistent with the FTB Tax Systems ITSP, FTB IT Capital Plan, and enterprise vision incorporating state IT goals

and objectives. The EDR project is the first of several IT projects strategically planned to incrementally align FTB's tax systems with the FTB Strategic Plan and FTB Enterprise Tax Business Vision. This augmentation request maximizes the success of the EDR project and sets the stage to achieve the corresponding State revenue objectives and IT goals at the lowest possible costs.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program areas represented in this proposal do not currently have sufficient space available to accommodate the additional staff requested in this proposal. As such, we are requesting funding for facilities costs to provide accommodations at FTB's main campus.

E. JUSTIFICATION

Over the last 25 years, FTB's IT investments weighed heavily towards improving the effectiveness of our enforcement processes with the aim of bringing taxpayers into compliance. These investments have generated good results including the filing of more tax returns and the collection of more past due taxes. While these investments were effective, the enforcement processes are the most costly way for FTB to conduct its business because they concern the recovery of noncompliance revenue. The aim of the EDR Project is to improve the effectiveness of our filing processes and thereby maximize compliance and revenues much sooner with the filing of the tax returns and when taxes are due. More specifically the EDR Project will narrow the \$6.5 billion tax gap by:

- Replacing the current return filing processes to improve efficiency and correct more returns.
- Providing discovery tools to identify noncompliance patterns and prevent fraudulent activity.
- Providing data as an enterprise asset to all authorized users.
- Improving the assignment of non-filer, audit and collection cases based on highest CBR.
- Providing reusable services to make functionality available and reduce maintenance costs.
- Retiring redundant systems.
- Expanding customer self-services.

In addition to addressing tax gap issues, the EDR project is aligned with FTB's Strategic Plan, Tax Systems ITSP and IT Capital Plan. All of the objectives and strategies of the EDR project are direct derivatives from these documents. FTB's IT Strategic Plan takes into consideration the State of California (CIO) and the State and Consumer Services Agency goals and strategies as well. The EDR project seeks to achieve FTB's primary function, strategies and goals, which revolves around collecting the proper amount of tax revenue due at the least cost.

F. OUTCOMES AND ACCOUNTABILITY

FTB Feasibility Study Report (FSR) 08-05 supports this request and provides the detail about the project scope, requirements and solution. An FSR study team comprised of a cross section of the department participated in the FSR analysis and requirements. A Project Manager, working with the Department's Project Oversight Guidance (POG) Section will oversee project activities including procurement to ensure all applicable policies, rules, guidelines, and procedures are followed. A Project Oversight vendor will be engaged to ensure project management activities including schedule management, earned value analysis and risk management are executed consistent with industry best practices and standards. An IV&V vendor will also be engaged to oversee and perform quality assurance of the EDR Project contractor and state activities to ensure execution consistent with requirements. The Project Manager will work with POG to monitor project progress and perform communication management including status reporting consistent with stakeholder and overseer needs. The FSR is the responsibility of the department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both CIO and the Chief Financial Officer (CFO).

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1 – Approve funding of approximately \$4 million and 58 positions to begin implementation of the EDR project.

This alternative represents year one of a multi-year project that addresses fundamental problems involved with processing Personal Income Tax (PIT) and Business Entity (BE) tax returns and the underutilization of data with an emphasis on cost savings and generating revenue. This alternative requests an augmentation to:

- 1) Acquire project oversight consultant services
- 2) Procure a software tool, consultant services and additional program staff for system documentation
- 3) Hire additional program staff to cleanup backlog

Alternative 2 – Defer backlog cleanup

This alternative is similar to Alternative 1, except that the department would defer the backlog cleanup to the system development phase. Deferring this cleanup effort will result in competing resources and risk the timely completion and quality of both activities, adding further risk to the EDR project. If the backlog is left unattended it will severely undermine the success of the project. Prospective vendors are also likely to view the prospects for revenue and benefits to be extremely risky and cost prohibitive resulting in fewer—and possibly even—no bid proposal submissions.

Alternative 3 – Defer the system documentation

This alternative is similar to Alternative 1, except that the department would defer the system documentation effort to the system development phase. This alternative will subject the system documentation task to the higher rates of the system developer. It also risks adequate completion of the task due to competing concurrent activities and pressure to implement the project to generate benefits so the vendor can be paid. On a

positive note, this alternative may potentially allow the department to fund these costs with project benefits.

Alternative 4 – Defer both the backlog cleanup and system documentation

This alternative would defer both the backlog cleanup and the system documentation effort to the system development phase. This alternative encompasses all of the negative and positive attributes of Alternatives 2 and 3.

Alternative 5 – Complete system documentation without using a contracted vendor or procuring a system documentation tool

This alternative is similar to Alternative 1, except that the department would not use the services of a contracted vendor or a tool to perform the system documentation effort. This alternative is not deemed viable as there are insufficient resources available with the knowledge of how these systems operate and the system documentation effort would not be adequately completed as to quality and completeness. The software tool allows for some level of “automated documentation of rules.”

Alternative 6 – Project oversight consultant services only

This alternative includes project oversight consultant services only. This alternative would severely jeopardize the success of the EDR Project due to higher risks and costs. Not performing the other activities would result in missed requirements, add more costs due to more unknowns (e.g., uncertainty as to business rules), put at risk the successful securing of a performance based contract, and risk a schedule delay due to discovery of unplanned issues.

H. TIMETABLE

- Project Oversight contract services will begin July 2009 and conclude December 2015
- System Documentation tool will be purchased July 2009, with 1 year maintenance costs and Contracting Services that begin July 2009 and conclude December 2009
- Additional program staff for backlog cleanup will begin July 2009

I. RECOMMENDATION

Alternative 1 is recommended. This alternative provides the most efficient and effective solution to meeting the Project Oversight requirements and planning for the return processing reengineering effort. This is the most desirable alternative to minimize costs and risks and maximize revenue and benefits of the EDR project.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
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 # 2	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Various	ELEMENT Various	COMPONENT	

TITLE OF PROPOSED CHANGE:

Workload Growth

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) requests an augmentation of \$4.1 million to increase the processing capacity and storage for both the Mainframe and the Enterprise Customer, Asset, Income and Return (ECAIR) data warehouse. These systems are essential components of our revenue programs and processes.

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 checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS	<input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE

PREPARED BY: FTB PROGRAM MANAGER	DATE	REVIEWED BY:	DATE
<h1>Pending Board Approval</h1>			
DEPARTMENT DIRECTOR:	DATE	AGENCY REPRESENTATIVE:	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 Pending PROJECT # FSR 08-04 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 #2	DATE 8/12/08	Title of Proposed Change:		
		Workload Growth		
PROGRAM	ELEMENT	COMPONENT		
Various	Various			
		Personnel Years		
		CY	BY	BY + 1
Total Salaries & Wages a/		.0	.0	.0
Salary Savings		.0	.0	.0
Net Total Salaries and Wages		.0	.0	.0
Staff Benefits b/				
Total Personal Services				
Operating Expenses and Equipment				
General Expenses		\$ 0	\$ 0	\$ 0
Printing		0	0	0
Communications		0	0	0
Postage		0	0	0
Travel-In-State /1		0	8,000	0
Travel Out-of-State		0	0	0
Training /2		0	40,000	0
Facilities Operations		0	0	0
Utilities		0	0	0
Cons & Prof Svs - Interdept'l		0	0	0
Cons & Prof Svs - External /3		0	98,000	0
Consolidated Data Center		0	0	0
California Health and Human Services Agency Data Center		()	()	()
Stephen P. Teale Data Center		()	()	()
Data Processing /4		0	3,950,000	295,000
Equipment		0	0	0
Other Items of Exp (Specify Below)		0	0	0
Total Operating Expense & Equipment		\$ 0	\$ 4,096,000	\$ 295,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

/1 ECAIR Travel @ \$8,000.

/2 ECAIR Training @ \$40,000.

/3 ECAIR Software Customization Contract Services @ \$98,000.

/4 Hardware & Software -ECAIR & Mainframe, ECAIR (Lease, Maintenance, Licenses) @ \$3,888,000.
 Plus Maintenance Needs @ \$62,000. BY+1 Additional Maintenance Needs.

TOTAL OPERATING EXPENSES AND EQUIPMENT

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$	0	\$ 4,096,000	\$ 295,000

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	\$ 4,096,000	\$ 295,000
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Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
General Fund-HRA	1730		001		0001
DMV-Motor Vehicle Acct.	1730		001		0044
DMV-Lic Fee Acct.	1730		001		0064
Court Ordered Debt	1730		001		0242
Reimbursements	1730		001		0001

\$	0	\$ 3,846,000	\$ 277,000
	0	55,000	4,000
	0	18,000	1,000
	0	35,000	3,000
	0	115,000	8,000
	0	27,000	2,000
	0		0
	0	0	0
\$	0	\$ 4,096,000	\$ 295,000

Totals

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements					

\$(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
\$	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 2009/10**

**Budget Change Proposal
Workload Growth**

**BCP No. 2
Date: August 12, 2008**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests an augmentation of \$4.1 million to increase the processing capacity and storage for both the Mainframe and the Enterprise Customer, Asset, Income and Return (ECAIR) data warehouse. These systems are essential components of our revenue programs and processes.

B. BACKGROUND/HISTORY

Mainframe

To successfully administer FTB's programs, FTB relies on the use of a full service data center. Computer technology is essential to the Filing, Collections, and Auditing programs. The data center processes approximately 17-20 million online transactions per month, and 237,000- 298,000 batch processes per month. The data center generates 2.7 million print pages per month of in-house documents, notices, bills, and letters during peak season. In fiscal year 2006/07 a total of 32.4 million pages was printed.

All of FTB's programs and processes depend on departmental users having Mainframe access and the appropriate operating capacity to be successful. The Mainframe capacity is measured in MIPS (Millions of Instructions Per Second) and Central Storage is measured in GB (gigabytes). Currently, FTB's Mainframe consists of an IBM z9 Enterprise Class E-server with capacity of 914 usable MIPS (2 processors) and 64 GB Central Storage. To maximize the available CPU processing throughput, the information/data needs to stay in the Mainframe computer's main storage. When the information/data is moved out of main storage to another device this is referred to as paging. Industry standards for paging are zero. FTB's system has been configured to accommodate a paging level below 20%. Currently we are experiencing paging at up to 51% level during normal system operation.

Many online business applications either run on or access the Mainframe and are an essential part of revenue collection. The following systems reside on the Mainframe and are accessed daily by FTB staff in their daily activities:

- **TI: Taxpayer Information System**
Captures, updates, and stores PIT information
- **BETS: Business Entities Tax System**
BETS is the primary tax accounting system for FTB's business entities. This system administers the California Revenue and Taxation Code as it applies to corporations, partnerships, and limited liability companies doing business in the State of California.

The following systems don't reside on the Mainframe but interact with it on a daily basis:

- **INC: Integrated Nonfiler Compliance**
Identifies potential non-filers, and notifies and secures returns only from those businesses and individuals who do not file returns when they have a filing requirement.
- **PASS: Professional Audit Support System**
Standardizes and documents audit, protest, legal files, and work papers.
- **ARCS: Accounts Receivable Collection Systems**
Evaluates and assigns a risk level to each balance due account 30-45 days after first notice is sent out by the Taxpayer Information System.

The continuous need to increase Mainframe processing capacity and storage are based on the following:

- **Workload Growth** - A historical growth rate of 9.5 percent (See Attachment 1).
- **Industry Standard Practices** - A direction from Infrastructure Services Bureau to change Mainframe infrastructure by establishing and promoting physically separate development and production environments for the systems and applications development areas. This separation will eliminate the risk of impact from development and testing areas on production processing, as well as to position FTB within accepted industry standards and to adhere to the IT Infrastructure Library (ITIL) framework. To accomplish this, FTB requires additional CPU, Memory, and Central Storage resources.
- **Impact of Emerging Technology** - Changes in the way FTB uses and processes taxpayer data due to emerging technologies. As more Mainframe applications are migrated or updated to include web-based front-ends (which makes them available via PCs), current subsystems and components need to be added or upgraded to provide additional capacity for programs such as Court Ordered Debt Expansion (CODE), E1099 and Enterprise Architecture System (EASY). These subsystems and components include WebSphere, JAVA, DB2, CICS, various performance monitors, and Mainframe data communications.

Enterprise Customer, Asset, Income and Return (ECAIR) Warehouse

FTB relies on business intelligence information to help identify additional non-filers by delivering improved decision support and program evaluation abilities to the Nonfiler Program. Currently, FTB uses a data warehouse referred to as ECAIR to store data used to develop Business Intelligence (BI) reports. Since its inception in 2002, the Nonfiler Program teams reviewed and recovered an average of 133,000 nonfiler cases each year with the help of the ECAIR database. The value of these recovered cases averages \$90 million a year.

For the past three years, the Audit and Accounts Receivable Management Divisions have transitioned from a 35-year old system called the Automated Selection of Tax Returns for Audit (ASTRA) to ECAIR to support their modeling efforts and generate more than \$75 million annually.

