

**FRANCHISE TAX BOARD
Fiscal Year 2008/2009**

Budget Change Proposal

BCP No. 1

Contact Center Resources - Tax

Date: August 10, 2007

A. Nature of Request

The Franchise Tax Board's (FTB) contact center requests an augmentation of 96 positions (91.1 PYs) and funding of \$5.8 million for FY 2008/09 and FY 2009/10, to enable the Department 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 BE laws and policies.

In FY 2006/07, the contact center was unable to answer 1.1 million calls, 41% 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 will establish, maintain, and help implement FTB's public service standards, policies, and strategic planning efforts.

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

- Promoting voluntarily compliance with State tax laws by responding in English and Spanish 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 2006/07, FTB produced more than 9.5 million billing notices, departmentally. Many of these notices generate contacts to the contact center. In addition, the contact center is obligated to respond to unsolicited general assistance calls. The Department's performance goal is to answer 95% of taxpayer and tax practitioner calls. This metrics 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 response times.

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 the industry service levels. In support of the LOA goal, the Administration approved a budget augmentation of 12.4 PYs on a two-year limited term bases (FY 01/02 BCP #9), which was later denied by the Legislature due to a limited General Fund.

FY 2006/07 Experience:

In FY 2006/07, the contact center answered an average of 59% of incoming calls. Of the calls answered, FTB only responded to 30% within two minutes. Therefore, the remaining 70% were not answered within FTB's performance goal. There were periods during the fiscal year when the access and service levels were much worse; 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 wait up to 40 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 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 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:

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. To fully reach the targeted performance goal, 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)

The contact center is responsible for responding to more than 60% of the taxpayer inquiries associated with the 9.5 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 90 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.

To address this issue, FTB is requesting funding to conduct a "Compliance Behavior Study" as part of the FY 2008/09 Tax Gap BCP. This study will begin to explore the indirect effect - or change in taxpayer behavior - from FTB's various compliance activities. This will allow us to begin measuring the revenue benefit to the State of engaging in these compliance efforts.

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. Due to insufficient contact center

resources, 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 (30-40 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.

Furthermore, FTB implemented a contact center partnership with the Governor’s Office of Emergency Service (OES) that would provide OES with the use of FTB’s contact center (facility) and staff during extreme weather conditions, an emergency event, or disaster response operations to provide public information to Californians when such measures are needed.

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 \$35,000.

E. Justification

FTB's Strategic Plan includes four 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 \$5.8 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 \$2.9 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 \$1.5 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, 2008.

I. Recommendation

Alternative #1 is recommended. This alternative provides for an additional \$5.8 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.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

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

BCP # 1	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

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board's (FTB) contact center requests an augmentation of 96 positions (91.1 PYs) and funding of \$5.8 million for FY 2008/09 and FY 2009/10, 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			
PROGRAM APPROVED BY:	DATE	DEPARTMENT DIRECTOR:	DATE

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? 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 619,000	\$ 328,000
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>\$ 5,832,000</u>	<u>\$ 5,634,000</u>

<u>Source of Funds</u>	<u>Appropriation No.</u>					
	Org	-	Ref	-	Fund	
General Fund	1730		001		0001	\$ 0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
Reimbursements	1730		501		0995	0
Totals						<u>\$ 0</u>

\$ 0	\$ 5,832,000	\$ 5,634,000
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
<u>0</u>	<u>0</u>	<u>0</u>
<u>\$ 0</u>	<u>\$ 5,832,000</u>	<u>\$ 5,634,000</u>

LOCAL ASSISTANCE						
<u>Source of Funds</u>	<u>Appropriation No.</u>					
	Org	-	Ref	-	Fund	
General Fund	1730		001		0001	\$ 0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
Reimbursements						0
Totals						<u>\$ 0</u>

\$(0)	\$(0)	\$(0)
\$ 0	\$ 0	\$ 0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
<u>0</u>	<u>0</u>	<u>0</u>
<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	Amount		
		CY	BY	BY + 1		CY	BY	BY + 1
Administrative Services Division								
Bus Services Officer I Spec	PERM	0.0	1.0	1.0	\$ 3,538 \$ 4,300	\$ 0	\$ 47,000	\$ 47,000
Personnel Specialist - Rg B	PERM	0.0	2.0	2.0	\$ 2,895 \$ 3,520	\$ 0	\$ 77,000	\$ 77,000
Total Administrative Services Division		.0	3.0	3.0		\$ 0	\$ 124,000	\$ 124,000
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	\$ 2,776 \$ 3,373	\$ 0	\$ 37,000	\$ 37,000
Total Finance & Executive Services Division		.0	1.0	1.0		\$ 0	\$ 37,000	\$ 37,000
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	\$ 4,909 \$ 5,965	\$ 0	\$ 130,000	\$ 130,000
Customer Service Sup	PERM	0.0	4.0	4.0	\$ 4,470 \$ 5,393	\$ 0	\$ 237,000	\$ 237,000
Customer Service Specialist - Rg B	PERM	0.0	11.0	11.0	\$ 2,950 \$ 3,586	\$ 0	\$ 431,000	\$ 431,000
Customer Service Specialist - Rg B	PERM	0.0	9.0	9.0	\$ 2,950 \$ 3,586	\$ 0	\$ 353,000	\$ 353,000
Tax Technician, Ftb - Rg B	PERM	0.0	64.0	64.0	\$ 2,724 \$ 3,313	\$ 0	\$ 2,318,000	\$ 2,318,000
Total Filing Division		.0	90.0	90.0		\$ 0	\$ 3,469,000	\$ 3,469,000
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	\$ 4,467 \$ 5,703	\$ 0	\$ 122,000	\$ 122,000
Total Technology Services Division		.0	2.0	2.0		\$ 0	\$ 122,000	\$ 122,000
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	\$ 3,752,000	\$ 3,752,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	96.0	96.0				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits

	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 221,000	\$ 221,000
Dental /2	0	50,000	50,000
Health /3	0	671,000	671,000
Retirement /4	0	606,000	606,000
Vision /5	0	9,000	9,000
Medicare /6	0	53,000	53,000
Worker's Comp /7	0	29,000	29,000
Industrial Disability /8	0	2,000	2,000
Non Industrial Disability /9	0	7,000	7,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 1,648,000	\$ 1,648,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.

**Contact Center Resources
FY 2008/2009**

Contact Center Volumes for 2006/07

Attachment 1

Workload	IVR	Answered in IVR	Offered to Call Center	Answered by CSR	Abandoned or Deflected	Call Center % Answered (LOA)
Taxpayer Services	4,359,319	2,160,394	2,198,925	1,407,259	791,666	64.0%
Tax Practitioner Hotline	No IVR upfront	N/A	535,805	213,523	322,282	39.9%
Total			2,734,730	1,620,782	1,113,948	59.3%

June 2007 projections are June 2006 actuals

Contact Center Need

Attachment 2

Workload	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

Filing Services Bureau Workload Indicator

Alternative 1	2006/07 Current Year Actual					2008/09 Projections					
	Offered	Answered	Rate	Hours	PY	Offered	Answered	Rate	Hours	PY	Need
TSCS	2,198,925	1,407,259	5.8	241,514	138.8	2,198,925	2,088,979	5.9	352,949	202.8	64.0
PRES	535,805	213,523	14.4	14,868	8.5	535,805	509,015	14.9	34,157	19.6	11.1

Alternative 2	2006/07 Current Year Actual					2008/09 Projections					
	Offered	Answered	Rate	Hours	PY	Offered	Answered	Rate	Hours	PY	Need
TSCS	2,198,925	1,407,259	5.8	241,514	138.8	2,198,925	1,748,119	5.9	297,232	170.8	32.0
PRES	535,805	213,523	14.4	14,868	8.5	535,805	361,269	14.7	24,512	14.1	5.5

Alternative 3	2006/07 Current Year Actual					2008/09 Projections					
	Offered	Answered	Rate	Hours	PY	Offered	Answered	Rate	Hours	PY	Need
TSCS	2,198,925	1,407,259	5.8	241,514	138.8	2,198,925	1,577,689	5.9	269,373	154.8	16.0
PRES	535,805	213,523	14.4	14,868	8.5	535,805	287,396	14.6	19,690	11.3	2.8

	Alt 1	Alt 2	Alt 3	Section Assignment
Taxpayer and Tax Practitioner Contact Center				
Tax Technician	64.0	32.0	16.0	TSCS - 725
Customer Service Spec.	11.0	5.5	3.0	PRES - 728
Leads @ Customer Service Spec	9.0	5.0	2.0	Alt 1 8 for 725 & 1 for 728 Alt 2 4 for 725 & 1 for 728 Alt 3 2 for 725
Customer Service Supervisor	4.0	2.0	1.0	TSCS - 725
Administrator I	2.0	1.0	0.0	Alt 1 1 for 725 & 1 for 728 Alt 2 1 for 725
	90.0	45.5	22.0	

**FRANCHISE TAX BOARD
Fiscal Year 2008/09**

Budget Change Proposal

BCP No. 2

Education & Outreach Volunteer Assistance

DATE: August 10, 2007

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests an augmentation of \$545,000 and 7 positions (6.6 PYs) to educate and provide outreach efforts to a greater number of taxpayers utilizing the Statewide Voluntary Income Tax Assistance (VITA) Program.

B. BACKGROUND/HISTORY

FTB implemented a volunteer program in 1977. At that time, FTB called the program Volunteer Tax Assistance Program (VTAP). In 1988, FTB and the Internal Revenue Service (IRS) joined together in a partnership and changed the name to the Statewide Voluntary Income Tax Assistance (VITA). The objective of VITA is to provide free, community based, easily accessible income tax assistance to elderly and disabled individuals with limited incomes.

In September 2006, FTB's Executive Officer presented to the three-member Franchise Tax Board a plan to increase the availability of the VITA program. The Board is very supportive of collaboration efforts between government and the private sector. By partnering with volunteers, we leverage the efforts of many at the cost of just a few.

The plan approved by the Board and presented in this BCP includes three major objectives:

1. Recruit more volunteer sites;
2. Increase the number of volunteers; and
3. Publicize the program throughout the state.

The Statewide VITA program is recognized as an effective, proactive vehicle to provide much needed assistance to individuals with limited income, who cannot afford to pay a tax preparer or buy tax preparation software.

FTB is committed to providing quality and timely education, outreach efforts and is very supportive of collaborative efforts between government and the private sector. Historical data shows each VITA site averages the completion of 200 Personal Income Tax Returns (PIT) or provides taxpayer assistance. Opening additional sites will bring an additional 20,000 to 40,000 new taxpayers to the VITA program. Within the additional sites, FTB will increase the number of bilingual sites by 30 to 50 for Spanish, Chinese, Russian, Vietnamese or Korean Community locations. By assisting more taxpayers, FTB

anticipates an increase in self-compliance. In addition, the new resources will increase marketing efforts, work with elected officials, and increase our IRS partnership at fairs and other events.

Currently, the existing resources assigned to administer the Statewide VITA program are unable to meet the demand of requests that FTB receives at the VITA sites. The IRS provides the fiscal year statistics for the VITA program to FTB during the month of October of each year. In FY 2005/06, the VITA program assisted 262,400 taxpayers, completed 164,700 tax returns (of which 153,000 were e-filed). If the resource augmentation is approved, the VITA program is expected to assist approximately 300,000 taxpayers, complete 200,000 tax returns of which approximately 190,000 are expected to be electronically filed.

Central Command for the VITA program is located in the Professional Resource and Education Section (PRES) within the Filing Division. The job of PRES is to recruit, train and support people and organizations that will sponsor or set-up a VITA site at their location. The most tangible and effective way to provide no cost assistance to CA filers in the target group is to increase the number of sites sponsored. The increase in VITA sites will ease the filing burden of many taxpayers and prevent filing errors.

The new resources requested within this proposal will enable FTB to:

- Increase the number of VITA sites from 1025 to 1125.
- Work with Volunteer Coordinators in various CA cities.
- Work with the IRS to develop a joint volunteer packet for fairs and other events.
- Work towards establishing VITA sites at other state agencies such as the Employment Development Department, the Board of Equalization, the Department of Water Resources, the California Highway Patrol and the Department of Health Service.
- Target community agencies to request them to sponsor sites or for volunteers.
- Provide additional marketing.
- Publicize sites to taxpayers needing assistance.