ECAIR was developed as part of the Integrated Nonfiler Compliance (INC) Project (FTB FSR 96-13) and resides on a UNIX platform. It contains detailed historical information about the income records, tax returns, and nonfiler cases used and/or created by the INC System. This data is organized into Online Analytical Processing (OLAP) structures that allow the Nonfiler Program staff to quickly navigate through millions of records to track revenue, identify trends, locate promising non-filer cases, or isolate problem cases. In addition, it can create queries and reports that allow staff direct access to the detailed historical income, tax return, and non-filer case data. It also contains a full copy of the INC database which staff utilizes to obtain the most current information without affecting the performance of the INC System.

Expanding the current ECAIR with new data sources is necessary in order to provide business managers with increased BI capabilities; this results in the need of additional processing and storage capacity. Without this capacity, FTB will be stymied in addressing revenue opportunities and will not have the necessary data needed to make critical business decisions.

C. STATE LEVEL CONSIDERATIONS

This proposal will not impact any other state agencies.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The facility costs associated with this request are primarily standard costs.

E. JUSTIFICATION

This request fully supports our mission and Strategic Plan as outlined in the following goals:

Goal #2 Increase Fairness and Compliance with Tax Law

- Issue timely, accurate, and understandable notices and advice.
- Identify and implement approaches to resolve tax gap issues, such as abusive tax shelters.
- Improve audit selection and speed up the audit and appeal cycle.

Goal #5 Demonstrate Operational Excellence

- Streamline processes and modernize our IT systems for reliability, ease of use, cost effectiveness, speed, and ability to react to change.
- Continually increase productivity of all employees.
- Ensure the utmost availability and quality of our services and systems to keep FTB running smoothly.
- Increase IT systems agility through widespread adoption of standardized software, standard platforms, and solutions.
- Deploy our information technology and compliance resources in alignment with our strategic goals.
- Decrease paper-based processes and move toward a digital office and electronic processes.
- Pursue partnerships with other state and federal organizations to deliver seamless, customer-centered products and services.

F. OUTCOMES AND ACCOUNTABILITY

Feasibility Study Report 08-04 supports this request, and provides detail of the project implementation plan. A project team, made up of members from across the Department, developed the FSR. The Project Manager, working in conjunction with the Department's Project Oversight and Guidance (POG) office, will monitor project progress to ensure all applicable guidelines and procedures are followed. The Project Manager and POG staff (project controller and project analyst) monitors monthly progress; monthly project expenditures and resource usage ensuring proper internal and external reports are completed timely.

These reports and the FSR are the responsibility of the Department's Chief Information Officer (CIO) or delegate. The fiscal oversight of the project is the responsibility of both the CIO and the Chief Financial Officer (CFO).

The FTB plans to submit the Post-Implementation Evaluation Report (PIER) six months after project completion (May 30, 2010). In the PIER, the FTB will tie results back to the original problem and opportunity statements in the FSR and BCP to demonstrate successful project completion and to show that the anticipated results were in fact realized.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1: Approve \$4.1 million to increase processing capacity and storage for the Mainframe and ECAIR data warehouse.

These systems are essential components of our revenue programs and processes. Approving this alternative would ensure the support of current and future revenue activities by:

- Mainframe - Allowing FTB to continue its original Mainframe operational plan of upgrading the hardware to accommodate future growth by activating a third processor.
- ECAIR – Will increase the department's ability to locate and review additional nonfiler cases.

Alternative 2: Approve \$14.6 million (including redirected resources) to increase processing capacity and storage for the Mainframe and ECAIR data warehouse.

This alternative is similar to Alternative 1 but does not leverage any existing resources and the costs outweigh the benefits. Refer to the FSR for additional information.

Alternative 3: Approve \$15.5 million (including redirected resources) to increase processing capacity and storage for the Mainframe and ECAIR data warehouse.

This alternative requests the purchase of excess resources resulting in elevated costs. Refer to the FSR for additional information.

Alternative 4: Do not provide additional resources.

By not providing the requested resources, our programs will experience performance degradation that would affect revenue production. Industry guidelines recommend operating at less than 90% of available CPU capacity. During the 2008 peak tax season, the department's capacity planning metric exceeded the industry guidelines by 9 percent using 908 MIPS out of 914 (using 99% of the total capacity). It is projected that the current system will be at full capacity in FY 2009/10 and based on workload growth projections, FTB will not be able to support the business areas.

This alternative will result in severe economic impacts such as:

- An increase in return processing time resulting in backlogs. Customer dissatisfaction and reduction in use of FTB's online services due to increased response times. Online services increased 21.44% between 2007 and 2008.
- The inability to add new data sources to ECAIR will create an obstacle in addressing revenue opportunities.

H. TIMETABLE

Funding to be provided on July 1, 2009.

I. RECOMMENDATION

FTB recommends approval of Alternative 1: Approve \$4.4 million to increase processing capacity and storage for the Mainframe and the ECAIR data warehouse. This alternative will enable FTB to effectively handle growth in both existing traditional workloads and e-Business workloads, while maintaining service level objectives, and allowing higher levels of security. Providing the necessary resources for these systems ensures existing and future revenue commitments are met.

Table 1 displays MIIPS usage by Program for FY 2006/07 baseline, as well as projected MIPS requirements for FY 2008/09 through FY 2010/11.

FY 2006/07 Baseline with CPU MIPS Changes thru FY 2010/11					
Workloads	Actuals		Projected 9.5% Growth		
	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
Personal Income & Corporation Tax Programs	679	839	988	1083	1186
Homeowners & Renters Assistance	19	23	28	30	33
Non-Tax Debt					
DMV Collections	16	20	22	25	27
Court Ordered Debt	16	20	23	24	27
Contracted Services*	5	6	9	10	10
Subtotal	37	46	54	59	64
Total Capacity MIPS Used	735	908	1070	1172	1283
Total MIPS Capacity Available	752	914	1134	1134	1134

*Reimbursed Services provided by FTB

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
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 # 3	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Various	ELEMENT Various	COMPONENT	

TITLE OF PROPOSED CHANGE:

IT Refresh/Replacement

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) requests \$5.1 million and 4 temporary help positions in FY 2009/10 to sustain the on-going IT infrastructure that supports the revenue activities of the department. This multi-year augmentation will fund a realistic replacement structure for desktop/notebook personal computers, servers, software, network printers/copiers, and other equipment as it reaches "end-of-life" (such as mainframe printer, mainframe tape library, and server tape drives).

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 checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input checked="" type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
--	-------------------------------------	--

PREPARED BY: FTB PROGRAM MANAGER	DATE	REVIEWED BY: DEPARTMENT DIRECTOR	DATE
<h1>Pending Board Approval</h1>			
DEPARTMENT DIRECTOR	DATE	AGENCY REPRESENTATIVE	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 Pending PROJECT # FSR 08-03 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 #3	DATE 8/12/08	Title of Proposed Change:					
		IT Refresh					
PROGRAM	ELEMENT	COMPONENT					
Various	Various						
		<u>Personnel Years</u>					
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
Total Salaries & Wages a/		.0	4.0	.0	\$ 0	\$ 78,000	\$ 0
Salary Savings		.0	.0	.0	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages		.0	4.0	.0	\$ 0	\$ 78,000	\$ 0
Staff Benefits b/					\$ 0	\$ 12,000	\$ 0
Total Personal Services					\$ 0	\$ 90,000	\$ 0
Operating Expenses and Equipment							
General Expenses /1					\$ 0		\$ 0
Printing					0	0	0
Communications /2					0	4,000	0
Postage					0	0	0
Travel-In-State /3					0	10,000	51,000
Travel Out-of-State					0	0	0
Training /4					0	15,000	80,000
Facilities Operations /5					0	17,000	17,000
Utilities					0	0	0
Cons & Prof Svs - Interdept'l					0	0	0
Cons & Prof Svs - External /6					0	621,000	259,000
Consolidated Data Center					0	0	0
California Health and Human Services Agency Data Center		()	()	()	()	()	()
Stephen P. Teale Data Center		()	()	()	()	()	()
Data Processing /7					0	3,842,000	7,588,000
Equipment					0	0	0
Other Items of Exp (Specify Below) /8					0	471,000	471,000
Total Operating Expense & Equipment					\$ 0	\$ 4,994,000	\$ 8,466,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

/1 General Expense @ \$1001 per position. Plus minor equipment @ \$1054 per position. PCs @\$1396 per position.

/2 Communication costs @ \$966 per position.

/3 Travel @ approx \$10,000 per year (financed over 4 years) for a total of \$41,000 and in 10/11 an addtnl. \$41,000.

/4 Training @ \$15,000 per year (financed over 4 years) for a total of \$60,000 and in 10/11 an addtnl. \$65,000.

/5 Facilities Costs: Mainframe Printer Modifications @ approx \$17,000 per year (financed over 4 years) for a total of \$67,000).

/6 Project Oversight @ \$621,000.

/7 Software per PC, \$180 on-going cost for PCs and Hardware/Software Purchase @ approx \$3,842,000 per year (for 4 years) for a total of \$15,366,000 and in 10/11 an addtnl. \$3,746,000 for Hardware/Software.

/8 Financing Charge, 5.07% interest @ approx \$421,000 per year (for 4 years) for a total of \$1,682,000 + \$50,000 contract services per year (financed over 4 years) for a total of \$200,000.

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	<u>\$ 0</u>	<u>\$ 4,994,000</u>	<u>\$ 8,466,000</u>
SPECIAL ITEMS OF EXPENSE d/			
_____	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

PROGRAM ADMINISTRATION	\$ 0	\$ 0	\$ 0
Distributed Admin	\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES	<u>\$ 0</u>	<u>\$ 5,084,000</u>	<u>\$ 8,466,000</u>

<u>Source of Funds</u>		<u>Appropriation No.</u>						
	Org	-	Ref	-	Fund			
General Fund	1730		001		0001	\$ 0	\$ 4,753,000	\$ 7,917,000
General Fund-HRA	1730		001		0001	0	68,000	113,000
General Fund-PRA	8640		001		0001	0	22,000	36,000
DMV-Motor Vehicle Acct.	1730		001		0044	0	23,000	39,000
DMV-Lic Fee Acct.	1730		001		0064	0	43,000	71,000
Court Ordered Debt	1730		001		0242	0	142,000	236,000
Reimbursements	1730		501		0995	0	33,000	54,000
						0		0
Totals						<u>\$ 0</u>	<u>\$ 5,084,000</u>	<u>\$ 8,466,000</u>

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	Amount		
		CY	BY	BY + 1		CY	BY	BY + 1
Technology Services Division								
Student Assistant - Rg B	TEMP	0.0	4.0 *		\$ 1,558 \$ 1,675	\$ 0	\$ 78,000	
Total Technology Services Division		.0	4.0	.0		\$ 0	\$ 78,000	\$ 0
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	4.0	.0				
Total Salaries and Wages	Positions	.0	4.0	.0		<u>\$ 0</u>	<u>\$ 78,000</u>	<u>\$ 0</u>
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	4.0	.0				

*Positions Expire June 30, 2010.

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2009/10**

Staff Benefits	2008/09	2009/10	2010/11
OASDI /1	\$ 0	\$ 5,000	\$ 0
Dental /2	0	0	0
Health /3	0	0	0
Retirement /4	0	0	0
Vision /5	0	0	0
Medicare /6	0	1,000	0
Worker's Comp /7	0	1,000	0
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	5,000	0
Total Staff Benefits	<u>\$ 0</u>	<u>\$ 12,000</u>	<u>\$ 0</u>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$538 per net personnel year.
- 3/ For permanent, \$7,952 per net personnel year.
- 4/ For permanent, 16.633% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.81% of net salary for permanent.
- 8/ 0.04% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 6.27% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2009/10

Budget Change Proposal
IT Refresh/Replacement

BCP No. 3

Date: August 12, 2008

A. Nature of Request

The Franchise Tax Board (FTB) requests \$5.1 million and 4 temporary help positions in FY 2009/10 to sustain the on-going IT infrastructure that supports the revenue activities of the department. This multi-year augmentation will fund a realistic replacement structure for desktop/notebook personal computers, servers, software, network printers/copiers, and other equipment as it reaches “end-of-life” (such as mainframe printer, mainframe tape library, and server tape drives).

B. Background/History

The FTB administers California’s Personal Income Tax and Bank and Corporation Tax Laws, and laws pertaining to the collection of various non-tax debts, such as Court Ordered Debt and Vehicle Registration. The department does so through a variety of activities, including: processing both paper and electronically filed returns; answering taxpayer and tax practitioner inquiries, via electronic mail and telephone, and; audit and collection activities for both tax and non-tax debts. These FTB programs and the related laws secure the tax and non-tax revenues needed to fund other state programs and services for Californians.

To successfully administer its programs, FTB relies on the use of computer technology including personal computers, up-to-date software, network printers/copiers, servers, data storage devices, and a full service Data Center. All of FTB’s critical programs and processes depend on the department having up-to-date computer equipment, including desktop and notebook computers, and servers running up-to-date software, and related peripheral devices, including high speed mainframe, and network printers, and storage devices. Therefore, it is imperative that the technology used by FTB be reliable, secure, performs to expectation, and that ample capacity exists to support on-demand revenue generating innovation and state and/or federal legislative changes.

Additionally, this BCP is requesting budgeted funds to ensure departmental users have robust computing equipment adequate for the demands being placed on them. As personal computer technology changes, FTB staff will require updated equipment and software to continue to meet mandated workload expectations, and to maintain effective communication, including data exchanges, with customers. Approval of this request will ensure FTB continues to have the technological tools necessary to successfully meet the mandates placed on them to generate revenue for the State and to exchange information electronically with our customers for purposes of collecting tax and providing quality service.

This proposal will serve all FTB staff and campuses, both in California and out of state. The proposal represents a first year, one-time cost necessary to refresh equipment, software and peripherals not currently meeting life cycle standards, and future on-going costs that will enable the FTB to refresh its IT equipment based on a five year life expectancy for desktop/notebook personal computers, servers, software, network printers/copiers.

Approval of this request will allow the FTB to enhance its services to citizens and business partners; including the Internal Revenue Service (IRS), and increase the department's ability to collect and assess revenues based on mandates in an efficient and effective manner. If this request is not approved, the department's ability to keep pace with technology changes decreases, and will inhibit our ability to meet the mandates placed upon us to generate revenue for the state.

In the past, funding for FTB's initial acquisition of personal computing (PC) equipment, software and other hardware, was provided through many different methods, such as purchased through an original project BCP, funding with new positions, or replacements due to business needs and/or system failures. Replacement funding has never been provided with the original purchase of PC equipment.

The FTB does not have sufficient funds available to replace equipment adequately refresh equipment with the current level of OE&E allocations. Since FY 2003/04 and budget reductions totaling more than \$33 million, FTB has struggled to replace aging infrastructure within the existing support budget. FTB has an annual need of roughly \$4.0 million dollars each Fiscal Year to refresh its standard technology equipment. FTB has fallen behind with infrastructure refresh and replacement as a result of inadequate funding. This request will allow for a regular replacement schedule for its technology infrastructure that supports the department's various revenue activities.

C. State Level Considerations

Refreshing FTB personal computing systems on a regular basis will ensure consistency throughout the department and also ensure security processes are current. FTB is required to exchange information with external entities including but not limited to private citizens, businesses, State entities, and Federal entities such as the IRS. The requirement to exchange information makes it necessary for the FTB's technology to be compatible with the technology used by its customers.

D. Facilities/Capital Outlay Considerations

The additional temporary help staff requested in this proposal can be accommodated within FTB's existing facilities, although, minor facilities alterations will be required to accommodate the placement of the Mainframe Printer.

E. Justification

The existing FTB PC and mainframe infrastructure faces a critical challenge. Many of the systems, software, and devices currently in use at FTB are well beyond the useful life of end-user devices. System and application software must be upgraded regularly, not solely as a result of changing business needs but also because vendors continually release newer versions of software. As the newer versions are released, vendors normally eliminate support for the obsolete versions; therefore customers that do not upgrade to supported versions of software place their existing applications and operating systems at risk.

FTB's experiences dealing with similar end of life software (and the providers of that software) and issues such as security vulnerabilities will continue to be identified by the providers or other users, but no security patch will be available from the vendor. The impact of not deploying a security patch could cause desktop, server and network outages due to a virus or worm outbreak or by other TCP/IP (Transmission Control Protocol/Internet Protocol) based attacks.

Relying on software that is no longer supported puts FTB at risk of violating the Maintenance category in FIPS 200, as well as State Administrative Manual (SAM), Section 5310 Policy Management which states, "The purpose of information security policy is to establish and maintain a standard of due care to prevent misuse or loss of state agency information assets. Policy provides management direction for information security to conform to business requirements, laws, and administrative policies. Each agency must provide for the integrity and security of its information assets by establishing appropriate internal policies and procedures for preserving the integrity and security of each automated, paper file or data base, etc."

Maintaining compatibility with the technology of other entities is another compelling reason for periodic replacement of hardware and software. The department is constantly exchanging data with external sources; therefore, the department's technology must be compatible with these external entities.

FTB's mission is "to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness." This request supports that mission by ensuring that FTB's PC and mainframe technology is refreshed or replaced on a methodical on-going basis. If these tools are not refreshed or replaced periodically, they become unusable due to high failure rates, and their inability to accommodate current software technology causes maintenance and repair costs to escalate. In addition, updates for the operating systems and application software may not be accommodated. As a result of not replacing equipment based on the proposed refresh schedule, declines in general productivity due to aging equipment breakdowns or incompatibilities can be significant. This includes slower response times, system lockup and reboots time, higher maintenance costs, increased problem resolution time and the increase in the number of hardware PC failures. Consequently, if funding for the technology refresh is not provided, FTB is at risk regarding its ability to provide the

quality program administration for which it is recognized, and its ability to assess and collect revenues could be jeopardized.

This request ensures the state can continue to rely on FTB's PC and mainframe technology to be a reliable tool necessary to bring in the state's general fund revenue, and that FTB can keep up with the technology being used by its customers.

FTB's Strategic Plan includes two goals and associated strategies that directly support this request. The supporting goals and strategies are:

Strategic Goal #1: Improve Customer Service

- Improve the speed in which we process tax returns and handle exceptions, including claims for refund, tax return errors by replacing equipment before general productivity declines because of aging equipment.

Strategic Goal #5 – Demonstrate Operational Excellence

- Streamline process and modernize our IT systems for reliability will enable the FTB to continue to bring in the state's general fund revenue.

F. Outcomes and Accountability

This BCP is supported by a fully developed Feasibility Study Report, which provides detail of the project implementation plan. The FSR was developed by a project team made up of members from across the enterprise. The progress of the project is overseen by a Project Manager who works in conjunction with the department's Project Oversight and Guidance (POG) office to ensure all applicable guidelines and procedures are addressed. The FSR is the responsibility of the Department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both CIO and the Chief Financial Officer (CFO).

G. Analysis Of All Feasible Alternatives

Alternative #1 – Provide funding of \$5.1 million and 4 temporary help positions in FY 2009/10 to support the on-going IT infrastructure that supports the revenue activities of the department and on-going funding of \$8.4 million in FY 2010/11 and \$8.3 million in FY 2011/12 and thereafter.

This augmentation is necessary to refresh equipment, software and peripherals currently not meeting life cycle standards, and future on-going costs to allow FTB to refresh its IT equipment based on a five year life expectancy for desktop/notebook personal computers, servers, software, network printers/copiers, and other equipment as it reaches "end-of-life" (such as mainframe printer, mainframe tape library, and server tape drives).

Alternative #2 – Provide funding of \$15.7 million and 4 temporary help positions in FY 2009/10 and on-going funding of \$4 million for each Fiscal Year beginning in 2010/11 to fully implement a controlled on-going replacement structure for desktop/notebook personal computers, servers, software, network printers/copiers, and replace end-of-life mainframe equipment.

This alternative requests the same funding to refresh equipment as noted in the first alternative. However, the first alternative finances the refreshed mainframe equipment over 4 years and this alternative requests full funding of the mainframe equipment in year one and an on-going refresh funding for the PC desktop and laptop computers only. Under this alternative, additional future requests of funding will become necessary when the larger scale mainframe equipment reaches “end of life”.

H. Timetable

Funding to be provided on July 1, 2009.

I. Recommendation

Alternative #1 is recommended. This proposal will provide the appropriate IT infrastructure to support the department’s revenue activities. With this funding the department will be able to implement a controlled on-going replacement structure for desktop/notebook personal computers, servers, software, network printers/copiers, and replace other equipment as it reaches “end-of-life” (such as such as mainframe printer, mainframe tape library, and server tape drives). Alternative #1 meets all of the business objectives and functional requirements necessary to maintain the existing systems without risking major equipment or software failure, as identified in FTB’s IT Refresh/Replacement Feasibility Study Report (FTB FSR 08-03) and lessens the risk of failure of obsolete equipment by implementing a complete upgrade/replacement program.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
DF-46 (REV 04/08)**

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

Please report dollars in thousands.

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

TITLE OF PROPOSED CHANGE:

Contact Center Resources - Tax Program

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board's (FTB) contact center requests an augmentation of 96 positions (91.1 PYs) and funding of \$6.3 million for FY 2009/10 and \$5.8 million for FY 2010/11, to enable the Department to reach its targeted performance goal in answering 95% of incoming calls.

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 checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input checked="" type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
Pending Board Approval			
FTB PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY REPRESENTATIVE:	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 #4	DATE 08/12/08	Title of Proposed Change:						
		Contact Center Resources - Tax						
PROGRAM	ELEMENT	COMPONENT						
Tax Programs	Personal Income Tax							
		Personnel Years						
		CY	BY	BY + 1	CY	BY	BY + 1	
Total Salaries & Wages a/		.0	96.0	96.0	\$ 0	\$ 3,885,000	\$ 3,885,000	
Salary Savings		.0	-4.9	-4.9	\$ 0	-\$ 194,000	-\$ 194,000	
Net Total Salaries and Wages		.0	91.1	91.1	\$ 0	\$ 3,691,000	\$ 3,691,000	
Staff Benefits b/					\$ 0	\$ 1,713,000	\$ 1,713,000	
Total Personal Services					\$ 0	\$ 5,404,000	\$ 5,404,000	

Operating Expenses and Equipment

General Expenses /1		\$ 0	\$ 354,000	\$ 96,000
Printing /2		0	2,000	2,000
Communications /3		0	233,000	233,000
Postage		0	0	0
Travel-In-State		0	0	0
Travel Out-of-State		0	0	0
Training		0	0	0
Facilities Operations /4		0	230,000	0
Utilities		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		()	()	()
Data Processing /5		0	48,000	23,000
Equipment		0	0	0
Other Items of Exp (Specify Below)		0	0	0
Total Operating Expense & Equipment		\$ 0	\$ 867,000	\$ 354,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

- /1 General Expense @ \$1001 per position. Plus minor equipment @ \$1054 per position. PCs @ \$1396 per position. Plus headsets and display phones @ \$240 per position.
- /2 Printing Costs @ \$24 per position.
- /3 Communication costs @ \$966 per position and ongoing Megacom costs of \$140,021.
- /4 Facilities Costs: Alterations to existing workspace @ \$230,000.
- /5 Software for PCs @ \$498 per PC, \$241 on-going cost for PCs .

		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT		\$ 0	\$ 867,000	\$ 354,000
SPECIAL ITEMS OF EXPENSE d/		\$ 0	\$ 0	\$ 0

PROGRAM ADMINISTRATION		\$ 0	\$ 0	\$ 0
Distributed Admin		\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES		<u>\$ 0</u>	<u>\$ 6,271,000</u>	<u>\$ 5,758,000</u>
<u>Source of Funds</u>	<u>Appropriation No.</u>			
	Org - Ref - Fund			
General Fund	<u>1730 001 0001</u>	\$ 0	\$ 6,271,000	\$ 5,758,000
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
Reimbursements	<u>1730 501 0995</u>	0	0	0
Totals		<u>\$ 0</u>	<u>\$ 6,271,000</u>	<u>\$ 5,758,000</u>
LOCAL ASSISTANCE		\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>	<u>Appropriation No.</u>			
	Org - Ref - Fund			
General Fund	<u>1730 001 0001</u>	\$ 0	\$ 0	\$ 0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
Reimbursements	_____	0	0	0
Totals		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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		<u>Positions</u>			<u>Salary Range</u>			<u>Amount</u>		
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>				<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
		2008/09	2009/10	2010/11						
Administrative Services Division										
Bus Services Officer I Spec	PERM	0.0	1.0	1.0	\$ 3,658	\$ 4,446	\$	0	\$ 49,000	\$ 49,000
Personnel Specialist - Rg B	PERM	0.0	2.0	2.0	\$ 2,993	\$ 3,640	\$	0	\$ 80,000	\$ 80,000
Total Administrative Services Division		.0	3.0	3.0			\$	0	\$ 129,000	\$ 129,000
Adjust for Part Year Positions		.0	.0	.0						
Net Positions/ PYs before salary savings		.0	3.0	3.0						
Finance & Executive Services Division										
Accountant I Spec	PERM	0.0	1.0	1.0	\$ 2,870	\$ 3,488	\$	0	\$ 38,000	\$ 38,000
Total Finance & Executive Services Division		.0	1.0	1.0			\$	0	\$ 38,000	\$ 38,000
Adjust for Part Year Positions		.0	.0	.0						
Net Positions/ PYs before salary savings		.0	1.0	1.0						
Filing Division										
Administrator I	PERM	0.0	2.0	2.0	\$ 5,076	\$ 6,476	\$	0	\$ 139,000	\$ 139,000
Customer Service Sup	PERM	0.0	4.0	4.0	\$ 4,622	\$ 5,576	\$	0	\$ 245,000	\$ 245,000
Customer Service Specialist - Rg B	PERM	0.0	20.0	20.0	\$ 3,050	\$ 3,708	\$	0	\$ 811,000	\$ 811,000
Tax Technician, Ftb - Rg B	PERM	0.0	64.0	64.0	\$ 2,817	\$ 3,426	\$	0	\$ 2,397,000	\$ 2,397,000
Total Filing Division		.0	90.0	90.0			\$	0	\$ 3,592,000	\$ 3,592,000
Adjust for Part Year Positions		.0	.0	.0						
Net Positions/ PYs before salary savings		.0	90.0	90.0						
Technology Services Division										
Assoc Info Systems Analyst	PERM	0.0	2.0	2.0	\$ 4,619	\$ 5,897	\$	0	\$ 126,000	\$ 126,000
Total Technology Services Division		.0	2.0	2.0			\$	0	\$ 126,000	\$ 126,000
Adjust for Part Year Positions		.0	.0	.0						
Net Positions/ PYs before salary savings		.0	2.0	2.0						
Total Salaries and Wages	Positions	.0	96.0	96.0			\$	0	\$ 3,885,000	\$ 3,885,000
	Part Yr Adj	.0	.0	.0						
	P.Y.s	.0	96.0	96.0						

Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2009/10

Staff Benefits	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>
OASDI /1	\$ 0	\$ 230,000	\$ 230,000
Dental /2	0	49,000	49,000
Health /3	0	724,000	724,000
Retirement /4	0	614,000	614,000
Vision /5	0	9,000	9,000
Medicare /6	0	54,000	54,000
Worker's Comp /7	0	30,000	30,000
Industrial Disability /8	0	1,000	1,000
Non Industrial Disability /9	0	2,000	2,000
Unemployment Insurance /10	<u>0</u>	<u>0</u>	<u>0</u>
Total Staff Benefits	\$ 0	\$ 1,713,000	\$ 1,713,000

1/ For permanent and overtime, 6.2% of net salary.

2/ For permanent, \$538 per net personnel year.

3/ For permanent, \$7,952 per net personnel year.

4/ For permanent, 16.633% of net salary.

5/ For permanent, \$110 per net personnel year.

6/ 1.45% of net salary for permanent.

7/ 0.81% of net salary for permanent.

8/ 0.04% of net salary for permanent.

9/ 0.06% of net salary for permanent.

10/ 6.27% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2009/2010**

Budget Change Proposal

BCP No. 4

Contact Center Resources – Tax Program

Date: August 12, 2008

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of \$6.3 million and 96 positions (91.1 PYs), to enable FTB's contact center to reach its targeted performance goal in answering 95% of incoming calls.

B. Background/History

FTB's contact center is California's primary contact for taxpayers and tax practitioners seeking information regarding the State's extensive Personal Income Tax (PIT) and Business Entity (BE) laws and policies.

In FY 2007/08, the contact center was unable to answer 1.4 million calls, 54% of the total calls received. These calls were either deflected (callers received a busy signal) or abandoned (callers hung up) – Please refer to Attachment #1.

FTB encourages voluntary compliance through taxpayer education by providing pre-filing assistance (i.e., general information, forms requests, and explanation of tax law prior to filing) as it is less costly than pursuing tax compliance via involuntary collection methods. The contact center is integral in the collection of revenue, assisting with collecting approximately \$2 billion in return payments (of the \$6 billion collected departmentally) through pre-filing assistance. The contact center represents the front line process, that when properly staffed and performance measures are met, is effective in minimizing the backend costs associated with audit and collection functions that result from improperly filed returns or non-filing compliance. The contact center establishes, maintains and helps implement FTB's public service standards, policies, and strategic planning efforts.

The contact center utilizes highly trained Customer Service Representatives (CSRs) who are responsible for:

- Promoting voluntarily compliance with State tax laws by responding in English and other languages to taxpayers and tax practitioners via telephone, written and Internet correspondence.
- Facilitating the filing of timely, complete, and accurate tax returns.
- Handling post-filing issues prior to formal enforcement of tax laws (audit and involuntary collections).
- Analyzing and correcting individual account errors and information regarding taxpayer liabilities, filing enforcement assessments, and collection notices.

CSRs are the front line point of contact for individuals and corporations required to file California tax returns worldwide. Although difficult to measure, the CSR positions are critical to revenue collection for the State of California, helping to reduce the tax gap and accelerate collections through proactive filing compliance services.

In fiscal year 2007/08, FTB produced more than 9.2 million billing notices. Many of these notices generate contacts to the contact center. In addition, the contact center is obligated to respond to general assistance calls. The Department's performance goal is to answer 95% of taxpayer and tax practitioner calls. This metric is referred to as Level of Access (LOA). Of the calls answered, FTB strives to answer 80% within two-minutes, the contact center's Level of Service (LOS) goal. These goals are based on industry benchmarks for government, and when realized, minimize caller complaints and increase accuracy, compliance and service.

The contact center is responsible for responding to more than 60% of the taxpayer inquiries associated with the 9.2 million notices the department produces. Since the notices request immediate payment and filing of tax returns, delays in responding not only frustrate taxpayers and tax practitioners, but ultimately impact revenue by the delay of filing returns and revenue collection. Taxpayer service is further diminished because delayed responses to FTB notices result in additional penalties and interest, yet the Department is not available to provide assistance upon taxpayers' response. (Please refer to Attachment 1 for detail of call demand and resource needs to reach performance goal).

In addition to responding to various notices FTB issues, the contact center also provides assistance with general information on tax laws, filing requirements, return preparation, forms requests, account resolution, refund status, and estimated tax payments, to both taxpayers and tax practitioners.

The state is incurring unnecessary costs and losing revenue by failing to provide a minimum LOS to its callers. When the call center is not properly staffed to assist or respond to inquiries, a chain of events is set into motion, such as:

- Returns are filed incorrectly; using the wrong filing status, claiming incorrect amounts for estimated tax payments, using incorrect standard/itemized deduction amounts, incorrect tax computations, etc. Balance due notices are then unnecessarily generated which cause taxpayers and tax practitioners to call for explanations, possibly set up payment arrangements, etc. Whereas, all of this is avoided when callers are assisted upfront with their pre-filing needs.
- Returns are not filed. This generates filing enforcement notices that cause additional calls, or additional notices that can ultimately result in collections.
- Taxpayers not receiving assistance with Head Of Household letters, automated audit letters, etc. These result in balance due notices if not responded to timely and accurately, and can ultimately result in collections.

While the Department continues to make strides by automating the delivery of taxpayer information, past budgetary cuts have eliminated the resources required to address

accounts that require complex analysis (i.e., Residency, military, Native American/Indian income, and gambling) within our service performance targets. The 96 positions requested in this proposal will address complex workloads and raise LOA to 95%.

This proposal does not specify a quantifiable positive revenue impact. However, it can be strongly argued that when you increase opportunities for taxpayers to file correctly, it increases overall compliance with the tax law. Increased compliance translates to a reduction in the Tax Gap -- and a corresponding increase in revenue. At this time, there is no measurable link between compliance activities -- such as the contact center contacts -- and increased revenue resulting from those activities.

Performance Measures:

In 1998, FTB contracted with Communications Management Associates (CMA), a consulting group, to complete a benchmarking study of the contact center. The results indicated that the average service level between private sector and government agencies was 80% of calls answered within 120 seconds or better. Accordingly, FTB adopted this industry service level. In support of these performance goals and to mitigate a decreasing level of access, the department submitted a FY 2008/09 BCP to augment the LOA in the call center. This request was denied.

FY 2007/08 Experience:

In FY 2007/08, the contact center answered an average of 45% of incoming calls. Most of the calls were not answered within the FTB performance goal of 80% within 2 minutes; it was common to answer only 25% of all incoming calls and respond to as few as 2% of the calls within two minutes. Furthermore, taxpayers often waited up to 50 minutes to speak with a CSR. To properly facilitate voluntary filing compliance the contact center must be sufficiently funded to respond to taxpayers' requests for assistance.

Impact of Filing Season:

Call volumes greatly increase during the filing season (January - April) due to additional contacts from taxpayers filing their tax returns. Although call volumes increase during this time, notices and statements are issued throughout the year by audit and filing enforcement areas that minimize the tax gap by identifying non-filers. This causes the demand for service in our contact center to remain constant, and as a result, fully staffed throughout the year. LOA and LOS are significantly affected by the number of staff available to answer incoming calls, the caller's tolerance to wait for a CSR, the types of services provided, the volume of calls received, and the CSRs' skill levels.

Generally, taxpayers patiently wait to speak with CSRs but a chronically understaffed contact center dramatically increases wait times. Additionally, callers are known to repeatedly hang up and redial in an attempt to gain quicker access to CSRs, overwhelming the telephone system and causing it to deflect callers before their calls are even acknowledged.

Automated self-services (Internet and Interactive Voice Response (IVR) systems) do not provide solutions to complex issues – Please refer to Attachment 1. Therefore, poor service levels result in irate taxpayers, repeat calls, and CSRs spending valuable time apologizing to these callers. As a result, call lengths increase leading to fewer calls answered, and the cycle continues as repeat calls and increased toll charges continue to accrue. In essence, FTB incurs a cost for callers to hold the line, vent their frustrations for long wait times and finally, providing the desired service. On the other hand, when the caller is a tax professional, insufficient service issues are amplified because they represent many individuals or corporations that call a toll-number (Hotline) and therefore expect a higher degree of service. The Hotline call volumes continue to increase as more taxpayers are turning to tax practitioners for assistance. Part of FTB's commitment includes improving the service provided and resolving issues with a single point of contact. By improving our service level, FTB will put an end to this ineffective cycle as the Department strives to meet the growing needs and expectations of its taxpayers and tax practitioners.

Reductions in Contact Center:

In 2003/04 the call center level of access was 81%, which did not meet FTB's performance goal. Several budget reductions in past years have significantly impacted the Department's contact center staffing levels. Since 2004, the contact center lost a total of 80 positions as a result of these budget cuts. These cuts ultimately reduced the current level of access to 45%. To fully reach the targeted performance goal of 95%, it would require an additional 96 positions to support the contact center and administrative overhead:

- Taxpayer and Tax Practitioner Contact Center (90 Positions)
- Administrative Overhead (6 Positions)

Taxpayer and Tax Practitioner Contact Center Services - 90 Positions (Refer to Attachment 2)

C. State Level Consideration

Increasing LOA will allow FTB to better meet the needs of California taxpayers and tax practitioners, which in turn brings the department closer to the Governor's vision of improving the responsiveness of all state taxing entities.

Although chronically understaffed in recent years, FTB's call center is still acknowledged

as one of the most efficient and best-executed contact centers in the State. For this reason the department was asked to partner with the Governor's Office of Emergency Services (OES) to provide use of our call center. Under this agreement, OES utilizes the department's call center during extreme weather conditions, emergency events, or disaster response operations to quickly provide public information to Californians who are impacted by these circumstances. However, the success of the partnership may be threatened as call demand continues to increase while resource levels remain static and insufficient.

When the call center is under resourced, taxpayers experience high levels of frustration, receive less than adequate level of service, and feel that FTB is non-responsive to their concerns. The most common caller complaints are:

- Long wait times (30-50 minutes).
- Unable to contact a CSR after calling repeatedly for more than a week.
- Getting disconnected because call volume is at maximum capacity.
- Inability to comply timely thus accruing additional penalties and interest.

The following is a representative sample of complaints about the call center that are received on a daily basis.

"Dear Sir. I have all my tax information for 2005 at my accountants. I do not owe anything for 2005 as we have lost money for the last 3 years. I received a tax bill for \$15,965.49 and they are threatening to attach our account. I have tried and tried to reach them by phone and I keep getting a recording that they are too busy and to call back later. This morning I waited on the phone for 1/2 hour only for them to hang up on me without me getting to talk to anyone. This is quite the scam from our state. Send us a bill with made up amounts and then make sure we can't get a hold of anyone then STEAL! our money from our bank accounts. I have had enough. I am going to write to every agency I can. When we talk with our friends they say the same things are happening to them. What is going on with our state? Please let me know who and how to contact someone so I can clear up my account."

"I have been trying to contact the FTB by phone every day for several weeks now. I always get the same message. 'We have a high volume of calls, please call back again.' The phone number I've been trying to call is (800) 338-0505. Because I haven't been able to get a hold of you, you people are starting to add more to the amount I owe. Either you get somebody to call me to set up payments or I'm just going to start sending in my own payments and you guys will have to deal with it."

When taxpayers cannot obtain the information needed to file their returns timely and accurately, the level of voluntary compliance drops, resulting in reduced revenue. Taxpayer and tax practitioners complaints and the negative feedback FTB's Executive Office receives, causes the contact center, Taxpayer Advocate Office, and Public Affairs to generate labor-intensive responses.

D. Facility/Capital Outlay Considerations

The program areas represented in this BCP have the space available to accommodate these additional staff, although alterations are necessary at a cost of \$230,000.