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 VITA – and increased revenue resulting from those activities.

To address this issue, FTB is requesting funding to conduct a “Compliance Behavior Study” as part of the FY 2008/09 Tax Gap BCP. This study will begin to explore the indirect effect - or change in taxpayer behavior - from FTB’s various compliance activities. This will allow us to begin measuring the revenue benefit to the State of engaging in these compliance efforts.

C. STATE LEVEL CONSIDERATIONS

This proposal does not impact other Departments, however, the increase of VITA sites and sponsors will improve taxpayer education and outreach in communities throughout the state. This proposal is consistent with the Governor's vision of improving the responsiveness of all state tax entities. Increasing VITA sites and sponsors will give taxpayers more access to tax assistance and information in the outlying areas not in proximity to FTB Field Offices. Trained volunteers, helping taxpayers with tax issues at no cost will help increase self-compliance and decrease taxpayer frustration.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program area represented in this BCP has the space available to accommodate these additional staff, although some workstation alterations are necessary.

E. JUSTIFICATION

FTB's Strategic Plan directly supports this request. The supporting goals and strategies are:

Strategic Goal #1 – Improve Customer Service, Strategy 3: Provide taxpayer education and outreach to increase voluntary compliance with the tax laws.

Strategic Goal #2 – Increase Fairness and Compliance with Tax Law, Strategy 1: Provide fair and impartial treatment for every taxpayer.

Strategic Goal #3 – Increase Transparency, Strategy 5: Expand our tools and services to assist taxpayers to file accurate, complete, and error-free tax returns.

In order to better address the strategic goals listed above, FTB must educate and provide outreach efforts to a greater number of taxpayers utilizing the Statewide Voluntary Income Tax Assistance (VITA) Program

F. OUTCOMES AND ACCOUNTABILITY

The Franchise Tax Board senior management approved an expansion and enhancement plan for the VITA program. An integral part of FTB Vision is to provide the necessary customer service to all customers. With that direction, FTB established a Customer Service Action Committee (CSAC), which is chaired by the Accounts Receivable and Filing Division Chiefs and whose membership includes department wide staff that head program areas that 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. With the increase of VITA staff, it is anticipated that the program will open up to 200 new VITA sites throughout the state. This will allow the VITA program to reach and educate an additional 20,000 to 40,000 new taxpayers. The implementation and on-going progress of this proposal will be monitored by the CSAC who will regularly report challenges and successes of customer service performance to

Executive Management, especially during peak seasons. While the action committee is also tasked with 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 - Augment FTB's budget by \$545,000 and 7 positions (6.6 PYs) to educate and provide outreach efforts to a greater number of taxpayers utilizing the Statewide Voluntary Income Tax Assistance.

This alternative will provide the necessary resources to administer education, outreach and additional assistance in preparing state income tax returns for low income, seniors, non-English speaking and disabled taxpayers. This request will help FTB meet its Strategic Goals to improve customer service by reducing taxpayers burden and assist taxpayers with filing accurate, complete and error-free tax returns. Furthermore, the additional resources will increase self-compliance for low-income, seniors, non-English speaking and disabled taxpayers. Additionally, it will support FTB's electronic filing efforts by e-filing 190,000 more income tax returns.

Alternative #2 - Augment FTB's budget by \$245,000 and 3 positions (2.8 PYs) to educate and provide outreach efforts to taxpayers utilizing the Statewide Voluntary Income Tax Assistance. This alternative would limit the number of new sites.

Although this alternative allows FTB to administer education, outreach and additional assistance in preparing state income tax returns for low income, senior, non-English speaking, and disabled taxpayers. It will impact FTB ability to meet its Strategic Goals to improve customer service by reducing taxpayers burden and assist taxpayers with filing accurate, complete and error-free tax returns for the elderly and disabled taxpayers. The reduced positions would impact the number of new sites by approximately 100 and prevents additional education and outreach to approximately 20,000 taxpayers.

Alternative #3 - Provide no additional resources.

If the requested resources are not provided the result will be the following:

- Unsatisfied taxpayers,
- Increased contacts and complaints to Legislative representatives,
- Increased calls to FTB's Taxpayer Services Center Section,
- Increased calls to FTB's Taxpayer Advocates Section,
- Increased contacts to FTB Field Offices, and
- Continued taxpayer non-compliance.

H. TIMETABLE

The requested resources are required on July 1, 2008.

I. RECOMMENDATION

Alternative #1 is recommended. The requested resources will provide additional education, outreach and assistance in preparing state income tax returns for low income, senior, non-English speaking and disabled taxpayers. This alternative also helps fulfill FTB's top three Strategic Goals.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

**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 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Education & Outreach Volunteer Assistance

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) requests an augmentation of \$545,000 and 7 positions (6.6 PYs) to educate and provide outreach efforts to a greater number of taxpayers utilizing the Statewide Voluntary Income Tax Assistance (VITA) 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 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:	DATE	REVIEWED BY:	DATE
Pending Board Approval			
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:			DATE

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? 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 84,000	\$ 56,000

SPECIAL ITEMS OF EXPENSE d/

\$ 0	\$ 0	\$ 0
------	------	------

PROGRAM ADMINISTRATION
Distributed Admin

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

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0	\$ 545,000	\$ 525,000
------	------------	------------

Source of Funds

Appropriation No.

Org - Ref - Fund

General Fund	1730	001	0001
Reimbursements	1730	501	0995

\$ 0	\$ 545,000	\$ 525,000
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
\$ 0	\$ 545,000	\$ 525,000

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

Totals

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
Accounts Receivable Management Division								
Compliance Rep, Ftb - Rg B	PERM	0.0	2.0	2.0	\$ 3,099 \$ 3,586	\$ 0	\$ 80,000	\$ 80,000
Total Accounts Receivable Management Division		.0	2.0	2.0		\$ 0	\$ 80,000	\$ 80,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	2.0	2.0				
Filing Division								
Education & Outreach Spec	PERM	0.0	4.0	4.0	\$ 4,255 \$ 5,172	\$ 0	\$ 226,000	\$ 226,000
Tax Program Tech I, Ftb	PERM	0.0	1.0	1.0	\$ 2,551 \$ 3,103	\$ 0	\$ 34,000	\$ 34,000
Total Filing Division		.0	5.0	5.0		\$ 0	\$ 260,000	\$ 260,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	5.0	5.0				
Total Salaries and Wages	Positions	.0	7.0	7.0		\$ 0	\$ 340,000	\$ 340,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	7.0	7.0				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 20,000	\$ 20,000
Dental /2	0	4,000	4,000
Health /3	0	49,000	49,000
Retirement /4	0	55,000	55,000
Vision /5	0	1,000	1,000
Medicare /6	0	5,000	5,000
Worker's Comp /7	0	3,000	3,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	1,000	1,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 138,000	\$ 138,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2008/09**

Budget Change Proposal

BCP No. 3

Business Entities Tax Systems (BETS) INSTALL/1 Decoupling

DATE: August 10, 2007

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests an augmentation of \$3.2 million and 15 positions (12 two year limited term and 3 permanent) for FY 2008/09. This proposal represents year one of a multi-year project (refer to FTB Feasibility Study Report (FSR) 06-04) in which the total request for augmentation is \$21.8 million (\$3.2 million for FY 08/09, \$10.3 million for FY 09/10, and \$8.3 million for FY 10/11). This request allows the FTB to modernize the Business Entities Tax System (BETS) and eliminate its dependence upon Accenture's proprietary software products INSTALL/1 and DESIGN/1.

B. BACKGROUND/HISTORY

The BETS is the primary tax accounting system of the FTB for business entities. This system administers the California Revenue and Taxation Code as it applies to more than 3.5 million corporations, partnerships and limited liability companies who do business in the State of California. The BETS processes approximately 1.2 million business entity tax returns annually, accounting for approximately \$13.3 billion in revenue for calendar year 2005, equivalent to approximately 14.9% of the State's General Fund as published in FTB's Annual Report.

The BETS accepts data from returns and remittances via three methods: automated scanning, manual keying, or e-file. Nightly batch processes update the business entities' accounts on the BETS database and produce notifications, billings, refunds, and correspondence.

The BETS also interfaces with other internal FTB systems managed by Accounts Receivable, Audit, and Filing Enforcement, as well as external agencies such as the Employment Development Department (EDD) and Board of Equalization (BOE), to support the administration of California tax laws.

The FTB presently relies on Accenture to provide product support for two products, INSTALL/1 and DESIGN/1. Accenture has declared both products are "functionally stable". Designating these products as "functionally stable" is the precursor to discontinuing technical support entirely. The product sunset date has not been announced; however, when a product is sunset, Accenture's stated policy is to limit maintenance agreements to a one-year maximum renewal term or the sunset date, whichever is earlier.

To address the risks associated with the loss of vendor support and to develop and implement a solution, it is necessary to obtain the services of a Systems Integration vendor. The FTB does not have in-depth knowledge of INSTALL/1, nor the staffing level required for this proposal. This new solution provides FTB with the opportunity to align our business process more closely with new IT

capabilities. Using a Systems Integration vendor who is highly knowledgeable in tax solutions and legacy modernization will mitigate the risks that could impact successful project implementation. Incorporating a Systems Integration vendor will also help ensure that the project achieves its objectives and requirements.

C. STATE LEVEL CONSIDERATIONS

The BETS exchanges information with other FTB internal systems as well as external agencies for various business purposes. The BOE, Department of Child Support Services (DCSS) and the EDD, have direct online access to the BETS application. FTB notified these agencies of the proposed changes to the system, and the need for training on the new user interface.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program areas represented in this proposal have the space available to accommodate the additional staff, although alterations are necessary at a cost of \$46,000.

E. JUSTIFICATION

This request supports the strategic enterprise architecture direction set forth by the State of California and the FTB by following the preferred architectural direction for the State and the agency (i.e., Service Oriented Architecture (SOA)) as well as following the departmental technical architecture guidelines and technology standards (e.g., IBM WebSphere Application Server, Customer Information Control System (CICS)). It also complies with all security and privacy standards for FTB.

Approval of this request will allow FTB to support its Strategic Plan Goal #5 "Demonstrate Operational Excellence." The following strategies will enable FTB to continue delivering efficient, high quality business results:

- 1.) Streamline processes and modernize our IT systems for reliability, ease of use, cost effectiveness, speed, and ability to react to change.
- 2.) Continually increase productivity of all employees.
- 3.) Ensure the utmost availability and quality of our services and systems to keep the FTB running smoothly.
- 4.) Increase IT systems agility through widespread adoption of standardized software, standard platforms and solutions.
- 5.) Deploy our information technology and compliance resources in alignment with our strategic goals.

Having a technologically sound BETS allows the FTB to continue processing approximately 1.2 million business entity tax returns annually, accounting for approximately \$13.3 billion in revenue for calendar year 2005.

F. OUTCOMES AND ACCOUNTABILITY

Feasibility Study Report 06-04 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. A 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. An Independent Verification and Validation (IV&V) vendor will be engaged. The Project Manager and POG staff (project controller and project analyst) monitor 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 (December 31, 2011). 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

Gartner Consulting was engaged to perform a detailed Alternatives Analysis of solutions mitigating the INSTALL/1 risk. The FSR details the recommendations reached through extensive market research, alternative analysis and collaboration within the Department.

Alternative #1 – Approve \$3.2 million augmentation to commence the removal of the dependency on proprietary software and modernize the BETS. Total cost of this multi-year project is \$21.6 million.

This alternative modernizes and redesigns the current BETS architecture while removing any dependency on the Accenture INSTALL/1 infrastructure. This will be accomplished by replacing the green screen interface that is managed by the INSTALL/1 infrastructure with a web interface, and by removing all references to any INSTALL/1 proprietary components from within any of the Common Business Oriented-Language (COBOL) application modules. The online COBOL modules will be restructured and wrapped in Java and made available as Web Services or where there is a demonstrated advantage, the COBOL modules will be translated or re-developed in Java.