E. Justification

FTB's Strategic Plan includes goals and associated strategies that directly support this request. The supporting goals and strategies are:

Strategic Goal #1: Improve Customer Service

- Increase access and services to the contact center to meet taxpayer and tax practitioner needs.
- Respond to inquiries in multiple languages.

Strategic Goal #5: Demonstrate Operational Excellence

- Respond timely to callers to lessen call wait time, therefore reducing the toll-free charges to the State.

To better address the strategic goals listed above, FTB must increase the current level of service.

F. Outcomes and Accountability

FTB is accountable for providing and improving taxpayer service, and increasing fairness and compliance with tax law. With that direction, FTB established a Customer Service Action Committee (CSAC), which is chaired by Division Chiefs whose membership includes department-wide staff that lead program areas, which directly impact customer service levels. The action committee establishes standards for appropriate levels of service and considers options on how best to meet those performance levels. The implementation and on-going progress of this proposal will be monitored by the CSAC who will regularly report to Executive Management the customer service performance challenges and successes, especially during peak seasons. While the action committee is also tasked with monitoring resource use associated with this proposal, the ultimate responsibility still remains with the Department's Chief Financial Officer.

G. Analysis of All Feasible Alternatives

Alternative #1 - Approve \$6.1 million funding and 96 Positions to achieve the targeted 95% LOA.

Augmenting the contact center with the above funding request ensures the contact center reaches the Department's performance goal of answering 95% of the calls. This alternative represents best services industry wide practices and supports FTB in achieving higher rates of voluntary compliance (Please refer to Attachment 1 for workloads that need to be addressed to reach this performance goal.)

Alternative #2 - Approve \$3.1 million funding and 48.5 Positions to achieve a 77% LOA.

Although this alternative allows FTB to answer 77% of the calls, it does not support the Department's targeted performance goal. It also impacts taxpayers that call the contact center requesting general information and account data, to comply voluntarily with their tax-filing obligations. This alternative impacts FTB's ability to collect all the tax revenue available and does not support voluntary compliance.

Alternative #3 - Approve \$1.6 million and 24 Positions to achieve a 68% LOA.

Although this alternative allows FTB to answer 68% of the calls, it does not support the Department's targeted performance goal. It also impacts taxpayers that call the contact center requesting general information and account data, to comply voluntarily with their tax-filing obligations. This alternative further diminishes FTB's ability to collect all the tax revenue available and does not support voluntary compliance.

Alternative #4 - Maintain Current Customer Service Levels - No additional resources.

This alternative impacts taxpayers trying to self-comply because they cannot reach the contact center for general tax assistance and support. This will ultimately result in taxpayer non-compliance, therefore widening the tax-gap and tax revenue loss for the State. Under this alternative, dissatisfied customers will continue to call the Taxpayer Advocate Bureau and their government representatives with complaints.

H. Timetable

Funding to be provided on July 1, 2009.

I. Recommendation

Alternative #1 is recommended. This alternative provides for an additional \$6.1 million funding and 96 Positions to provide adequate funding to reinforce voluntary compliance and accelerate revenue; and to allow FTB to provide industry standard service to taxpayers and tax practitioners by answering 95% of calls received.

**Contact Center Resources
FY 2009/2010**

Contact Center Volumes for 2007/08

Attachment 1

Workload	Total Calls Received in IVR System	Total Calls Answered in IVR System	Offered to Call Center	Answered by CSR	Abandoned or Deflected	Call Center % Answered (LOA)
Taxpayer Services	5,083,162	2,519,113	2,727,544	1,239,012	1,488,532	45.4%
Tax Practitioner Hotline	No IVR upfront	N/A	459,508	239,887	219,621	52.2%
Total			3,187,052	1,478,899	1,708,153	46.4%

2007/08 statistics are an educated estimate based on partial reports and historical trends

Contact Center Need

Attachment 2

<i>Workload</i>	Workload Demand		Current Capacity		Staff Shortfall	
	Hours	PY	Hours	PY	Hours	PY
Taxpayer Services	352,949	202.8	241,514	138.8	111,435	64.0
Tax Practitioner Hotline	34,157	19.6	14,868	8.5	19,289	11.1
Leads and Supervisors, Administrators	121,800	70.0	95,700	55.0	26,100	15.0
Total	508,906	292.5	352,082	202.3	156,824	90.1

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
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 # 5	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Underground Economy Criminal Investigation

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$1.1 million and 10 positions (9.4 PYs) to replace 10 LT positions. These LT positions were authorized to investigate the cash-pay/underground economy cases, and these positions will expire on June 30, 2009.

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
FTB PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:		DATE	

Pending Board Approval

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 #5 DATE 8/12/08 Title of Proposed Change:
 PROGRAM ELEMENT COMPONENT
 Tax Programs Personal Income Tax

	Personnel Years			CY	BY	BY + 1
	CY	BY	BY + 1			
Total Salaries & Wages a/	.0	10.0	10.0	\$ 0	\$ 681,000	\$ 681,000
Salary Savings	.0	-5	-5	\$ 0	-\$ 34,000	-\$ 34,000
Net Total Salaries and Wages	.0	9.5	9.5	\$ 0	\$ 647,000	\$ 647,000
Staff Benefits b/				\$ 0	\$ 244,000	\$ 244,000
Total Personal Services				\$ 0	\$ 891,000	\$ 891,000

Operating Expenses and Equipment

General Expenses /1	\$ 0	\$ 10,000	\$ 10,000
Printing	0	0	0
Communications /2	0	10,000	10,000
Postage	0	0	0
Travel-In-State /3	0	74,000	74,000
Travel Out-of-State	0	0	0
Training	0	0	0
Facilities Operations	0	0	0
Utilities	0	0	0
Cons & Prof Svs - Interdept'l	0	0	0
Cons & Prof Svs - External /4	0	97,000	97,000
Consolidated Data Center	0	0	0
California Health and Human Services Agency Data Center	()	()	()
Stephen P. Teale Data Center	()	()	()
Data Processing /5	0	2,000	2,000
Equipment	0	0	0
Other Items of Exp (Specify Below)	0	0	0
Total Operating Expense & Equipment	\$ 0	\$ 193,000	\$ 193,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

/1 General Expense @ \$1001 per position.

/2 Communication costs @ \$966 per position.

/3 In-State travel.

/4 Consultant Services.

/5 Data Processing - software maintenance at \$241 per position.

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	CY	Amount	
		CY 2008/09	BY 2009/10	BY + 1 2010/11			BY	BY + 1
Administrative Services Division								
Investigation Spec II, Ftb	PERM	0.0	1.0	1.0	\$ 5,753 \$ 7,293	\$ 0	\$ 78,000	\$ 78,000
Investigation Spec I, Ftb - Rg B	PERM	0.0	5.0	5.0	\$ 5,239 \$ 6,637	\$ 0	\$ 356,000	\$ 356,000
Assoc Tax Auditor	PERM	0.0	3.0	3.0	\$ 4,619 \$ 5,897	\$ 0	\$ 189,000	\$ 189,000
Assoc Operations Spec/Ftb	PERM	0.0	1.0	1.0	\$ 4,400 \$ 5,348	\$ 0	\$ 58,000	\$ 58,000
Total Administrative Services Division		.0	10.0	10.0		\$ 0	\$ 681,000	\$ 681,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	10.0	10.0				
Total Salaries and Wages								
	Positions	.0	10.0	10.0		\$ 0	\$ 681,000	\$ 681,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	10.0	10.0				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2009/10**

Staff Benefits	2008/09	2009/10	2010/11
OASDI /1	\$ 0	\$ 40,000	\$ 40,000
Dental /2	0	5,000	5,000
Health /3	0	76,000	76,000
Retirement /4	0	108,000	108,000
Vision /5	0	1,000	1,000
Medicare /6	0	9,000	9,000
Worker's Comp /7	0	5,000	5,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 244,000	\$ 244,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$538 per net personnel year.
- 3/ For permanent, \$7,952 per net personnel year.
- 4/ For permanent, 16.633% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.81% of net salary for permanent.
- 8/ 0.04% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 6.27% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2009/10**

Budget Change Proposal

BCP No. 5

Underground Economy Criminal Investigation

Date: August 12, 2008

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of \$1.1 million and 10 permanent positions (9.4 PYs) to replace 10 LT positions. These LT positions were authorized to investigate the cash-pay/underground economy cases, and these positions will expire on June 30, 2009. The permanent positions will generate revenue of \$3.8 million for cases closed in tax year 2009 and will increase by 3% each year thereafter.

B. Background/History

The FTB cash-pay/underground economy program was established in FY 2000/01 to pursue individuals and businesses that flagrantly violate tax laws and significantly impact legitimate business groups in a negative way. FTB was granted ten limited term positions to pursue this workload to help address California's estimated \$6.5 billion tax gap by increasing enforcement of existing statutes, by maintaining existing deterrent measures and by creating public awareness of the consequences of tax-related cheating.

Investigation cases often fall outside the normal tax collection or audit funding criteria and typically address the most egregious violations of the California Revenue and Taxation Code. The long-term deterrent effect of investigations exceeds the immediate revenue benefits that can be cited.

As of December 2007, these limited term positions have been able to prosecute 36 cases with total unreported income of \$212 million and restitution ordered for \$26 million. Currently, FTB's Investigations Bureau has 95 open underground economy criminal cases. Investigators have identified a potential \$682 million in unreported income and \$51 million in assessments from these open inventory cases.

The cash-pay/underground economy cases being pursued represent a wide variety of industries and economic sectors. Businesses investigated to date include the construction industry, phone card sales, grocery stores, farming operations, photo labs, and service companies. The individuals under investigation have not paid taxes in years, but are found to live lavish life styles with large, upscale homes and expensive automobiles, airplanes, boats, and other high-end assets.

The FTB locates these individuals using numerous information resources including Suspicious Activity Reports (SARs). SARs became a source of information provided by the U.S. Department of Treasury for specific and exclusive use by law enforcement officials as a result of the Banking Secrecy Act (BSA) amendments of 1986. U.S. Department of Treasury noted that non-compliance with the BSA was widespread and

needed to be contained. The volume of SARs in California is approximately one fourth of the total U.S. volume. Based on the California Department of Justice reports, 48% of the SAR's reports filed were due to possible money laundering or structuring activities. The information leads gained from using SARs have proven to be an invaluable tool for the success of the cash-pay/underground economy program and have the potential to help significantly reduce California's tax gap.

The public affairs program informs and educates the public about the consequences of tax cheating. Absent a strong media presence, the deterrent effect is greatly diminished since court records alone do little to create a general awareness. The success of our voluntary compliance tax system depends heavily upon the public's belief that it is fair and equitable and that cheaters are held accountable.

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 compliant taxpayers who pay their fair share.

C. State Level Considerations

The FTB is continuing to take action to close the tax gap resulting in more equitable taxation for those taxpayers who voluntarily comply with State tax laws. The Franchise Tax Board and other agencies such as Department of Insurance, Employment Development Department and the District Attorney work in partnership to build strong cases against financial criminals. Impact to the State and many of its departments could be substantial if these efforts are not continued and developed.

D. Facility/Capital Outlay Considerations

FTB investments have already been incurred to accommodate the 10 LT positions.

E. Justification

This proposal reflects initiatives that will further address the Tax Gap burden on the taxpayers of California and will – at the same time – generate much needed revenue of approximately \$2.5 million annually for the State. These actions are closely aligned with FTB's mission, overall strategic plan and Tax Gap plan.

Consistent with FTB's Strategic plan goal #2, "Increase Fairness and Compliance with the Tax Law", our request for permanent resources aligns with our belief that a more holistic approach including long-term strategic efforts, along with quick strikes will create the best chance for reducing this problem that is shortchanging all Californians.

Consistent with our 2006 Tax Gap Plan: "A Strategic Approach to Reducing California's Tax Gap", we are committed to using new, innovative methods to combat this issue in order to benefit all taxpayers in our state.

F. Outcomes and Accountability

The implementation and on-going progress of this proposal will be monitored by the Department's Governance Council (GC). This council is the executive level decision-making body responsible for overseeing the success of the department's compliance programs.

G. Analysis of All Feasible Alternatives

Alternative 1: Provide funding to make the 10 limited term positions permanent.

This alternative reclassifies the 10 limited term positions into permanent positions.

This approach will result in average annual cash revenue of \$2.5 million through enforcement and prosecution actions. 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 funding to continue the positions as limited term for two years.

This will maintain the existing positions on an additional two-year limited term basis. The original purpose behind these limited term positions was to determine their effectiveness, which has already been demonstrated.

Alternative 3: Provide funding to make the 10 limited term positions permanent, convert the 6 Investigator positions to Forensic Auditor positions, and redirect the positions to other criminal investigations workloads.

This alternative reclassifies the 10 limited term positions into permanent positions.