Alternative 1 takes advantage of the FTB's investment and experience in the current technical infrastructure in the z/OS mainframe platform. It also allows the FTB to preserve and leverage years of effort and knowledge developing the business rules and the required application functionality.

Advantages of Alternative 1 include:

- Provides increased flexibility and agility for responsiveness to change
- Provides a more intuitive and easier to use interface for the user
- Improves prototyping and development environment
- Extends the operational life of the BETS by approximately 10 years
- Separates presentation tier from application and data logic tiers
- Ability combine information from multiple screens and conversations and present in web format for workflow improvement

- Increases ability to recruit and retain staff with modern technologies
- Benefits related to the use of SOA principles such as reuse and sharing
- Alignments with State and FTB strategic plans

Alternative #2 – Rewrite INSTALL/1 Functionality in Green Screen at a cost of \$18.4 million and 14 positions (13 Limited Term and 1 permanent).

This alternative rewrites the INSTALL/1 functionality using CICS and COBOL while retaining the current green screen user interface. The screens' design would remain unchanged. The technical architecture would remain unchanged but INSTALL/1 functionality will be replaced with CICS functionality.

Although Alternative 2 mitigates the risks associated with the INSTALL/1 dependencies, it does not capitalize on the opportunity to modernize the BETS, does not align with the FTB and State IT Strategic Goals, and has significant costs. Costs for Alternative 2 are provided in the EAWs (Section 8) of the FSR.

Alternative #3 – Replace the BETS for an estimated cost of \$50 to \$80 million.

This alternative would replace the entire BETS with a COTS (Commercial Off The Shelf) package or a custom integrated tax-processing system using SOA in accordance with industry best practices and design principles. This alternative would affect the database and batch processes and would require substantial resources and time from both IT and program areas.

Initial cost research for a BETS replacement yielded an estimate of \$50 to \$80 million with a project duration of approximately 5 years. This is not a viable alternative due to the extended schedule, excessive costs and increased risk associated with a complete replacement of the BETS.

Alternative #4 – Provide no new resources.

No action will result in potential loss of vendor support and the incompatibility of INSTALL/1 with new releases of system software such as z/OS (IBM mainframe operating system), CICS, and DB2 thereby delaying or prohibiting implementation of system software updates to the FTB's mainframe.

The BETS is a key element in numerous FTB workloads. A BETS failure would jeopardize the FTB's ability to collect taxes and process refunds. Workloads that would be negatively impacted by a BETS system failure would include:

- Processing business entities tax returns and payments
- Producing business entities bills, notice of proposed assessments (NPA's), notices and refunds
- Collecting business entities revenue owed by the taxpayer
- Production workload backlogs would continue to increase
- Responding to taxpayer telephone calls and inquiries
- Implementing enacted legislation
- Implementing Annual Changes
- Implementing enhancement requests and projects

A failure would also jeopardize other State departmental programs that rely on and interface with the BETS, including external customers (EDD, BOE, SCO, SOS, CCSAS, etc.).

If the BETS online processes are unavailable for two months, the fiscal impact to FTB is estimated as follows:

- \$200 thousand – Consulting fees to work with FTB staff to bring the BETS system back online.
- \$202.2 million – Delayed revenue due to the inability to initiate the NPA.
- \$1.4 million – Combined (lost/paid) interest of resulting from delays of payment processing and claims.
- \$33.8 million – Estimated wages paid to 2,900 staff that relies on BETS system to perform their work assignments. Staff would be assigned to other non-priority, non-revenue generating workloads while the BETS system is down.

H. TIMETABLE

Secure project funding July 1, 2008, with the project to be completed and the new system operational by June 2011. See Section 6.5.5 of the FSR for the project schedule.

I. RECOMMENDATION

The FTB recommends adoption of Alternative 1. Approval of this request, at a cost of \$21.8 million and 19 positions will ensure an effective representation of the State's interests and will protect annual State income tax revenue of \$13.3 billion from business entities.

Additionally, this alternative eliminates the BETS' dependency on the Accenture proprietary software and eliminates the FTB's risks associated with the loss of vendor support for INSTALL/1 and DESIGN/1. It also best prepares the BETS for the future by modernizing the BETS to align with IT industry best practices and specific State and FTB strategic goals.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

**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 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Business Entities Tax Systems (BETS) INSTALL/1 Decoupling.

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) requests an augmentation of \$3.2 million and 15 positions (12 two year limited term and 3 permanent) for FY 2008/09. This proposal represents year one of a multi-year project (refer to FTB FSR 06-04) in which the total request for augmentation is \$21.8 million (\$3.2 million for FY 08/09, \$10.3 million for FY 09/10, and \$8.3 million for FY 10/11). This request allows the FTB to modernize the Business Entities Tax System (BETS) and eliminate its dependence upon Accenture's proprietary software products INSTALL/1 and DESIGN/1.

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			
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

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 FTB FSR 06-04 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
3	08/10/07	BETS Install/1 Decoupling						
PROGRAM	ELEMENT	COMPONENT						
Tax Programs	Personal Income Tax							
Total Salaries & Wages a/			.0	3.5	19.5	\$ 0	\$ 267,000	\$ 1,439,000
Salary Savings			.0	-2	-6	\$ 0	-\$ 13,000	-\$ 36,000
Net Total Salaries and Wages			.0	3.3	18.9	\$ 0	\$ 254,000	\$ 1,403,000
Staff Benefits b/						\$ 0	\$ 86,000	\$ 452,000
Total Personal Services						\$ 0	\$ 340,000	\$ 1,855,000
Operating Expenses and Equipment								
General Expenses /1						\$ 0	\$ 161,000	\$ 31,000
Printing /2						0	0	1,000
Communications /3						0	33,000	21,000
Postage						0	0	0
Travel-In-State						0	0	0
Travel Out-of-State						0	0	0
Training /4						0	27,000	79,000
Facilities Operations /5						0	46,000	0
Utilities						0	0	0
Cons & Prof Svs - Interdept'l /6						0	14,000	0
Cons & Prof Svs - External /7						0	1,318,000	8,122,000
Consolidated Data Center						0	0	0
Data Processing /8						0	1,189,000	225,000
Equipment /9						0	49,000	6,000
Other Items of Exp (Specify Below)						0	0	0
Total Operating Expense & Equipment						\$ 0	\$ 2,837,000	\$ 8,485,000

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

b/ Detail provided on following pages.

- /1 General Expenses @ \$771 per position = \$2,929.
 Notebooks @ \$2,123 (consultants, new positions, developers & testers) = \$129,503.
 Minor Equipment @ \$1,059 per positions & Consultants @ \$484 = \$28,892.
- /2 Printing costs for BY 09/10 @ \$73.
- /3 Communications @\$1078 per positions. Additional \$15,600 for Consultants.
- /4 Training for Technology Division.
- /5 Alterations to existing workstations.
- /6 Department of General Services Procurement cost.
- /7 Consulting Services for Implementation \$924,000. Consultant Services for Oversight \$394,149.
- /8 Additional Software not included in Std costs \$1,152,209. Std costs @ \$595 = \$36,295
 BY+1 includes \$221,000 on-going cost for software maintenance and Notebooks software @ \$595.
- /9 Servers 4 each (hardware).

			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT			\$ 0	\$ 2,837,000	\$ 8,485,000
SPECIAL ITEMS OF EXPENSE d/			\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION			\$ 0	\$ 0	\$ 0
Distributed Admin			\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES			\$ 0	\$ 3,177,000	\$ 10,340,000
<u>Source of Funds</u>		<u>Appropriation No.</u>			
	Org	- Ref - Fund			
General Fund	1730	001 0001	\$ 0	\$ 3,177,000	\$ 10,340,000
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
Reimbursements	1730	501 0995	0	0	0
Totals			\$ 0	\$ 3,177,000	\$ 10,340,000
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
			0	0	0
			0	0	0
			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 2007/08	BY 2008/09	BY + 1 2009/10		CY	BY	BY + 1	
Administrative Services Division									
* Sys Software Spec I Tech	PERM	0.0	1.0	1.0	\$ 4,897	\$ 6,252	\$ 0	\$ 17,000	\$ 67,000
Total Administrative Services Division		.0	1.0	1.0			\$ 0	\$ 17,000	\$ 67,000
Adjust for Part Year Positions		.0	.8						
Net Positions/ PYs before salary savings		.0	.2	1.0					

Part Year Positions

* Sys Software Spec I Tech 4/1/2009 Budget yr start date for 0.2 P.Y.s.

Finance & Executive Services Division

Acctg Officer Spec	OT						\$ 0	\$ 5,000	\$ 1,000
Total Finance & Executive Services Division		.0	.0	.0			\$ 0	\$ 5,000	\$ 1,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	.0	.0					

Filing Division

Assoc Operations Spec/Ftb	OT						\$ 0	\$ 11,000	\$ 3,000
* Assoc Operations Spec/Ftb	LT - 24 Mo	0.0	2.0	2.0	\$ 4,255	\$ 5,172	\$ 0	\$ 29,000	\$ 113,000
* Customer Service Specialist - Rg B	LT - 24 Mo	0.0	2.0	2.0	\$ 2,950	\$ 3,586	\$ 0	\$ 21,000	\$ 78,000
Tax Program Tech I, Ftb	TEMP	0.0	0.4	0.5	\$ 2,551	\$ 3,103	\$ 0	\$ 13,000	\$ 4,000
Total Filing Division		.0	4.4	4.5			\$ 0	\$ 74,000	\$ 198,000
Adjust for Part Year Positions		.0	3.3						
Net Positions/ PYs before salary savings		.0	1.1	4.5					

Part Year Positions

* Assoc Operations Spec/Ftb 4/1/2009 Budget yr start date for 0.47 P.Y.s.

* Customer Service Specialist - Rg B 4/1/2009 Budget yr start date for 0.48 P.Y.s.

Technology Services Division

* Sr Info Systems Analyst Spec	LT - 24 Mo	0.0	1.0	1.0	\$ 5,388	\$ 6,875	\$ 0	\$ 19,000	\$ 74,000
* Sys Software Spec II Tech	LT - 24 Mo	0.0	1.0	1.0	\$ 5,378	\$ 6,864	\$ 0	\$ 19,000	\$ 73,000
* Sys Software Spec II Tech	PERM	0.0	1.0	1.0	\$ 5,378	\$ 6,864	\$ 0	\$ 19,000	\$ 73,000
* Staff Info Sys Analyst Spec	LT - 24 Mo	0.0	1.0	1.0	\$ 4,898	\$ 6,253	\$ 0	\$ 17,000	\$ 67,000
* Sys Software Spec I Tech	LT - 24 Mo	0.0	2.0	2.0	\$ 4,897	\$ 6,252	\$ 0	\$ 34,000	\$ 134,000
* Sys Software Spec I Tech	PERM	0.0	1.0	1.0	\$ 4,897	\$ 6,252	\$ 0	\$ 17,000	\$ 67,000
* Assoc Info Systems Analyst	LT - 24 Mo	0.0	2.0	2.0	\$ 4,467	\$ 5,703	\$ 0	\$ 31,000	\$ 122,000
* Assoc Sys Sftwre Spec Tech	LT - 24 Mo	0.0	1.0	1.0	\$ 4,459	\$ 5,689	\$ 0	\$ 15,000	\$ 61,000
Assoc Info Systems Analyst	OT						\$ 0	\$ 0	\$ 146,000
Staff Prog Analyst Spec	OT						\$ 0	\$ 0	\$ 100,000
Staff Info Sys Analyst Spec	LT - 18 Mo	0.0	0.0	2.0	\$ 4,898	\$ 6,253	\$ 0	\$ 0	\$ 134,000
Assoc Info Systems Analyst	LT - 18 Mo	0.0	0.0	2.0	\$ 4,467	\$ 5,703	\$ 0	\$ 0	\$ 122,000
Total Technology Services Division		.0	10.0	14.0			\$ 0	\$ 171,000	\$ 1,173,000
Adjust for Part Year Positions		.0	7.8						
Net Positions/ PYs before salary savings		.0	2.2	14.0					

Part Year Positions

* Sr Info Systems Analyst Spec 4/1/2009 Budget yr start date for 0.2 P.Y.s.

* Sys Software Spec II Tech 4/1/2009 Budget yr start date for 0.2 P.Y.s.

* Sys Software Spec II Tech 4/1/2009 Budget yr start date for 0.2 P.Y.s.

* Staff Info Sys Analyst Spec 4/1/2009 Budget yr start date for 0.32 P.Y.s.

* Sys Software Spec I Tech 4/1/2009 Budget yr start date for 0.5 P.Y.s.

* Sys Software Spec I Tech 4/1/2009 Budget yr start date for 0.2 P.Y.s.

* Assoc Info Systems Analyst 4/1/2009 Budget yr start date for 0.5 P.Y.s.

* Assoc Sys Sftwre Spec Tech 4/1/2009 Budget yr start date for 0.1 P.Y.s.

Total Salaries and Wages	Positions	.0	15.4	19.5			\$ 0	\$ 267,000	\$ 0
	Part Yr Adj	.0	11.9	.0					
	P.Y.s	.0	3.5	19.5					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits

	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 15,000	\$ 86,000
Dental /2	0	2,000	9,000
Health /3	0	24,000	133,000
Retirement /4	0	39,000	192,000
Vision /5	0	0	1,000
Medicare /6	0	3,000	20,000
Worker's Comp /7	0	2,000	9,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	2,000
Unemployment Insurance /10	0	1,000	0
Total Staff Benefits	\$ 0	\$ 86,000	\$ 452,000

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

2/ For permanent, \$545 per net personnel year.

3/ For permanent, \$7,355 per net personnel year.

4/ For permanent, 16.997% of net salary.

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

6/ 1.45% of net salary for permanent.

7/ 0.8% of net salary for permanent.

8/ 0.05% of net salary for permanent.

9/ 0.21% of net salary for permanent.

10/ 5.68% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2008/09**

**Budget Change Proposal
Encoder Replacement**

**BCP No. 4
Date: August 10, 2007**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests a one-time augmentation of \$1.5 million to replace three existing Unisys NDP 500 encoders and to add one additional encoder. Unisys has notified us of the “end-of-life” for the DP 500 encoders and will not support them past December 2008. These encoders are critical components of the FTB’s image processing and cashiering system and failure of these encoders would have a serious impact on FTB’s ability to cashier and deposit revenue to the State General Fund. Failing to add one additional encoder will seriously limit the ability for growth and efficiency.

B. BACKGROUND/HISTORY

The Franchise Tax Board’s (FTB) mission is to efficiently, effectively and fairly administer income tax and other programs entrusted to it, and collect revenues needed to serve the people of California. The programs FTB administers generate approximately 60 percent of the State’s General Fund revenues.

While FTB continues to see an increase in electronic return filing, taxpayer behavior indicates they are reluctant to use the same e-services to make payments. The volume of e-payments has remained static while paper check volumes continue to grow (see chart below).

	2004	2005	2006	2007 Proj.
E-payments	1.3 mil	1.26 mil	1.3 mil	1.4 mil
Paper checks	9.5 mil	10 mil	10.2 mil	10.2 mil

In order to meet this fiscal responsibility, it is critical that FTB remain focused on depositing money in a timely and efficient manner. The additional encoder is being requested to meet the needs of this increasing volume of paper checks and to speed up the timeframe from check receipt to check deposit. Each day FTB is required to make daily deposits by 1:00pm. Additional encoding capability means we can process a greater volume of checks in a shorter period of time.

One of the additional benefits of replacing the encoders due to their approaching end-of-life is that all new encoders are now equipped with imaging technology. Having the capability to image documents using the encoders allows FTB to move some of the smaller documents (currently processed on large high-speed scanners) to the new encoder machines. This increases processing capacity on the high-speed scanners

allowing FTB to scan tax returns and other larger documents more quickly, making FTB's operations more efficient.

If this request is denied, there is a high risk of system deterioration and failure, which will result in delayed deposits, less efficient processing of payments and loss of interest to the State. Due to the age and extensive use of this equipment, the number of repairs in the last three years has increased nearly 50%, and is expected to continue to increase. Each day an encoder is non-operational means a significant loss of revenue to the State of California. If the encoder equipment fails and FTB cannot process remittances for a period of time the delay would be costly to the state - especially if this occurred during the peak paper check processing time in April. As an example: During the period of April 15, 2007 through April 30, 2007 FTB deposited \$11.1 billion dollars. If the encoders had failed during this period of time and deposits were delayed it would have created an average interest loss of \$100,000 per day.

C. STATE LEVEL CONSIDERATIONS

This proposal will not impact any other state agencies.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The facility costs associated with this BCP are primarily for ongoing utilities. Minimal costs are included for electrical, telecom and relocation services.

E. JUSTIFICATION

This request enables FTB to continue to providing efficient remittance processing functions that are necessary to ensure the stability of the State's General Fund, which is consistent with the department's strategy to "Ensure the utmost availability and quality of our services to keep FTB running smoothly."

Also, FTB will be able to continue to meet its Strategic Plan Goal 5 "Demonstrate Operational Excellence", which directs FTB to plan and implement, refresh and replace FTB's technology infrastructure to ensure continuous high quality business results."

Replacing FTB's end-of-life encoder machines and adding a fourth to support paper check volume growth falls under the scope of a technology refresh of equipment acquired as part of the Modernization and Re-Engineering of the Cashiering System Project (MARCS – project # 1730- 122), therefore a new FSR is not required.

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 a decision-making body responsible for managing information technology (IT) and business issues at the

departmental level. There are seven action committees that support the Council in its decision-making process. The Technology Advisory Committee (TAC) addresses enterprise technology issues, policy and strategic direction. The Department's Finance and Executive Services Division, Project Planning and Support Bureau's, Project Oversight and Guidance staff and the Procurement and Asset Management Bureau staff will monitor the implementation schedule, budget, and accomplishments of the project. This Department's Chief Information Officer will also monitor the project.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 – Approve \$1.5 million of one-time funding to replace the three existing Unisys encoders and add one additional encoder for workload growth.

This alternative meets FTB's objective of the timely depositing of 10.2 million paper checks totaling over \$30 billion with the least risk. It replaces the end-of-life encoders and protects FTB's ability to efficiently process payments with least disruption and change to the existing workflow.

This alternative also gives FTB the best advantage to increase the speed of processing paper checks, deposits and money in the bank, and increase our capacity for processing. Failing to add the additional encoder would seriously limit FTB's ability for increased efficiency, workload growth and positioning for the future of cashiering.

Alternative #2 – Approve funding to replace the three encoders. The one-time costs for this alternative is \$1.1 million.

This alternative would meet FTB's objective to maintain our ability to timely deposit 10.2 million paper checks totaling over \$30 billion. It would replace the end-of-life and aging encoders and protects FTB's ability to efficiently process payments. This alternative would fail to address our needs related to paper check volume growth. Failure to purchase the additional encoder will not allow FTB to increase the speed of processing paper checks, deposits and money in the bank and increase our capacity for processing.

Alternative #3 – Do not replace the existing encoders or add the additional encoder. Try to maintain the equipment through a third party vendor past its end of life.

This alternative places FTB and its cashiering process at significant risk due to impending replacement part unavailability. Furthermore, there will be potential for significant down time and at our peak a loss of up to \$100K in interest per day for the State of California. Failure of the end-of-life encoders will seriously impact FTB's ability to cashier and deposit 10.2 billion paper checks and deposit \$30 billion of revenue and disable FTB's cashiering process.

H. TIMETABLE

In order to complete the purchase and installation of this equipment and minimize the risk to the daily deposit, funding must be provided July 1, 2008.

I. RECOMMENDATION

Alternative 1 is recommended. This alternative best meets FTB's objectives to maintain the effectiveness of FTB's imaging and cashiering system and carries the least risk to the State's General Fund.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

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

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:

Encoder Replacement

SUMMARY OF PROPOSED CHANGE:

The proposal requests \$1.5 million to ensure FTB's check deposit capabilities remain intact by replacing all 3 DP 500 encoders and their associated transaction management system. This also adds encoder-imaging capabilities to allow diversion of small documents and check imaging from the high-speed scanners to encoders and perform MICR/Check amount recognition.

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:	DATE	REVIEWED BY:	DATE
Pending Board Approval			
PROGRAM APPROVED BY:	DATE	AGENCY SECRETARY:	DATE
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

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? _____ 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP # 4	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
PROGRAM	8/10/2007	Encoder Replacement						
Tax Programs	Personal Income Tax	COMPONENT						
Total Salaries & Wages a/			.0	.0	.0	\$ 0	\$ 0	\$ 0
Salary Savings			.0	.0	.0	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages			.0	.0	.0	\$ 0	\$ 0	\$ 0
Staff Benefits b/						\$ 0	\$ 0	\$ 0
Total Personal Services						\$ 0	\$ 0	\$ 0
Operating Expenses and Equipment								
General Expenses						\$ 0	\$ 0	\$ 0
Printing						0	0	0
Communications						0	0	0
Postage						0	0	0
Travel-In-State						0	0	0
Travel Out-of-State						0	0	0
Training						0	0	0
Facilities Operations /1						0	25,000	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						0	0	0
Equipment /2						0	1,500,000	0
Other Items of Exp (Specify Below)						0	0	0
Total Operating Expense & Equipment						\$ 0	\$ 1,525,000	\$ 0

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

b/ Detail provided on following pages.

/1 Electrical, telecom and relocation services.

/2 Equipment (3 replacement encoders and 1 new encoder)

			<u>CY</u>		<u>BY</u>		<u>BY + 1</u>	
TOTAL OPERATING EXPENSES AND EQUIPMENT			\$ 0		\$ 1,525,000		\$ 0	
SPECIAL ITEMS OF EXPENSE d/			\$ 0		\$ 0		\$ 0	
PROGRAM ADMINISTRATION			\$ 0		\$ 0		\$ 0	
Distributed Admin			\$ 0		\$ 0		\$ 0	
TOTAL STATE OPERATIONS EXPENDITURES			\$ 0		\$ 1,525,000		\$ 0	
<u>Source of Funds</u>								
		<u>Appropriation No.</u>						
	Org	-	Ref	-	Fund			
General Fund	1730		001		0001	\$ 0	\$ 1,441,000	\$ 0
DMV - Motor Vehicle	1730		001		0064	0	18,000	0
DMV - License	1730		001		0044	0	9,000	0
Court Collection Fund	1730		001		0242	0	57,000	0
						0	0	0
						0	0	0
						0	0	0
						0	0	0
Reimbursements	1730		501		0995	0	0	0
Totals						\$ 0	\$ 1,525,000	\$ 0
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						0	0	0
Court Collection Fund						0	0	0
						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.

FRANCHISE TAX BOARD
Fiscal Year 2008/09

Budget Change Proposal

BCP No. 5

Withhold at Source System Project (WASS)

Date: August 10, 2007

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$654,000 in contract services to replace a system that processes non-wage withholding payments. This proposal represents year one of a multi-year project in which total costs are projected to be \$7,265,722 (refer to FTB FSR 06-02). This request will allow FTB to ensure the continued operation of the non-wage withholding program and ensure system functionality to handle new withholding programs. This request will increase tax compliance, improve customer service, and improve efficiencies. Revenue generated from this project is expected to be \$1.55 million in FY 2010/11, \$2.0 million in FY 2011/12, \$1.45 million in FY 2012/13, \$1.35 million in FY 13/14 and \$1.45 million in FY 14/15.

B. BACKGROUND/HISTORY

In addition to the responsibility for administering two of California's major tax programs, personal income tax and corporation tax, FTB also has responsibility for administering non-wage withholding programs, which include real estate withholding and nonresident withholding for partnership distributions, independent contractors, and entertainers. Currently, these withholding programs generate \$2 billion in revenue on an annual basis.

In order to sustain the revenue generated by non-wage withholding and increase efficiencies, this proposal supports a project that will address the following problems and opportunities that exist with the current system.