The forensic auditors would assist agents with accounting responsibilities, which would allow agents to spend their time closing more cases. Also, by hiring more forensic auditors, we will have a better pool of candidates to choose from for Investigator positions. It would also give Investigations the opportunity to evaluate the auditor's work and it gives the auditor the opportunity to learn the requirements of an Investigator position.

However, forensic auditors cannot perform sworn peace officer duties and they are not a replacement for investigators. Investigators are able to perform search warrants and make arrests that lead to prosecutions, which are necessary steps to successfully deter criminal behavior and results in more revenue to the State.

H. Timetable

Investigations proposes that all 10 positions be made permanent July 1, 2009.

I. Recommendation

The department recommends Alternative 1. This proposal would:

- Continue to provide an increased enforcement presence that discourages non-compliance and protects the current and future tax base.
- Continue 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.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
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 # 6	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Various	ELEMENT Various	COMPONENT	

TITLE OF PROPOSED CHANGE:

Financial Institution Record Match

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$2.45 million and 7 positions (6.6 PYs) for FY 2009/10 to begin implementation of the Financial Institution Record Match (FIRM). FIRM will require financial institutions doing business in California to match Franchise Tax Board (FTB) information on delinquent tax and non-tax debtors against their customer records on a quarterly basis to enhance the effectiveness of the department's collection activities. FIRM does not create a new collection tool or order, rather it provides FTB with more timely and newer asset data than the department has access to currently. This proposal represents year one of a four-year project in which total project and program costs are projected to be \$21.2 million (refer to FTB FSR 08-02). Revenue generated from this proposal is expected to be \$38 million in 2009/10, increasing to \$111 million by FY 2012/13. This proposal is dependent upon pending legislation.

REQUIRES LEGISLATION <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input checked="" 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 PROJECT MANAGER:		DATE	
DEPARTMENT DIRECTOR:		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 08-02 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 #6	DATE 8/12/08	Title of Proposed Change:						
PROGRAM	ELEMENT	Financial Institution Record Match						
Various	Various	COMPONENT						
		<u>Personnel Years</u>						
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	
Total Salaries & Wages a/		.0	7.0	44.0	\$ 0	\$ 498,000	\$ 2,213,000	
Salary Savings		.0	-4	-2.5	\$ 0	-\$ 25,000	-\$ 111,000	
Net Total Salaries and Wages		.0	6.6	41.5	\$ 0	\$ 473,000	\$ 2,102,000	
Staff Benefits b/					\$ 0	\$ 176,000	\$ 883,000	
Total Personal Services					\$ 0	\$ 649,000	\$ 2,985,000	
Operating Expenses and Equipment								
General Expenses /1					\$ 0	\$ 32,000	\$ 182,000	
Printing /2					0	0	1,000	
Communications /3					0	7,000	43,000	
Postage /4					0	0	22,000	
Travel-In-State /5					0	0	1,000	
Travel Out-of-State					0	0	0	
Training /6					0	17,000	35,000	
Facilities Operations /7					0	0	173,000	
Utilities					0	0	0	
Cons & Prof Svs - Interdept'l					0	0	0	
Cons & Prof Svs - External /8					0	1,260,000	2,103,000	
Consolidated Data Center					0	0	0	
California Health and Human Services Agency Data Center		()	()	()	
Stephen P. Teale Data Center		()	()	()	
Data Processing /9					0	488,000	210,000	
Equipment					0	0	0	
Other Items of Exp (Specify Below)					0	0	0	
Total Operating Expense & Equipment					\$ 0	\$ 1,804,000	\$ 2,770,000	

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

- /1 General Expenses @ \$1001 per position. Plus minor equipment @ \$1054 per position. Display phones @ \$300 for call center staff. PCs @ \$2417 per position.
- /2 Printing costs @ \$24 per position.
- /3 Communication costs @ \$966 per position.
- /4 One time postage cost.
- /5 One time travel cost for project staff.
- /6 One time training cost for project staff.
- /7 One time facilities cost.
- /8 Contract services for development, implementation, and oversight.
- /9 Software for PCs @ \$709 per PC, hardware cost @ \$102,000 in 09/10 and \$13,000 in 10/11, additional software cost @ \$381,000 in 09/10 and \$169,000 in 10/11, ongoing costs @ \$241.

			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	
TOTAL OPERATING EXPENSES AND EQUIPMENT			\$ 0	\$ 1,804,000	\$ 2,770,000	
SPECIAL ITEMS OF EXPENSE d/			\$ 0	\$ 0	\$ 0	
PROGRAM ADMINISTRATION			\$ 0	\$ 0	\$ 0	
Distributed Admin			\$ 0	\$ 0	\$ 0	
TOTAL STATE OPERATIONS EXPENDITURES			\$ 0	\$ 2,453,000	\$ 5,755,000	
<u>Source of Funds</u>	<u>Appropriation No.</u>					
	Org	- Ref	- Fund			
General Fund	1730	001	0001	\$ 0	\$ 1,360,000	\$ 3,931,000
DMV - Motor Vehicle Acct	1730	001	0044	0	150,000	300,000
DMV - Lic Fee Acct	1730	001	0064	0	278,000	556,000
Court Collection	1730	001	0242	0	665,000	968,000
				0	0	0
				0	0	0
				0	0	0
Reimbursements	1730	501	0995	0	0	0
Totals				\$ 0	\$ 2,453,000	\$ 5,755,000
LOCAL ASSISTANCE				\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>	<u>Appropriation No.</u>					
	Org	- Ref	- Fund			
General Fund	1730	001	0001	\$ 0	\$ 0	\$ 0
DMV - Motor Vehicle Acct				0	0	0
DMV - Lic Fee Acct				0	0	0
Court Collection				0	0	0
				0	0	0
Reimbursements				0	0	0
Totals				\$ 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	Amount			
		CY	BY	BY + 1		CY	BY	BY + 1	
Administrative Services Division									
Compliance Rep, Ftb - Rg B	OT	0.0	0.0	0.0			\$ 0	\$ 0	\$ 12,000
Personnel Specialist - Rg B	PERM	0.0	0.0	1.0	\$ 2,993	\$ 3,640	\$ 0	\$ 0	\$ 40,000
Total Administrative Services Division		.0	.0	1.0			\$ 0	\$ 0	\$ 52,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	1.0					
Accounts Receivable Management Division									
Administrator I	PERM	0.0	0.0	1.0	\$ 5,076	\$ 6,476	\$ 0	\$ 0	\$ 69,000
Sr Compliance Rep.,Ftb	PERM	0.0	0.0	2.0	\$ 4,619	\$ 5,616	\$ 0	\$ 0	\$ 123,000
Compliance Rep, Ftb - Rg B	PERM	0.0	0.0	2.0	\$ 3,204	\$ 3,708	\$ 0	\$ 0	\$ 83,000
Tax Technician, Ftb - Rg B	PERM	0.0	0.0	19.0	\$ 2,817	\$ 3,426	\$ 0	\$ 0	\$ 712,000
Tax Program Tech I, Ftb	PERM	0.0	0.0	3.0	\$ 2,638	\$ 3,209	\$ 0	\$ 0	\$ 105,000
Total Accounts Receivable Management Division		.0	.0	27.0			\$ 0	\$ 0	\$ 1,092,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	27.0					
Finance & Executive Services Division									
Acctg Officer Spec	PERM	0.0	0.0	1.0	\$ 3,841	\$ 4,670	\$ 0	\$ 0	\$ 51,000
Total Finance & Executive Services Division		.0	.0	1.0			\$ 0	\$ 0	\$ 51,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	1.0					
Filing Division									
Customer Service Specialist - Rg B	PERM	0.0	0.0	1.0	\$ 3,050	\$ 3,708	\$ 0	\$ 0	\$ 41,000
Total Filing Division		.0	.0	1.0			\$ 0	\$ 0	\$ 41,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	1.0					
Technology Services Division									
Sr Info Systems Analyst Spec	PERM	0.0	2.0	2.0	\$ 5,571	\$ 7,109	\$ 0	\$ 152,000	\$ 152,000
Staff Prog Analyst Spec	PERM	0.0	3.0	6.0	\$ 5,065	\$ 6,466	\$ 0	\$ 208,000	\$ 416,000
Staff Info Sys Analyst Spec	PERM	0.0	2.0	5.0	\$ 5,065	\$ 6,466	\$ 0	\$ 138,000	\$ 346,000
Assoc Info Systems Analyst	PERM	0.0	0.0	1.0	\$ 4,619	\$ 5,897	\$ 0	\$ 0	\$ 63,000
Total Technology Services Division		.0	7.0	14.0			\$ 0	\$ 498,000	\$ 977,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	7.0	14.0					
Total Salaries and Wages									
	Positions	.0	7.0	44.0			\$ 0	\$ 498,000	\$ 2,213,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	7.0	44.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2009/10**

Staff Benefits	2008/09	2009/10	2010/11
OASDI /1	\$ 0	\$ 29,000	\$ 130,000
Dental /2	0	4,000	22,000
Health /3	0	52,000	329,000
Retirement /4	0	79,000	347,000
Vision /5	0	1,000	5,000
Medicare /6	0	7,000	32,000
Worker's Comp /7	0	4,000	17,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	1,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 176,000	\$ 883,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$538 per net personnel year.
- 3/ For permanent, \$7,952 per net personnel year.
- 4/ For permanent, 16.633% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.81% of net salary for permanent.
- 8/ 0.04% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 6.27% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2009/10**

**Budget Change Proposal
Financial Institution Record Match**

**BCP No. 6
Date: August 12, 2008**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$2.45 million and 7 positions (6.6 PYs) for FY 2009/10 to begin implementation of the Financial Institution Record Match (FIRM). FIRM will require financial institutions doing business in California to match Franchise Tax Board (FTB) information on delinquent tax and non-tax debtors against their customer records on a quarterly basis to enhance the effectiveness of the department's collection activities. FIRM does not create a new collection tool or order, rather it provides FTB with more timely and newer asset data than the department has access to currently. This proposal represents year one of a four-year project in which total project and program costs are projected to be \$21.2 million (refer to FTB FSR 08-02). Revenue generated from this proposal is expected to be \$38 million in 2009/10, increasing to \$111 million by FY 2012/13. This proposal is dependent upon pending legislation.

B. BACKGROUND/HISTORY

For personal income taxpayers, FTB currently uses 1099 interest bearing payment data from the Internal Revenue Service to identify debtor bank account information. This information is reported annually from financial institutions where interest in excess of \$10 has accrued on the account. This data is from the previous year and is sent to FTB after the end of the calendar year. Consequently, it is at least 11 months old before the FTB collection systems use it. The greater the amount of time that elapses between the identification of taxpayer assets and the initiation of FTB collection efforts, the higher the risk that those assets will not be available when involuntary collection efforts begin. 1099 interest payment data does not identify non-interest bearing assets that may be held at a financial institution by individual debtors (such as non interest checking accounts).

Federal 1099 interest payment data is not available for involuntary collection efforts against business entities. The only automated source of asset information for business entity taxpayers is captured from financial data when a Business Entity payment is submitted with a FTB billing notice. The primary limitation with this source of data is that not all payments are received directly from an account of the debtor. A payment could be from the personal account of an officer, a partner or from a parent company. Therefore, attempted collection efforts may involve accounts not associated with the debtor. Additionally, not all debtors make payments to FTB.

Under this proposal, FTB will create a consolidated delinquent debtor file that will be matched by a vendor against the data files of financial institutions doing business in California to identify assets available for involuntary collection action. This will allow FTB to obtain asset data that is aged no more than 90 days for both individual and business entity debtors that have either interest or non-interest bearing accounts in financial institutions. FTB will use this

newer data to collect delinquent tax and non tax liabilities with the long-existing Order to Withhold (OTW) statutes. An OTW is used primarily as a demand to a financial institution in possession of funds or properties belonging to the debtor. Upon receipt of an OTW, the financial institution is required to freeze the taxpayer's assets in their possession and hold those assets for ten days, and then remit to the department all cash or cash equivalents held that would satisfy the amount of the OTW. This proposal will not affect existing law that provides the applicable constitutional due process protections and appeal rights in either the audit or collection processes.

This proposal would impact financial institutions; however, because current federal law requires these entities to participate in the Financial Institution Data Match (FIDM) process for child support obligors, the extent of the impact may be minimized by use of a file format similar to the existing FIDM program. FTB implemented FIDM, for the Department of Child Support Services, to identify assets of delinquent child support debtors. The success of FIDM prompted FTB to extend the asset identification effort via FIRM to other classes of debtors.

The additional costs to financial institutions for implementing FIRM can be offset by fees that may be charged to customers for processing of levies. These fees can range up to \$125 per levy. Although the financial institutions cannot be reimbursed for the costs of levies that do not find open accounts, the levies issued under this proposal would utilize more current financial information and would be more likely to attach to active accounts, which would result in reimbursement for the financial institutions on a higher percentage of levies processed.

FTB estimates that by year four of the project, the data matching efforts will result in the issuance of an additional 125,000 OTWs annually. This will significantly impact our call volumes and correspondence. In order to address these increases, FTB will request an augmentation of program staff of 28 positions (26.5 PYs) in FY 10/11.