1. *Continued revenue loss and increased non-compliance because withholding data is not exchanged with the Integrated Nonfiler Compliance (INC) System.* There are a significant number of outstanding withholding credits on the Non Resident Withholding System (NRWS). An estimated 70% of these credits are the result of nonfilers. Currently, INC does not receive all income data for nonresident taxpayers; therefore, filing enforcement assessments may not be created for this group of taxpayers. If the current withholding data were uploaded to the INC system, FTB will collect an estimated \$6.6 million in additional revenue over a five-year period.
2. *Withholding credits are misapplied to taxpayer accounts due to insufficient interfaces with FTB's accounting systems.* Currently, NRWS functions as an

independent accounting system and has either a limited interface or no interface at all with our two legacy accounting systems. This limits the functionality to exchange information regarding withholding payments.

Failure to have a full interface with the department accounting systems results in continuing manual workloads to accurately apply withholding credits, which can delay the processing and allocation of withholding payments. This can result in the taxpayer receiving erroneous refunds or payment due notices from the department. Payments may also be erroneously allocated to taxpayers.

3. *Withholding agents do not have the ability to submit non-wage withholding forms and payments electronically.* Personal income tax return filing methods have changed dramatically and taxpayers can now e-file their returns online using a vendor or e-file directly to FTB using CalFile. Expanding e-file to allow our withholding agent customers to submit forms and payments electronically would confirm FTB's customer centric focus by responding to industry desire for e-file.
4. *The current system is vulnerable to unauthorized and undetectable access and manipulation.* The inability to update and maintain sufficient security controls leaves taxpayer information vulnerable to undetected and unauthorized access. The current system was built with the software Microsoft Visual Basic Version 6.0, which contains design deficiencies that prevent the NRWS database from being adequately secured to prevent unauthorized access. As a result, taxpayer data is at risk of unauthorized access, disclosure, or tampering.
5. *The current system is unable to assess penalties, interest, and generate notices to customers.* Specifically, the system is unable to perform automated calculations to assess penalties and interest for delinquent withholding forms and payments, which contributes to continued non-compliance by some withholding agents. NRWS also lacks the functionality necessary to issue notices, including account adjustment notices and payment due notices. The system lacks the ability to track these account functions and follow-up for future actions. Failure to automate results in delayed assessment of the appropriate penalties and interest.
6. *The current system provides limited standard management reports.* Withholding Services and Compliance Section (WSCS) relies on ad-hoc queries for information using database utility tools. Staff is unable to generate the types of automated reports that are necessary to manage staff workloads. In addition, NRWS lacks the ability to provide various accounting reconciliation reports. Because of the complexity to build standard reports into the existing system, it is not possible to enhance the system to add all the standard reports necessary without degrading the integrity of the application. The approach of attempting to add the standard reports also would not be cost effective to the department.
7. *Microsoft will discontinue support of the Visual Basic Version 6.0 programming language in 2009.* Once Microsoft discontinues support of Visual Basic Version 6.0, the department will be unable to adequately maintain and enhance NRWS as needed, which will likely result in additional manual processes within WSCS. Since NRWS is responsible for the receipt and processing of over \$2 billion in

withholding amounts annually, failure to replace the outdated system with technology that is adequately supported leaves the department vulnerable to processing issues.

The new system will address the problems described above by interfacing with existing departmental systems, automating manual functions, and securing taxpayer data. As stated above, an interface will be built with INC to allow the exchange of withholding data. This data will be used to create filing enforcement assessments for non-filers and is estimated to generate an additional \$7.8 million revenue over the first five years of implementation. New interfaces with FTB's accounting systems will ensure that withholding credits will post to taxpayer accounts timely and accurately. The system will be built using updated technology that will be fully supported. As part of this project, a web application will be developed to allow customers to submit withholding forms and payments on-line. In addition, the new system will be designed to be flexible, scalable, and with the ability to allow for the addition of new technologies and shared services as they become available.

C. STATE LEVEL CONSIDERATIONS

Other state agencies are not impacted by this proposal.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

Contractors requested in this proposal can be accommodated within FTB's existing facilities.

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 request fully supports FTB's mission and Strategic Plan as outlined in the following goals:

- **Goal #1: Improve Customer Service.** To promote FTB's strategic vision to provide customer service options emphasizing self-service and e-service, FTB must give the withholding agents and taxpayers expanded access to information and services. The withholding agent community has expressed an interest in electronic submission of withholding forms and payments.
- **Goal #2: Increase Fairness and Compliance with Tax Law.** To provide fair and impartial treatment for every taxpayer and identify and implement approaches to resolve tax gap issues, FTB must consistently and fairly apply the withholding laws to all withholding agents and those taxpayers that are nonfilers.
- **Goal #5: Demonstrate Operational Excellence.** To deliver efficient, high quality business results by streamlining processes and modernizing our IT system for reliability, ease of use, cost effectiveness, speed, and ability to react to change.

WSCS will improve efficiency by reengineering internal processes and moving to an electronic environment.

- **Goal #6: Protect Taxpayer Information and Privacy.** To ensure taxpayers have confidence that all data sent to FTB is carefully protected, FTB must use industry best practices to secure the data submitted by withholding agents and taxpayers.

An estimated \$7.8 million in new revenue will be collected during the five-year period of the system's implementation. Failure to implement a new system will result in continued inefficient operations and the inability to generate the new 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. As the project moves through the various stages, POG ensures proper oversight is in place by initiating an Independent Verification & Validation (IV&V) or Independent Project Oversight Review (IPOR) where appropriate. At the same time, the Project Manager and staff of POG (project controller and project analyst) monitor monthly progress, monthly project expenditures and resource usage and ensure that proper internal and external reports are completed timely – such as development of the Post Implementation Evaluation Report (PIER). These reports, as well as the FSR itself, are the responsibility of the Department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both the CIO and the Chief Financial Officer (CFO).

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 – Approve the funding request of \$654,000 in FY 2008/09 to 1) Hire project oversight and contractors to assist in project development; and 2) Begin development of a new system for non-wage withholding.

This alternative represents a project that spans four fiscal years for a total cost of \$5 million. This proposal provides for an FTB development effort that incorporates redirected staff and contracted technical assistance. This alternative results in a lower overall project cost because it would require fewer testing consultant resources in FY 2009/10. Instead, FTB staff would be redirected to perform a majority of the system testing. This proposal best satisfies our defined objectives and functional requirements. FTB expects this alternative to generate additional revenue of \$7.8 million in the first five years of implementation. Failure to implement a new system will result in continued inefficient operations and the inability to generate the new revenue.

Alternative #2 - Approve a funding request of \$663,000 in FY 2008/09 to: 1) Hire project oversight and contractors to assist in project development; and 2) Begin development of a new system for non-wage withholding.

This alternative represents a project that spans four fiscal years for a total cost of \$5.5 million. This proposal provides for an FTB development effort that incorporates redirected staff and contracted technical assistance. This alternative results in a slightly higher overall project cost because it would require more testing consultant resources in FY 2009/10, instead of redirected FTB resources. This proposal satisfies our defined objectives and functional requirements. FTB expects this alternative to generate additional revenue of \$7.8 million in the first five years of implementation. Failure to implement a new system will result in continued inefficient operations and the inability to generate the new revenue.

Alternative #3 – Utilize the existing department accounting systems to process non-wage withholding payments.

This alternative would require significant modifications to FTB's tax accounting and data capture systems. The functional requirements are outside the scope of traditional accounting systems. This alternative does not adequately meet the requirements outlined in the FSR.

Alternative #4 – Utilize the Employment Development Department (EDD) to capture and process non-wage withholding payments or build a system internally that mirrors the EDD processing system.

This alternative would require EDD to process transactions outside the normal scope of wage withholding including real estate withholding and withholding on distributions made to estates, trusts, partnerships, and foreign partners. The existing EDD tax accounting system consists of a database that uses outdated and aging technology. This alternative was not pursued because legislative changes would be required to transfer responsibility for non-wage withholding programs to EDD. In addition, EDD's tax accounting system does not fully meet the requirements outlined in the FSR.

Alternative #5 – Maintain the current system. No additional funding required.

Under this alternative, the department would not replace the existing system and would instead maintain the current system. As a result, the receipt and processing of nonresident and real estate withholding will continue to operate in an inefficient manner. Further, we will be unable to generate new revenue because of the inability to share our withholding information with the department's nonfiler program.

H. TIMETABLE

Funding to be provided on July 1, 2008. Remaining project dates are outlined in the FSR.

← - - - - Formatted: Bullets and Numbering

I. RECOMMENDATION

Alternative #1 is recommended. This alternative will increase revenue and compliance, improve operational efficiencies, and expand electronic filing to withholding agents. The new system will better secure customer data, provide stability, and ensure flexibility to handle new withholding programs. This alternative results in a lower overall project cost because it requires fewer testing consultant resources in FY 2009/10.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

**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:

Withhold at Source System (WASS)

SUMMARY OF PROPOSED CHANGE:

This proposal is requesting \$654,000 to replace the existing Nonresident Withholding System (NRWS) with a withholding payment clearinghouse. This request represents year one of a multi-year project in which total costs are projected to be \$7.3 million. (FTB FSR 06-02). The new system will increase revenue and compliance, improve operational efficiencies, as well as better secure customer data, provide stability, and ensure flexibility to handle new withholding programs.

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 checked="" type="checkbox"/> REVENUE	
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PREPARED BY:	DATE	REVIEWED BY:	DATE
<h1>Pending Board Approval</h1>			
PROGRAM APPROVED BY:	DATE	AGENCY SECRETARY:	DATE
DEPARTMENT DIRECTOR:	DATE		DATE

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 # 06-02 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE: PPBA:

BCP # 5	DATE 8/10/07	Title of Proposed Change: Withhold at Source System Project					
PROGRAM	ELEMENT	COMPONENT					
Tax Programs	Personal Income Tax						
		Personnel Years					
		CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries & Wages a/		<u>.0</u>	<u>.0</u>	<u>.0</u>	\$ 0	\$ 0	\$ 0
Salary Savings		<u>.0</u>	<u>.0</u>	<u>.0</u>	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages		<u>.0</u>	<u>.0</u>	<u>.0</u>	\$ 0	\$ 0	\$ 0
Staff Benefits b/					\$ 0	\$ 0	\$ 0
Total Personal Services					\$ 0	\$ 0	\$ 0
Operating Expenses and Equipment							
General Expenses					\$ 0	\$ 0	\$ 0
Printing					0	0	0
Communications					0	0	0
Postage					0	0	0
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/1					0	17,000	0
Cons & Prof Svs - External /2					0	489,000	1,540,000
Consolidated Data Center					0	0	0
California Health and Human Services Agency Data Center					()	()	()
Stephen P. Teale Data Center					()	()	()
Data Processing /3					0	128,000	32,000
Equipment /4					0	20,000	0
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment					\$ 0	\$ 654,000	\$ 1,572,000

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

b/ Detail provided on following pages.

/1 DGS Consultant, \$17,000.

/2 Contract services - Software customization and IV&V Services and Project Oversight, \$489,000 (\$106,000 ongoing for IV&V Services/Project oversight).
 \$1,434,000 in costs for Software Customization in FY 2009/10.

/3 Software costs of \$96,000; \$32,000 ongoing for software maintenance; \$30 on-going cost for PC licenses .

/4 Hardware costs of \$20,000 for PC's.

			<u>CY</u>		<u>BY</u>		<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT			\$ 0		\$ 654,000		\$ 1,572,000
SPECIAL ITEMS OF EXPENSE d/			\$ 0		\$ 0		\$ 0
PROGRAM ADMINISTRATION			\$ 0		\$ 0		\$ 0
Distributed Admin			\$ 0		\$ 0		\$ 0
TOTAL STATE OPERATIONS EXPENDITURES			\$ 0		\$ 654,000		\$ 1,572,000
<u>Source of Funds</u>			<u>Appropriation No.</u>				
	Org	- Ref	- Fund				
General Fund	1730	001	0001	\$ 0	\$ 654,000	\$ 1,572,000	
				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>\$ 654,000</u>	<u>\$ 1,572,000</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.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

**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 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

Tax Gap Enforcement

SUMMARY OF PROPOSED CHANGE:

The FTB is requesting funding of \$6.2 million and a total of 68.5 positions (65.1 PYs) for FY 2008/09 to develop new initiatives that would further help close the Tax Gap. This proposal as submitted, is expected to generate revenue of \$23 million in FY 2008/09, increasing to \$37 million for each of FYs 2009/10 and 2010/11.