C. STATE LEVEL CONSIDERATIONS

The Board of Equalization (BOE) and the Employment Development Department (EDD) will have the opportunity to participate in the data matching process to further increase the State's revenue generation. BOE and EDD will share in the expense of the vendor matching efforts and will reimburse FTB for any IT costs FTB incurs in incorporating and distributing their respective data.

The department is authorized or required by the Legislature to collect debts attributable to Court Ordered Debt (COD) and Vehicle Registration Collections (VRC). FTB will include non tax accounts in the consolidated delinquent debtor file. The Department of Motor Vehicles and COD will share in the expense of the vendor matching efforts and any IT costs FTB incurs in incorporating and distributing their respective data.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program areas represented in this proposal do not currently have sufficient space available to accommodate the additional staff requested in this proposal. As such, we are requesting funding for facilities costs to provide accommodations.

E. JUSTIFICATION

FTB's mission is "to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness." This proposal fully supports FTB's Strategic Plan Goals #2 "Increase Fairness and Compliance with Tax Law" and #5 "Demonstrate Operational Excellence."

This proposal is directed at addressing noncompliant taxpayers. FTB is continuing to take action to close the tax gap resulting in more equitable taxation for those taxpayers who voluntarily comply with the state tax laws. Approximately 10 percent of California's \$6.5 billion income tax gap consists of reported but unpaid taxes. This proposal would further the department's efforts to narrow the tax gap by increasing enforcement measures that enhance the state's ability to collect outstanding debts.

A financial institution records match process would, in a timely and efficient manner, permit the department to identify previously unknown deposit accounts held by delinquent debtors to collect outstanding debts. Use of timely financial data will reduce current collection process inefficiencies due to OTWs being issued based on outdated account information. The FIRM process would allow the department to obtain asset data that is aged no more than 90 days for both individual and business entity debtors who have either interest or non-interest bearing accounts in financial institutions.

Having more up-to-date asset information will also give FTB the opportunity to update its tax accounting systems with more current address information when the account holder has an address with a mail status of "returned". The tax accounting systems are FTB's "system of record" for the tax collection systems. The capture of valid address information will allow both the accounting systems and collection systems to issue billings, notices and inquiries allowing for voluntary response and compliance of debtor obligations. Additionally, the tax accounting systems are an information source for our non-tax collection systems thus providing benefit to all collection arenas.

F. OUTCOMES AND ACCOUNTABILITY

This BCP is supported by a fully developed Feasibility Study Report (FSR), which provides details of the project implementation plan to establish a financial institution record match process for the collection of delinquent state income tax debts in a manner that reflects best collections practices. The FSR was developed by a project team made up of members from across the enterprise. A Project Manager, working in conjunction with the department's Project Oversight and Guidance (POG) office, oversees the progress of the project to ensure all applicable guidelines and procedures are addressed. The Project Manager and staff of POG monitor monthly progress, monthly project expenditures, and resource usage and ensure proper internal and external reports are completed timely. Throughout the phases of the project, POG also ensures proper oversight is in place by initiating an Independent Verification & Validation (IV&V) or Independent Project Oversight Review (IPOR) where applicable. The FSR is the responsibility of the department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both CIO and the Chief Financial Officer (CFO).

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative # 1 – Approve funding of \$2.45 million and 7 positions (6.6 PYs) to begin implementation of the Financial Institution Record Match (FIRM) (pending legislative approval) and modify the existing collection systems and accounting systems to support the FIRM effort.

This alternative represents year one of a four-year project in which total project and program costs are projected to be \$21.2 million. This alternative provides for an FTB development effort that incorporates contracted technical assistance and engages the services of a vendor for the purpose of matching FTB, BOE and EDD debtor accounts against the account files of financial institutions¹. By using a vendor, FTB will not need to establish and maintain a connection with each financial institution; the vendor will establish a data exchange effort with each of them. This alternative will also allow FTB to immediately begin its matching effort with all financial institutions doing business in California, rather than pursue a phased-in approach necessitated by engaging each institution one at a time. Revenue generated from this proposal is expected to be \$38 million in 2009/10, increasing to \$111 million by FY 2012/13.

Alternative # 2 – Approve funding of \$2.75 million and 11 positions (10.45 PYs) for the FIRM project, without the use of a contracted vendor for data matching.

This alternative is similar to Alternative 1, except that the department would not use the services of a contracted vendor for the purpose of matching FTB, BOE and EDD debtor accounts against the account files of financial institutions. Under this alternative, FTB would perform the matching functions which would require an additional 4 positions (3.8 PYs). This alternative would cost an additional \$170,000 in ongoing costs and we would not have the benefit of using experienced vendors that currently match data of this type for states, counties and cities across the nation. FTB would also need to establish and maintain a connection with each institution and add the institutions in a phased-in approach which would delay revenue streams identified with Alternative 1. This alternative is not considered the most cost-effective solution.

H. TIMETABLE

Funding to be provided on July 1, 2009.

I. RECOMMENDATION

Alternative # 1 is recommended. This will allow FTB to implement FIRM and modify our existing collection and accounting systems using the most cost-effective and revenue maximizing method. FTB would acquire the services of an experienced vendor to match FTB, BOE and EDD debtor accounts against the data files of financial institutions doing business in California to identify assets available for involuntary collection action.

¹ When BOE and EDD chose to participate in the data match with financial institutions, their debtor files will be included in the consolidated file. See FSR for details.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
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 # 7	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Out of State Collections

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board is requesting funding of \$200,000 (no PYs) for FY 2009/10 to pursue collection of delinquent income taxes from taxpayers residing outside of California and from taxpayers with assets outside of California by hiring out-of-state legal counsel, experts, and consultants. This proposal will result in estimated revenue of \$600,000 to \$1.5 million.

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
FTB PROGRAM MANAGER			
DEPARTMENT DIRECTOR	DATE	AGENCY SECRETARY	DATE

Pending Board Approval

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:

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 200,000	\$ 200,000

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	\$ 200,000	\$ 200,000
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Source of Funds

Appropriation No.

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

\$ 0	\$ 200,000	\$ 200,000
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	\$ 200,000	\$ 200,000

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

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	CY	<u>Positions</u>		Salary Range	CY	<u>Amount</u>	
		<u>BY</u>	<u>BY + 1</u>			<u>BY</u>	<u>BY + 1</u>

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2009/10**

Staff Benefits

	2008/09	2009/10	2010/11
OASDI /1	\$ 0	\$ 0	\$ 0
Dental /2	0	0	0
Health /3	0	0	0
Retirement /4	0	0	0
Vision /5	0	0	0
Medicare /6	0	0	0
Worker's Comp /7	0	0	0
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 0	\$ 0

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$538 per net personnel year.
- 3/ For permanent, \$7,952 per net personnel year.
- 4/ For permanent, 16.633% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.81% of net salary for permanent.
- 8/ 0.04% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 6.27% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2009/10**

Budget Change Proposal

BCP No. 7

Out-of-State Collections

DATE: August 12, 2008

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$200,000 (no PYs) for FY 2009/10 to pursue collection of delinquent income taxes from taxpayers residing outside of California and from taxpayers with assets outside of California by hiring out-of-state legal counsel, experts and consultants. This proposal will result in estimated revenue of \$600,000 to \$1.5 million.

B. BACKGROUND/HISTORY

Over the years California's income tax gap is estimated at \$6.5 billion. The tax gap is the difference between what taxpayers should pay and what is actually paid. This proposal seeks to augment the department's budget in order to pursue the collections of taxpayers who leave California owing unpaid income taxes and taxpayers residing outside California who have California income upon which they owe taxes to California. Currently, FTB records reflect that there are returned-based and audit based assessments of out-of-state taxpayers totaling approximately \$84 million. This proposal will implement an out-of-state collections litigation program using attorneys or law firms to pursue collections through involuntary methods including obtaining judgments, filing liens, and under strictly monitored conditions, seizing assets.

FTB has the statutory authority to bring actions to collect these debts and to hire out-of-state counsel and the necessary experts and consultants to pursue these actions, pursuant to Revenue and Taxation Code Sections 19371 and 19376. The Board of Equalization currently hires out-of-state counsel to assist it in collecting from out-of-state taxpayers, producing additional revenue for the State.

FTB presently contracts with private collection agencies for debt collection services out of California, but these contracts are limited in scope to locating delinquent taxpayers, initiating contact, and requesting payment or resolution of debts solely through voluntary compliance.

C. STATE LEVEL CONSIDERATIONS

This proposal is directed at addressing non-compliant taxpayers. FTB is continuing to take action to close the tax gap and FTB has made considerable strides over the last three years to combat a variety of elements contributing to this ever growing issue. Impact to the state and many of its departments could be substantial if these efforts are developed.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

There are no facility concerns or costs associated with this proposal.

E. JUSTIFICATION

This proposal is directed at addressing noncompliant taxpayers. FTB is continuing to take action to close the tax gap resulting in more equitable taxation for taxpayers. This proposal would further the department's efforts to narrow the tax gap by increasing enforcement measures that enhance the state's ability to collect outstanding debts.

These actions are closely aligned with FTB's mission, overall strategic and tax gap plans. This proposal seeks funding for legal services to initially collect on approximately 20 out of state accounts. We estimate that pursuing these accounts, through the use of out-of-state counsel, could result in collection of between \$600,000 and \$1.5 million.

Consistent with FTB's strategic goal #2, "Increase Fairness and Compliance with the Tax Law" our request for resources in the areas of Collections aligns with our belief that a more holistic approach including long-term strategic efforts, along with quick strikes will create the best chance for reducing this problem that is shortchanging all Californians.

Consistent with our 2006 Tax Gap Plan: "A Strategic Approach to Reducing California's Tax Gap" we are committed to using new, innovative methods to combat this issue in order to benefit all taxpayers in our state.

F. OUTCOMES AND ACCOUNTABILITY

The Legal Division, under the direction of FTB's Chief Counsel, will maintain monthly internal management reports regarding case status and disposition, and actual and projected recovery information. The reports will be reviewed by senior legal management to ensure projections are on target. When variances occur, emerging issues and challenges relative to those workloads will be identified and contingency plans will be discussed.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1: Approve funding of \$200,000 per year, commencing in fiscal year 2009/10, to pursue collection of delinquent personal income taxes from taxpayers residing outside of the California by hiring out-of-state legal counsel and necessary experts and consultants. This alternative will put FTB in the best position to effectively pursue out-of-state delinquent tax cases and, therefore, fully protect the state's economic interests.

Alternative #2: Undertake a Request for Proposal contract process and contract with private collection agencies and/or collection firms that provide nationwide services. This alternative will take much longer to produce revenue. The success of this alternative is dependent upon finding a collection agency that has sufficient resources to litigate in all fifty states. Current commission rates that FTB pays private collection agencies run from 15 to 18 percent. The current cases that FTB sends to private collection agencies are low dollar, low yield cases. To collect high dollar cases commission rates could be as high as 25 percent. With the cost of commission and litigation, this alternative would also cost more than Alternative #1.

Alternative #3: Do not approve this request.

This approach fails to move FTB in a progressive forward direction to further combat the tax gap. Without sufficient funding, many out-of-state delinquent tax debts will go unpaid and the taxpayers of California will continue to experience the increasing burden of paying more than their fair share of taxes.

H. TIMETABLE

Implement the resources identified in this proposal on July 1, 2009.

I. RECOMMENDATION

Alternative #1 is recommended. This alternative continues our diligence in reducing the tax gap by innovative means. Approval of this alternative, at an initial estimated cost of \$200,000, will result in estimated revenue of between \$600,000 and \$1.5 million.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2009/10
DF-46 (REV 07/06)**

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

BCP #8	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 50 DMV Program	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Vehicle Registration Collection Augmentation

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$1.5 million to convert 24 two-year limited term positions (22.9 PYs) to permanent status. These positions were authorized to address the unprecedented workload growth experienced in the last five years within the VRC program.

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 type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:		GENERAL MANAGER:	DATE

Pending Board Approval

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

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

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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #8 DATE 8/12/2008 Title of Proposed Change:
 PROGRAM ELEMENT COMPONENT
 DMV Collections Program Personal Income Tax Vehicle Registration Collection Augmentation

	Personnel Years			CY	BY	BY + 1
	CY	BY	BY + 1			
Total Salaries & Wages a/	.0	24.0	24.0	\$ 0	\$ 862,000	\$ 862,000
Salary Savings	.0	-1.1	-1.1	\$ 0	-\$ 41,000	-\$ 41,000
Net Total Salaries and Wages	.0	22.9	22.9	\$ 0	\$ 821,000	\$ 821,000
Staff Benefits b/				\$ 0	\$ 369,000	\$ 369,000
Total Personal Services				\$ 0	\$ 1,190,000	\$ 1,190,000

Operating Expenses and Equipment

General Expenses /1		\$ 0	\$ 24,000	\$ 24,000
Printing /2		0	7,000	7,000
Communications /3		0	23,000	23,000
Postage 4/		0	60,000	60,000
Travel-In-State		0	0	0
Travel Out-of-State		0	0	0
Training		0	0	0
Facilities Operations		0	0	0
Utilities		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		()	()	()
Data Processing /5		0	6,000	6,000
Equipment		0	0	0
Other Items of Exp (Specify Below) /6		0	233,000	233,000
Total Operating Expense & Equipment		\$ 0	\$ 353,000	\$ 353,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

- /1 General Expense @ \$1001 per position.
- /2 Printing Costs @ \$24 per position and additional printing costs.
- /3 Communication costs @ \$966 per position.
- /4 Postage Costs for additional mailings.
- /5 Data Processing maintenance @\$241 per position.
- /6 Implement annual system changes and maintain existing application.

				<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT				\$ 0	\$ 353,000	\$ 353,000
SPECIAL ITEMS OF EXPENSE d/				\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION				\$ 0	\$ 0	\$ 0
Distributed Admin				\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES				<u>\$ 0</u>	<u>\$ 1,543,000</u>	<u>\$ 1,543,000</u>
<u>Source of Funds</u>			<u>Appropriation No.</u>			
	Org	-	Ref - Fund			
DMV Motor Vehicle Account	1730		001 0044	\$ 0	\$ 540,000	\$ 540,000
Motor Vehicle License Fee Ac	1730		001 0064	0	1,003,000	1,003,000
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Reimbursements	1730		501 0995	0	0	0
Totals				<u>\$ 0</u>	<u>\$ 1,543,000</u>	<u>\$ 1,543,000</u>
LOCAL ASSISTANCE				\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>			<u>Appropriation No.</u>			
	Org	-	Ref - Fund			
General Fund	1730		001 0001	\$ 0	\$ 0	\$ 0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
Reimbursements				0	0	0
Totals				<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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 2008/09	BY 2009/10	BY + 1 2010/11			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				
Accounts Receivable Management Division								
Sr Compliance Rep.,Ftb	PERM	0.0	2.0	2.0	\$ 4,619 \$ 5,616	\$ 0	\$ 123,000	\$ 123,000
Tax Technician, Ftb - Rg B	PERM	0.0	12.0	12.0	\$ 2,817 \$ 3,426	\$ 0	\$ 449,000	\$ 449,000
Total Accounts Receivable Management Division		.0	14.0	14.0		\$ 0	\$ 572,000	\$ 572,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	14.0	14.0				
Filing Division								
Key Data Operator - Rg B	PERM	0.0	6.0	6.0	\$ 2,450 \$ 2,975	\$ 0	\$ 195,000	\$ 195,000
Seasonal Clerk	TEMP	0.0	3.0	3.0	\$ 1,418 \$ 1,620	\$ 0	\$ 55,000	\$ 55,000
Total Filing Division		.0	9.0	9.0		\$ 0	\$ 250,000	\$ 250,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	9.0	9.0				
Total Salaries and Wages								
	Positions	.0	24.0	24.0		\$ 0	\$ 862,000	\$ 862,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	24.0	24.0				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2009/10**

Staff Benefits	2008/09	2009/10	2010/11
OASDI /1	\$ 0	\$ 50,000	\$ 50,000
Dental /2	0	10,000	10,000
Health /3	0	158,000	158,000
Retirement /4	0	127,000	127,000
Vision /5	0	2,000	2,000
Medicare /6	0	12,000	12,000
Worker's Comp /7	0	7,000	7,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	3,000	3,000
Total Staff Benefits	\$ 0	\$ 369,000	\$ 369,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$538 per net personnel year.
- 3/ For permanent, \$7,952 per net personnel year.
- 4/ For permanent, 16.633% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.81% of net salary for permanent.
- 8/ 0.04% of net salary for permanent.
- 9/ 0.06% of net salary for permanent.
- 10/ 6.27% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2009/10**

Budget Change Proposal

BCP No. 8

Vehicle Registration Collection Augmentation

Date: August 12, 2008

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$1.5 million to convert 24 two-year limited term positions (22.9 PYs) to permanent status. These positions were authorized to address the unprecedented workload growth experienced in the last six years within the Vehicle Registration Collection (VRC) program. These positions are set to expire on June 30, 2009. The increase in workload growth resulted in increased call demand, correspondence, and account transactions. FTB will be unable to continue meeting the VRC program requirements without approval of this proposal.

B. BACKGROUND/HISTORY

Annually, the Department of Motor Vehicles (DMV) sends nearly 34 million vehicle registration notices to Californians; approximately 1.2 million of these accounts, with an estimated value of \$310 million, are delinquent. The State Legislature, needing alternatives for collection of these overdue accounts, transferred the responsibility for collection of delinquent vehicle registration fees to FTB in 1993. FTB's VRC program is authorized under Section 10878 of the California Revenue and Taxation Code to collect these fees. Since its inception in 1993, the VRC program has collected over \$1.2 billion.

The VRC program experienced staffing losses through negative BCPs due to automation and reduced workloads as follows: FY 1997/98 Reduction of 29.4 PYs and \$900 thousand as a result of new automation. FY 2001/02 Reduction of 44.4 PYs and \$3.37 million due to declining workloads.

The VRC new inventory caseload increased by 77% from FY 2002/03 to FY 2005/06. This resulted in increased workloads, including increased call volume and correspondence. FTB received a budget augmentation in FY 07/08 for 24 two-year limited term positions (22.9 PYs) to meet growing workload demands. These positions expire June 30, 2009.

The VRC program is funded through the Motor Vehicle Account, State Transportation Fund, the Motor Vehicle License Fee Account, and Transportation Tax Fund. FTB forwards all revenue collected related to this program to DMV. DMV then makes disbursements to various state and county agencies.

In FY 2006/07, FTB handled approximately 1.2 million cases and collected nearly \$145 million. Of the amount collected, county departments of mental health received

approximately 19%; cities and counties, 45%; the California Highway Patrol (CHP), 11%; state highways, 9%; DMV, 8%; the state General Fund, 6%; and other agencies, 2%.

C. STATE LEVEL CONSIDERATIONS

The VRC program benefits county government, County Mental Health, California Highway Patrol, Department of Motor Vehicles and State of California General Fund. The FTB program and budget staffs have met with DMV regarding this proposal and have their support.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

There is no impact to facilities as a result of this proposal.

E. JUSTIFICATION

The FTB mission is “to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness.” This proposal fully supports FTB’s Strategic Plan Goal # 1 “Improve Customer Service.”

The table below illustrates VRC program past workload volume and the projected workload volume through fiscal year 2010/11:

Table 1 – Workload Volume

Fiscal Year	New Cases	Case Actions	Call Volume	Correspondence	Payment Volume
2002/03	678,796	1,099,798	83,028	59,914	477,991
2003/04	858,180	1,444,472	125,715	65,559	572,742
2004/05	847,761	1,481,192	172,550	66,510	665,042
2005/06	1,202,132	1,723,536	183,606	146,642	742,048
2006/07	1,209,779	1,504,508	159,900	120,201	766,845
2007/08	1,127,761	1,757,340	215,410	129,208	796,426
2008/09*	1,161,594	1,810,215	199,124	133,956	820,027
2009/10*	1,193,538	1,865,965	205,256	138,081	845,282
2010/11*	1,226,360	1,916,697	210,837	141,836	868,264

* Projected figures

The VRC program has seen an increase in all workload areas. In the last six years, FTB has experienced the following growth:

- New VRC cases increased 66%
- Case Actions (notice volume) increased 60%
- Call volume increased 159%
- Correspondence increased 116%
- Payment volume increased 67%

In addition to the primary workloads above (phone calls, correspondence and payments), a large number of accounts (over 630,000) that require manual intervention before the system is able to issue billing notices or levies. This workload is referred to as “VRC – No SSN Worklist”. This is a fallout worklist of VRC accounts, received by FTB without a social security number (SSN). Staff must manually search our taxpayer accounting system or DMV systems in order to locate and update the account with the correct SSN of the debtor. If a SSN can be found and associated with the account, our automated system can then pursue collection action. Low staffing levels combined with prioritizing the high volume of incoming calls has resulted in our inability to adequately address this growing workload. As of June 2008, there were 639,995 accounts in this worklist, with an average monthly volume of 9,000 new accounts without SSNs.

The table below represents the revenue potential for the No SSN workload - the current backlog as well as the on-going monthly volume:

Table 2 – No SSN Workload Revenue Potential

Workload	Volume	SSN Match Rate	Recovery Rate¹	Revenue Per Case	Revenue Potential
Current Inventory as of 06/08 No SSN Worklist (backlog)	639,995	50.0%	31.5%	\$194	<u>\$19,555,047</u>
Monthly added volume (ongoing)	9,000	50.0%	31.5%	\$194	<u>\$274,995</u>

The conversion of the 24 limited-term positions to permanent will allow FTB to work increased workloads (calls, correspondence and payments) with permanent staff as well as be able to dedicate staff to work the No SSN workload.

Revenue

Between FY 2002/03 and FY 2006/07, FTB’s collection of delinquent vehicle registration fees rose from \$74 million to \$145 million - an increase of 95% in five years. During the same time frame, the VRC program Benefit to Cost Ratio went from \$16:1 to \$24:1. Based on the increase in new cases, FTB anticipates collections will increase another \$11 million over the next three years per the following table:

¹ Recovery rate based on FTB taking collection action on 70% of our inventory and collecting on 45% of those actions taken.

Table 3 – Actual and Projected Cost Benefit Ratio of VRC Program

	Actual Revenue/ *Projected Revenue	Actual Costs/ *Projected Costs	Cost %	Benefit to Cost Ratio
FY 2002/03	\$73,971,000	\$4,510,000	6.1%	16 to 1
FY 2003/04	\$90,275,000	\$4,890,000	5.4%	18 to 1
FY 2004/05	\$109,467,000	\$5,177,000	4.7%	21 to 1
FY 2005/06	\$134,732,000	\$5,932,000	4.4%	23 to 1
FY 2006/07	\$144,921,000	\$6,140,000	4.2%	24 to 1
FY 2007/08	\$155,468,000	\$7,024,000	4.5%	22 to 1
FY 2008/09*	\$159,905,000	\$8,186,000	5.1%	20 to 1
FY 2009/10*	\$164,830,000	\$8,186,000	5.0%	20 to 1
FY 2010/11*	\$169,311,000	\$8,186,000	4.8%	21 to 1

FTB continuously strives to improve its ability to meet stakeholder expectations. Increased VRC program budget authority will allow us to meet increased DMV workloads and collect projected revenue, thereby increasing satisfaction with programs entrusted to us.

F. OUTCOMES AND ACCOUNTABILITY

The Accounts Receivable Management Division Chief is responsible for the overall management of the department’s VRC program. While program and budget staff is assigned the responsibility of monitoring the use of resources associated with this proposal, the ultimate responsibility still remains with the department’s Chief Financial Officer.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

ALTERNATIVE #1- Approve funding of \$1.5 million for 24 permanent positions (22.9 PYs)

This alternative proposes funding and resources to meet the permanent increase in the VRC program demand based on call volume, correspondence, payments and the No SSN workload. By making permanent this VRC budget and position authority, FTB will be able to maintain and improve the collection services for the VRC program and collect the projected amount of \$164 million in 09/10. Permanent staff would ensure the ability to work the increased workloads. The revenue collected benefits a multitude of government entities such as: county mental health departments, cities, counties, California Highway Patrol, state highways, DMV and the State General Fund. This alternative will allow us to collect at a CBR ratio of \$19:1.

ALTERNATIVE # 2- Approve funding of \$1.5 million for 24 limited-term positions (22.9 PYs)

This alternative proposes temporary funding and resources to meet the permanent increase in VRC program demand based on call volume and correspondence. The positions were originally established as LT due to the uncertainty whether VRC workloads would continue to sustain the need for these resources. Table 1 clearly demonstrates the continued need for these resources. This is not the best alternative as it is difficult to hire and retain skilled staff in limited-term positions. Many staff that accept limited-term positions end up leaving prior to the end of the term for permanent positions, resulting in higher vacancy and/or turnover rates. This also requires retraining new staff at added costs to the state.

ALTERNATIVE # 3- Do not approve funding

This alternative would allow the 24 limited term positions (22.9 PYs) to expire June 30, 2009. FTB will be unable to meet the new increased baseline caseload demand for the VRC program and will be unable to collect money due the state. FTB will not be able to collect the total projected revenue of \$162 million. We estimate a potential revenue decrease of \$17 million. This decrease would also affect all the programs funded by VRC collections, including: county departments of mental health, cities and counties, CHP, state highways, DMV and the General Fund. This option would gravely affect customer service levels and FTB's ability to meet existing baseline workload needs.

H. TIMETABLE

The implementation date will be July 1, 2009.

I. RECOMMENDATION

Alternative #1 is the recommended solution. It provides continued funding and resources to meet the new increased baseline workload with permanent staff. Without an increase in spending authority FTB will be unable to continue meeting its collection requirements for the VRC program.