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 checked="" type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVAL:			
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 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? _____ 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP # 6	DATE 8/10/2007	Title of Proposed Change: Tax Gap Enforcement	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
PROGRAM	ELEMENT	COMPONENT						
Tax Programs	Personal Income Tax							
Total Salaries & Wages a/			.0	68.5	69.5	\$ 0	\$ 3,549,000	\$ 3,652,000
Salary Savings			.0	-3.4	-1.7	\$ 0	-\$ 176,000	-\$ 92,000
Net Total Salaries and Wages			.0	65.1	67.8	\$ 0	\$ 3,373,000	\$ 3,560,000
Staff Benefits b/						\$ 0	\$ 1,383,000	\$ 1,415,000
Total Personal Services						\$ 0	\$ 4,756,000	\$ 4,975,000
Operating Expenses and Equipment								
General Expenses /1						\$ 0	\$ 271,000	\$ 56,000
Printing /2						0	5,000	5,000
Communications /3						0	153,000	154,000
Postage						0	0	0
Travel-In-State /4						0	25,000	25,000
Travel Out-of-State /5						0	572,000	572,000
Training /6						0	158,000	60,000
Facilities Operations /7						0	64,000	0
Utilities						0	0	0
Cons & Prof Svs - Interdept'l						0	0	0
Cons & Prof Svs - External /8						0	125,000	105,000
Consolidated Data Center						0	0	0
California Health and Human Services Agency Data Center						()	()	()
Stephen P. Teale Data Center						()	()	()
Data Processing /9						0	54,000	2,000
Equipment						0	0	0
Other Items of Exp (Specify Below)						0	0	0
Total Operating Expense & Equipment						\$ 0	\$ 1,427,000	\$ 979,000

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

b/ Detail provided on following pages.

/1 Depart'l \$771 per position. Plus minor equipment @ \$1059 per position. PCs @ \$1150 per position for 1.5 non-audit positions in Init. #2, as well as for 32 positions in Init. #1. Includes non-standard costs of \$107,000 for laptops, laptop components and cell phone equipment (Init. #2). Includes minor equipment @ \$1059 and PC @ \$1150 for Legal position in BY+1.

/2 Departmental \$73 per position.

/3 Departmental \$1078 per position. Includes non-standard costs for cell phone service and air cards @ \$900 for 35 audit positions (Init. #2). Blackberry costs of \$48,000 ongoing. \$1078 communications cost for Legal position in BY+1.

/4 Travel costs for Fraud Prevention Detection (Init. #1).

/5 Init. #2 travel costs for field auditors @ \$19,068 per year for 30 auditors.

/6 Init. #2 training costs of \$158,000 for new auditors, ongoing costs of \$60,000.

/7 \$55,000 for workstation alterations, Init #1; \$9,000 for workstation alterations, Init. #2.

/8 \$100,000 C&P services, \$80,000 ongoing (Init. #3). \$25,000 ongoing for purchase of SEC 10k financial data (Init #2).

/9 Software for PCs @ \$490 per PC for 1.5 non-audit positions in Init #2 and for 32 positions in Init #1. \$38,000 software for laptops, \$30 ongoing.

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount		
		CY 2007/08	BY 2008/09	BY + 1 2009/10		CY	BY	BY + 1
Administrative Services Division								
Personnel Specialist - Rg B	PERM	0.0	1.0		\$ 2,895 \$ 3,520	\$ 0	\$ 38,000	\$ 38,000
Student Assistant - Rg D	TEMP	0.0	0.5		\$ 1,740 \$ 1,877	\$ 0	\$ 11,000	\$ 11,000
Total Administrative Services Division		.0	1.5	.0		\$ 0	\$ 49,000	\$ 49,000
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	1.5	.0				
Audit Division								
Administrator I	PERM	0.0	3.0		\$ 4,909 \$ 6,263	\$ 0	\$ 201,000	\$ 201,000
Program Spec I	PERM	0.0	5.0		\$ 4,909 \$ 6,263	\$ 0	\$ 335,000	\$ 335,000
Assoc Tax Auditor	PERM	0.0	15.0		\$ 4,467 \$ 5,703	\$ 0	\$ 915,000	\$ 915,000
Tax Auditor - Rg B	PERM	0.0	10.0		\$ 3,715 \$ 4,742	\$ 0	\$ 507,000	\$ 507,000
Tax Program Tech I, Ftb	PERM	0.0	1.0		\$ 2,551 \$ 3,103	\$ 0	\$ 34,000	\$ 34,000
Office Tech Gen	PERM	0.0	1.0		\$ 2,551 \$ 3,103	\$ 0	\$ 34,000	\$ 34,000
Total Audit Division		.0	35.0	.0		\$ 0	\$ 2,026,000	\$ 2,026,000
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	35.0	.0				
Finance & Executive Services Division								
Acctg Officer Spec	PERM	0.0	1.0		\$ 3,715 \$ 4,516	\$ 0	\$ 49,000	\$ 49,000
Total Finance & Executive Services Division		.0	1.0	.0		\$ 0	\$ 49,000	\$ 49,000
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	1.0	.0				
Filing Division								
Administrator III	PERM	0.0	1.0		\$ 6,556 \$ 7,589	\$ 0	\$ 85,000	\$ 85,000
Administrator I	PERM	0.0	1.0		\$ 4,909 \$ 6,263	\$ 0	\$ 67,000	\$ 67,000
Program Spec I	PERM	0.0	1.0		\$ 4,909 \$ 6,263	\$ 0	\$ 67,000	\$ 67,000
Assoc Tax Auditor	PERM	0.0	2.0		\$ 4,467 \$ 5,703	\$ 0	\$ 122,000	\$ 122,000
Sr Compliance Rep.,Ftb	PERM	0.0	1.0		\$ 4,467 \$ 5,431	\$ 0	\$ 59,000	\$ 59,000
Assoc Operations Spec/Ftb	PERM	0.0	2.0		\$ 4,255 \$ 5,172	\$ 0	\$ 113,000	\$ 113,000
Tax Auditor - Rg B	PERM	0.0	1.0		\$ 3,715 \$ 4,742	\$ 0	\$ 51,000	\$ 51,000
Compliance Rep, Ftb - Rg B	PERM	0.0	1.0		\$ 3,099 \$ 3,586	\$ 0	\$ 40,000	\$ 40,000
Tax Program Supervisor	PERM	0.0	1.0		\$ 2,999 \$ 3,647	\$ 0	\$ 40,000	\$ 40,000
Customer Service Specialist - Rg B	PERM	0.0	1.0		\$ 2,950 \$ 3,586	\$ 0	\$ 39,000	\$ 39,000
Tax Program Tech II,Ftb	PERM	0.0	17.0		\$ 2,853 \$ 3,470	\$ 0	\$ 645,000	\$ 645,000
Tax Technician, Ftb - Rg B	PERM	0.0	1.0		\$ 2,724 \$ 3,313	\$ 0	\$ 36,000	\$ 36,000
Total Filing Division		.0	30.0	.0		\$ 0	\$ 1,364,000	\$ 1,364,000
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	30.0	.0				
Legal Division								
Tax Counsel III Spec	PERM	0.0	0.0	1.0	\$ 3,715 \$ 4,516	\$ 0	\$ 0	\$ 103,000
Total Legal Division		.0	.0	1.0		\$ 0	\$ 0	\$ 103,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	.0	1.0				
Technology Services Division								
Associate Info Systems Analyst	PERM	0.0	1.0		\$ 4,467 \$ 5,703	\$ 0	\$ 61,000	\$ 61,000
Total Technology Services Division		.0	1.0	.0		\$ 0	\$ 61,000	\$ 61,000
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	1.0	.0				
Total Salaries and Wages	Positions	.0	68.5	69.5		\$ 0	\$ 3,549,000	\$ 3,652,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	68.5	69.5				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits

	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 209,000	\$ 215,000
Dental /2	0	34,000	34,000
Health /3	0	475,000	482,000
Retirement /4	0	571,000	588,000
Vision /5	0	7,000	7,000
Medicare /6	0	50,000	51,000
Worker's Comp /7	0	27,000	28,000
Industrial Disability /8	0	2,000	2,000
Non Industrial Disability /9	0	7,000	7,000
Unemployment Insurance /10	0	1,000	1,000
Total Staff Benefits	\$ 0	\$ 1,383,000	\$ 1,415,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2008/09

Budget Change Proposal

BCP No. 6

Tax Gap Enforcement

Date: August 10, 2007

A. Nature of Request

The Franchise Tax Board is requesting funding of \$6.2 million and a total of 68.5 positions (65.1 PYs) for fiscal year 2008/09 to continue our committed focus in reducing the Tax Gap problem in California. The initiatives in this new proposal will result in an estimated \$20 million in FY 2008/09, growing to \$40 million in FY 2009/10.

The following three new Tax Gap initiatives represented in this proposal are:

1. Fraud Prevention and Detection
2. Audit Workload Growth
3. Compliance Behavior Study

B. Background

The first two initiatives encompass enforcement techniques aimed at known compliance problems that represent a large portion of the Tax Gap problem, the third initiative, which is focused more at addressing the Tax Gap in the long term, will allow FTB to validate voluntary compliance methods through behavioral impact analysis.

1. Fraud Prevention and Detection (FPD)

(32 positions, \$2.2 million in costs, \$12 million revenue in FY 2008/09, increasing to \$20 million in FY 2009/10)

FTB's Fraud Prevention and Detection (FPD) unit strives for immediate identification of returns that misrepresent a taxpayer's wages, withholding, refundable credits or other information in order to increase the size of a refund. FPD's overall success is reflected by the increase in detected fraud from \$3.3 million to \$47.4 million from FY 2000/01 to FY 2006/07.

FTB advertises a 7-day refund timeframe as one of the advantages associated with e-filing a return. FPD struggles to stop fraudulent refunds before they are paid while meeting the Department's refund timeframes. FPD does not currently have sufficient resources to address the current level of fraud.

The additional 32 positions requested in this portion of the BCP allow for better management of FPD workloads. This level of resources will allow for the prevention of fraudulent claims being paid during the filing season. FPD uses resources during non-peak to prepare for the upcoming filing season as well. Analysis is performed for identifying other fraudulent activities, enabling FPD to recognize patterns or schemes utilized during the prior year. Also, reviewing questionable amended returns provides valuable information for the fraud models utilized during the fraud detection process.

Additionally, this proposal provides a resource for education and outreach within the taxpayer community regarding their responsibilities in selecting a reputable tax preparer and the consequences of not choosing well.

The areas of fraud that require FPD's focus and additional resources are:

- Child and Dependent Care Credit
- Fraudulent W-2s (includes Identity Theft)

Child and Dependent Care Credit (CDC) - 18 positions

FPD detected \$26.3 million in Child and Dependent Care Expenses Credit (CDC) fraud in FY 2006/07, and saved the state from paying fraudulent claims in the amount of \$19.7 million. This credit is a refundable tax credit computed as a percentage of the federal CDC credit, and is allowed for certain household and dependent care expenses incurred for seeking or maintaining gainful employment. Refundable tax credits such as CDC contribute greatly to the growing amounts of fraud at the state and federal levels. The lack of appropriate levels of resources to address this problem, coupled with the potential of state and federal refunds, provides great opportunities for those who commit tax fraud.

In two previous years, FPD has been allocated 35 positions to combat the fraudulent CDC claims. Even with these efforts, fraudulent filing trends indicate that fraudulent refunds are still inappropriately paid. To address this problem, we are requesting 18 positions to prevent further fraudulent CDC claims from being paid. This will save the general fund an additional \$8 million in FY 2008/09 and \$13.9 million FY 2009/10.

These additional resources will allow FPD to:

- Stop additional fraudulent CDC claims that are not being addressed currently due to the lack of resources.
- Handle fraudulent CDC custodial disputes. Determining the appropriate recipient of the CDC credit during dependent custodial disputes. This workload requires account review, provider verification, custody documentation, account adjustments, as well as telephone contact and/or correspondence.
- Assist the Legal Division in resolving Board of Equalization (BOE) appeals. The appeal workload requires care provider interviews, potential field visits, and gathering of background information on care providers, taxpayers, and tax preparers.
- Pursue falsified IRS forms Schedule A and C being used to either avoid personal tax liabilities, obtain refundable CDC, or a combination thereof. Taxpayers claiming the CDC credit often claim excessive or unjustified deductions.
- Pursue identified tax preparers who offer fraudulent schemes. Preparers may manipulate income figures (inflate personal or business expenses, false deductions, etc.) to fraudulently obtain refundable tax credits, such as CDC.
- Pursue child care providers who underreport income. This allows FPD to issue Notices of Proposed Assessment when a care provider signs form FTB 733, *Request for Child and Dependent Care Provider Information*, verifying that he/she was a paid provider, and the income is not reported.
- Issue a Frivolous Return Penalty to individuals filing fraudulent returns. In

California, the frivolous return penalty is \$500 per occurrence. While FTB has excellent tools for detecting such fraud, limited resources prevent pursuing penalties to these fraudulent tax filers. FTB currently prosecutes the most egregious fraudulent tax filers, but many escape with no consequence.

Fraudulent W-2's – 14 Positions

FPD detected \$21.1 million in W-2 fraud during FY 2006/07, and prevented \$15.3 million in fraudulent refunds from being paid. The requested resources will augment the current efforts taking place in this area. Currently FPD uses fraud modeling and is limited to working only the most egregious refund claims because of the large volume of suspicious returns and the fast e-file refund expectations. With the additional resources requested, we will be able to meet our e-file refund expectations while increasing the amount of suspicious returns that we can review. The additional 14 positions will save the general fund \$4.1 million in FY 2008/09 and \$6.7 million in FY 2009/10 from being paid out fraudulently. (See Attachment 1)

The requested resources will help to address the following:

- **Fraudulent Refunds.** The availability of scanning equipment and W-2 software enable individuals to modify W-2s and obtain larger refunds. The likelihood of recovering a fraudulent refund is only 20-25%. To be effective in discouraging W-2 fraud, FPD must prevent the refund before it is paid.
- **Identity Fraud.** Identity fraud exists within the arena of fraudulent refunds. An individual will typically file a bogus return before the real taxpayer, resulting in a fraudulent refund being issued.
- **Education and Outreach.** Tax forms and computations are challenging for taxpayers dealing with issues such as language barriers. As a result, they may use fraudulent tax preparers. Education and Outreach efforts are needed to help taxpayers follow and understand tax laws and/or choose preparers wisely.

2. Audit Workload Growth

(36.5 positions, \$3.9 million in costs, \$10 million revenue in FY 2008/09, increasing to \$20 million in FY 2009/10)

Franchise Tax Board is requesting an augmentation to the Audit Program of \$3.9 million in FY 2008/09 to backfill resources that will be redirected from lower Benefit Cost Ratio (BCR) desk audits in our Central Office to higher BCR Multistate audits in the field offices.

The Audit Program's discretionary workloads are prioritized by BCR with resources allocated first to higher BCR workloads and then to lower BCRs. In recent years the program has been budgeted for audits above the 4:1 BCR. Consistent with traditional practices, the Audit Program has redirected resources from lower BCR workloads to a newly identified MSA workload with a higher BCR. Details regarding the revenue impact of this redirection and the impact of this proposal follow.

Redirection to Higher BCR Workloads

The Audit Program has identified additional higher BCR professional Multistate field audit workloads in our National and California Business Audit Bureaus. These workloads are comprised primarily of mid-sized corporations with sales between \$250 and \$500 million, and will require field audits located in three out-of-state offices. We anticipate that the revenue generated by this redirection will yield \$15-\$25 million in the first two years as the new auditors undergo training, open new audits and assist more experienced auditors in teams. By the third year of redirection, we anticipate revenue of \$70 million in assessments (this additional revenue would be generated without additional resources.) However, this new revenue will be offset by the loss of \$10-\$20 million revenue from the lower BCR audits that will be forgone with the redirection.

Proposed Augmentation

This request would replace redirected auditors and program revenue referenced above. First year revenue associated with these new auditors at the 4:1 BCR level will be around \$10 million as auditors are trained and begin issuing assessments. By the second year, these resources will produce \$20 million in assessments, replacing the revenue foregone by the redirection. The table below provides the net impact to revenue from the redirection and the proposed resource augmentation

Summary of Revenue Changes		2008/09 Assessments	2009/10 Assessments	2010/11 Assessments
1	New Revenue from Redirected Staff to higher BCR workloads	\$15	\$25	\$70
2	Forgone revenue from lower BCR workloads	-\$10 ¹	-\$20	-\$20
3	BCP augmentation revenue	\$10	\$20	\$20
4	Net revenue impact with redirection and BCP proposal	\$15	\$25	\$70

The increased resources will also provide a greater audit presence, which discourages non-compliance, and helps to provide assurance to self-compliant taxpayers that everyone with a valid tax liability pays their fair share for government services.

3. Compliance Behavior Study

(0 positions, \$100,000 in costs)

The Franchise Tax Board (FTB) is committed to using our processes and technology to help close the Tax Gap. FTB engages in various activities for the purpose of encouraging compliance with the tax law and, therefore, narrowing the Tax Gap. These compliance activities are directed at both voluntary and involuntary taxpayer compliance. FTB strongly believes its various compliance activities have a positive effect on the filing and reporting behavior of taxpayers. FTB has achieved success in measuring the direct effect of its compliance activities, such as the amount of revenue collected from a particular audit program. However, no attempt is currently underway to measure the indirect effect,

¹ Audits that were in progress prior to redirection will be completed and will be assessed in the year of redirection.

or change in taxpayer behavior, from FTB's various compliance activities.

This initiative is directed at providing the means to conduct studies to measure the indirect effect of FTB's various compliance activities. Due to the complex nature of these studies, external consultants are needed for their specialized expertise in research methodology and analysis. To the extent studies conducted lead to a better understanding of the impacts of its various compliance activities, FTB will be better equipped to address the Tax Gap in the long term, leading to both increased tax revenue and a more equitable tax system.

The results of this effort would permit the department to better focus its resources on programs that are most effective in promoting taxpayer compliance to the state's tax laws.

C. State Level Considerations

These proposals are a continuation of FTB's comprehensive effort to further reduce the Tax Gap in California. FTB has made considerable strides over the last two years to combat a variety of elements contributing to this ever-growing issue that weakens the economic strength of our State. Our commitment to taking action to address the Tax Gap issues in California has made both IRS and other State Agencies seek our expertise in this matter. Impact to the State and many of the departments could be substantial if these efforts are not developed and continued.

Implementing this proposal does not directly impact other state agencies.

D. Facility/Capital Outlay Considerations

The Audit Program area does not currently have sufficient space in its field offices to accommodate some of the additional staff requested in this proposal. As such, we are requesting minimal funding for facilities costs to provide accommodations.

E. Justification

This proposal takes sound steps toward continuing to reduce the Tax Gap burden on the taxpayers of California. These actions also closely align with FTB's mission, overall strategic and Tax Gap plan. The added revenue to the general fund, along with the enhanced abilities to measure the compliance endeavors effect on taxpayer behavior will have long-term benefits to the state of California. This continues to impress upon the public that FTB strives to make the tax system fair for all taxpayers.

Consistent with FTB's Strategic plan goal # 2, "Increase Fairness and Compliance with the Tax Law" our request for resources in the areas of Audit Workload Growth and Fraud Prevention and Detection 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. Finally, by specifically asking taxpayers for input and by partnering with others, this initiative is a critical factor to achieve success in fighting the Tax Gap.

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. We build on our prior efforts, leverage recent discoveries, and explore new avenues that continue to enhance taxpayer confidence in how FTB administers a fair and effective tax system.

These new initiatives are key elements integrated into our existing efforts, and represent the overall infrastructure or blueprint outlining our commitment for making true strides to reduce California's Tax Gap. They specifically address the Department's Tax Gap Strategic Plan's goals of: 1) leveling the playing field for businesses and 2) making it harder to cheat. They expand on discoveries made from our other Tax Gap efforts as well as examine behavioral aspects to use as tools for supporting all our Tax Gap efforts.

F. Outcomes and Accountability

In an effort to address the Tax Gap as an enterprise issue, FTB Executive Management established the Tax Gap Action Committee (TGAC). The Filing and Audit Division Chiefs are the executive sponsors of this committee. Membership of the committee includes Bureau Directors from across the enterprise whose programs are impacted by the Tax Gap. The TGAC reports directly to the Executive Sponsors and eventually to the Executive Officer. The TGAC developed the Tax Gap BCP, which reflects the short-term initiatives identified in the department's Tax Gap Plan. The implementation and on-going progress of the initiatives addressed in the BCP will be monitored by the TGAC who will regularly report to Executive Management the challenges and successes of those initiatives. While the action committee is also tasked with monitoring the use of resources associated with this proposal, the ultimate responsibility still remains with the department's Chief Financial Officer.

G. Analysis and Feasible Alternatives

Alternative #1: Approve funding for all initiatives for \$6.2 million and 68.5 positions.

This option provides a comprehensive effort addressing key factors contributing to the overall Tax Gap of California. By incorporating all three initiatives, we can realize considerable revenue in the short-term as well as strengthen our foundation in moving forward with combating the Tax Gap in the years to come.

This alternative will provide \$22 million in revenue in FY 2008/09 at BCR of 3.5 to 1; growing to \$40 million and a BCR of 6:1 for both FY 2009/10 and FY 2010/11. In addition to these revenue figures, the long-term benefits of the behavioral study are yet to be determined and quantified.

Alternative #2: Approve initiatives 1 and 2 (tactical) only, for \$6.1 million and 68.5 positions.

This approach focuses only on the immediate, conspicuous revenue generating initiatives. It fails to recognize the need for an investment in our efforts to strengthen our infrastructure with regard to innovative compliance research and development. This alternative produces revenue based on enforcement activities.

Alternative #3: Approve Initiatives 1 and 3 only, for \$2.3 million and 32 positions.

This approach balances out the short and long term efforts by focusing on the higher BCP tactical initiative and the foundational effort aimed at measuring the impact of taxpayer behavior. This alternative reduces overall revenue and BCR.

Alternative #4: Do not approve this request.

This approach fails to move FTB in a progressive forward direction to further combat the Tax Gap. 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 within this proposal on July 1, 2008.

I. Recommendation

Alternative #1 is recommended. Alternative #1 is a balanced mix of initiatives that continue our diligence in reducing the Tax Gap by innovative means. The immediate revenue generating initiatives continue our success in the proposed “quick strike” efforts that are more traditional in nature. We are leveraging our expertise and are confident in the on-going compliance effect the first two initiatives will have on the Tax Gap. The behavioral research study discussed in the third initiative is another critical component in this on-going process that will continue to assist us in making effective use of resources and program direction specifically in addressing taxpayer non-compliance.

Attachment 1
Tax Gap Enforcement Initiatives
FY 2008/09
(Dollars in thousands)

ALLOTMENTS	Initiative #1 Fraud Prevention Expansion		Initiative #2 Audit Workload Growth		Initiative #3 Compliance Behavior Study		BY 2008/09 TAX GAP TOTAL	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services								
Total Salaries and Wages	32.0	1,463	36.5	2,086	0.0	0	68.5	\$3,549
Salary Savings	-1.6	-73	-1.8	-103	0	0	-3.4	-\$176
Net Salaries and Wages	<u>30.4</u>	<u>1,390</u>	<u>34.7</u>	<u>1,983</u>	<u>0.0</u>	<u>0</u>	<u>65.1</u>	<u>\$3,373</u>
Staff Benefits		601		782		0		\$1,383
Net Total Personal Services		<u>1,991</u>		<u>2,765</u>		<u>0</u>		<u>\$4,756</u>
Operating Expense & Equipment								
General Expense 1/		95		176		0	0.0	\$271
Printing 2/		2		3		0	0.0	\$5
Communications 3/		34		119		0	0.0	\$153
Postage		0		0		0	0.0	\$0
Travel-In-State		25		0		0	0.0	\$25
Travel-Out-of-State 4/		0		572		0	0.0	\$572
Training 5/		0		158		0	0.0	\$158
Facilities Operations 6/		55		9		0	0.0	\$64
Utilities		0		0		0	0.0	\$0
Cons & Prof Svs - External 7/		0		25		100	0.0	\$125
Data Processing 8/		15		39		0	0.0	\$54
Equipment		0		0		0	0.0	\$0
Total OE & E		<u>226</u>		<u>1,101</u>		<u>100</u>	<u>0.0</u>	<u>\$1,427</u>
Total Expenditures	<u>30.4</u>	<u>2,217</u>	<u>34.7</u>	<u>3,866</u>	<u>0.0</u>	<u>100</u>	<u>65.1</u>	<u>\$6,183</u>
FUNDING								
General Fund (1730-001-0001)		2,217		3,866		100		\$6,183
Reimbursements (1730-501-0995)								\$0
Total		<u>2,217</u>		<u>3,866</u>		<u>100</u>		<u>\$6,183</u>
ANTICIPATED 2008/09 REVENUE/BENEFITS		12		10		0		\$22
ANTICIPATED 2009/10 REVENUE/BENEFITS		20		20		0		\$40

FOOTNOTES :

- /1 Depart'l \$771 per position. Plus minor equipment @ \$1059 per position. PCs @ \$1150 per position for 1.5 non-audit positions in Init. #2, as well as for 32 positions in Init. #1. Includes non-standard costs of \$107,000 for laptops, laptop components and cell phone equipment (Init. #2). Includes minor equipment @ \$1059 and PC @ \$1150 for Legal position in BY+1.
- /2 Departmental \$73 per position.
- /3 Departmental \$1078 per position. Includes non-standard costs for cell phone service and air cards @ \$900 for 35 audit positions (Init. #2) . Blackberry costs of \$48,000 ongoing. \$1078 communications cost for Legal position in BY+1.
- /4 Travel costs for Fraud Prevention Detection (Init. #1).
- /5 Init. #2 travel costs for field auditors @ \$19,068 per year for 30 auditors.
- /6 Init. #2 training costs of \$158,000 for new auditors, ongoing costs of \$60,000.
- /7 \$55,000 for workstation alterations, Init #1; \$9,000 for workstation alterations, Init. #2.
- /8 \$100,000 C&P services, \$80,000 ongoing (Init. #3). \$25,000 ongoing for purchase of SEC 10k financial data (Init #2).
- /9 Software for PCs@\$490 per PC for 1.5 non-audit positions in Init #2 and for 32 positions in Init #1. \$38,000 software for laptops,

\$30 ongoing.

Attachment 2
Tax Gap Enforcement Initiatives
FY 2008/09

(Dollars in thousands)

Initiative #		Foundational or Tactical (F/T)	FY 2008/09		Revenue		
			BCP Cost	Positions	2008/09	2009/10	2010/11
	<u>New Initiatives</u>						
1	Fraud Prevention Expansion	Tactical	\$2,200	32.0	\$12,000	\$20,000	\$20,000
2	Audit Workload Growth	Tactical	\$3,900	36.5	\$10,000	\$20,000	\$20,000
3	Compliance Behavior Study	Foundational	\$100	0.0	\$0	\$0	\$0
	TOTAL CONSOLIDATED TAX GAP BCP:		\$6,200	68.5	\$22,000	\$40,000	\$40,000

**Franchise Tax Board
Tax Gap BCP FY 2008/09
Fraud Workload Indicators**

2006/07 Current Year Actual				Assuming 2007/08 same as 2006/07				2008/09 Projections						2009/10 Projections										
Volume of work	Rate	Hours	Baseline PYs	Volume of work	Rate	Hours	Baseline PYs	Volume	Rate	Hours	Projected PY Need	Baseline PYs	Add'l PYs Needed	Volume	Rate	Hours	Projected PY Need	Baseline PYs	Add'l PYs Needed					
CDC	62,000	1.1	56,364	32.4	62,000	1.1	56,364	32.4	86,000	1.0	86,000	49.4	32.4	17.0	106,000	1.2	88,333	50.8	32.4	18.4				
W-2	64,000	2.3	27,826	16.0	64,000	2.3	27,826	16.0	81,500	1.7	47,941	27.6	16.0	11.6	92,000	2.0	46,000	26.4	16.0	10.4				
Total Need:				48.4	Total Need:				48.4	Total Need:						77.0	Total Need:						48.4	28.8

	Pro rated	change rate	Amt	Revenue
CDC	24,000	0.85	\$ 374	\$ 7,629,600
W-2	17,500	0.3	\$ 797	\$ 4,184,250
				\$ 11,813,850

	Pro rated	change rate	Ave Adj Amt	Revenue
CDC	44,000	0.85	\$ 374	\$ 13,987,600
W-2	28,000	0.3	\$ 797	\$ 6,694,800
				\$ 20,682,400

History of Fraud positions:

30 positions (28.5 PYs) requested to address Fraud (and TSCS). Additionally, 2 support resources are requested to address Departmental concerns.

Prior to 2000/01, Fraud had around 16 positions

15 Positions were added in 2000/01 through the initial CDC BCP

20 positions were added in 2005/06 through the second CDC BCP (1 TPS and 19 Technicians)

	Worked	Change rate	Vol changed	Ave Adj
06/07 CDC revenue (discounted):	62,000	0.85	52,700	\$374
06/07 W-2 revenue (discounted):	64,000	0.3	19,200	\$797
Total				<u>\$35,000,000</u>

Explanation of production rates:

The 08/09 rates are reduced from the 06/07 rates. This is due to bringing in new technicians. Not only is there an extensive learning curve for new technicians, we use experienced staff to train the new technicians pulling them away from the production work.

**FRANCHISE TAX BOARD
Fiscal Year 2008/09**

**Budget Change Proposal
Court Ordered Debt Collection Expansion**

**BCP No. 7
DATE: August 10, 2007**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$7.4 million and a total of 56.5 positions (26.5 new, conversion of 12 limited term to permanent, and 18 continuing limited term) for the Court Ordered Debt (COD) Collection Program and the Court Ordered Debt Expansion (CODE) Project. SB 246 (Chapter 380, Statutes of 2004) established FTB's COD Collection Program as permanent, requiring FTB to offer collection services for all counties and superior courts statewide. This proposal represents year three of the five-year expansion project in which total one-time costs are estimated at \$13.1 million (Refer to FTB Feasibility Study Report (FSR) 1730-182).

B. BACKGROUND/HISTORY

Pursuant to AB 3343 (Chapter 1242, Statutes of 1994), the COD Collection Program has authority to collect delinquent court-imposed fines, penalties, forfeitures, and restitution orders. The three primary clients are Superior Courts, Probation Departments, and Revenue Recovery Agencies. Generally, each agency refers a variety of cases depending on the type of violations in their jurisdiction.

The COD program collected over \$320 million for its participating clients from inception in 1995 through April 2007. Revenue collected by the program supports numerous county and state funds, i.e., County Special Account, County General Fund, State Restitution Fund, Victims-Witness Assistance Fund as well as the State General Fund. Administrative costs are reimbursed at a rate of up to 15% of program collections, as authorized by legislation.

To comply with SB 246, FTB in 2004 initiated the development of a collection system capable of accepting all referrals from all counties and courts. Each phase of this project is sequential and mandatory since each component builds upon the previous one with required functionality resulting in a state of the art collection system.

Phases I and II of the CODE Project implementation will facilitate the statewide expansion with the deployment of a new robust database, more frequent updates with the clients, collection system enhancements and compliance with security and data retention policies. This system must have the ability to accommodate statewide expansion with estimates of up to 8 million cases. In FY 2006/07 the program included 43 clients. It is anticipated to increase to 85 clients by FY 2008/09 and 90 clients by FY 2009/10.

The COD Collection Program is requesting a staff augmentation to address notice volume increases which result in workload growth in call center demand, correspondence, and account transactions. FTB is also requesting continued funding of the approved FSR limited-

term project positions, which will expire June 30, 2008. The COD Collection Program and the CODE Project will be unable to meet collection requirements and project development without a budget and staff augmentation.

The current funding and staffing levels cannot accommodate statewide expansion, as required by SB 246. These positions are needed to support the increase in client base, case inventory, and notice volume that contributes to call volumes, faxes, and payments. Without adequate staffing levels, the COD Collection Program cannot address the increase in workload volume as reflected in the following chart.

Workload	FY 05/06 Actual	FY 06/07 Projected	FY 07/08 Projected	FY 08/09 Projected
Inventory Volume	1,048,281	1,152,712	1,377,747	1,832,160
Notice Volume	949,486	1,169,430	1,200,105	1,323,159
Call Volume	152,062	164,566	239,421	285,555
Payment Volume	994,132	1,167,296	1,176,103	1,296,696

C. STATE LEVEL CONSIDERATIONS

This proposal will enable all California courts and counties to benefit from the COD Collection Program enhancement through statewide implementation. The COD Collection Program benefits both courts and counties that rely on the State General Fund and special funds to operate their programs. Revenue collected from the COD Collection Program supports numerous county and state funds, i.e., County Special Account, County General Fund, State Restitution Fund, Victims-Witness Assistance fund as well as the State General Fund.

The Administrative Office of the Courts (AOC) and the Judicial Council view FTB as a viable collection agent that enables courts and counties to maximize the collection of court imposed fines and fees and is working closely with FTB to ensure a successful statewide expansion.

AOC, the Judicial Council, and FTB have collaborated on several initiatives to enhance collection activities for California courts and counties. This government-to-government partnership has been extremely beneficial and continues to be an excellent revenue source to support county and state funds without cost to the State General Fund.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program areas represented in this proposal have the space available to accommodate the additional staff, although alterations are necessary at a cost of \$6,000.

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 Goal #5 “Demonstrate Operational Excellence.” The following strategies will enable FTB to continue delivering high quality business results:

- Streamline processes and modernize our IT systems for reliability, ease of use, cost effectiveness, speed, and ability to react to change.

- 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.

This proposal provides FTB with the resources necessary to continue to develop and implement the new COD collection system and provides the collection support needed to operate the program, while providing significant revenue sources to the courts and counties.

F. OUTCOMES AND ACCOUNTABILITY

This BCP is supported by a fully developed FSR 1730-182, which provides detail of the project implementation plan to develop a collection system that ensures the program has the ability to support all potential statewide clients. As part of the CODE Project, FTB executive management established the CODE Project Steering Committee. The committee reports directly to the Executive Sponsor and to the Executive Officer. The CODE Project Steering Committee acts as an advisor and counsel for the project and resolves any issues that cannot be resolved by the project team. 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.

The CODE Project also retains an Independent Verification and Validation (IV&V) and Project Oversight (PO) body to perform in an advisory role. This role is independent and separate from the day-to-day operations of the project. The Independent Project Oversight Consultant, "i3 tech Data Solutions, Inc.," prepares the quarterly Independent IT Project Oversight Report (IPOR) for the Department of Finance. POG also completes monthly Project Status Reports (PSR).

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 – Approve funding of \$7.4 million and a total of 56.5 positions (26.5 new, conversion of 12 limited term to permanent, and 18 continuing limited term) to continue the development and implementation the COD collection system and support the increase in collection program activities.

This alternative represents year three of a five-year project, which was approved in 2005/06 BCP #5 (FSR 1730-182). This will convert 12 two-year limited term positions to permanent and will extend 18 two-year limited term positions; all, of which, are set to expire on June 30, 2008. The additional staff and the conversion of the limited term positions to permanent positions are required to address the increase in client base, case inventory and notice volume that contributes to call volumes, faxes and payments. The extension of the limited term positions will allow the CODE Project team to continue with the development and implementation of the new COD collection system and provide collection services for the additional clients.

The new COD collection system is expected to be operational and able to accept referrals from all 58 counties and superior courts by September 2008. Inventory levels are expected to reach 8 million cases. This will generate an increase in case inventory, notices, collection actions, telephone calls, faxes, payments, and client inquiries. The additional collection and support staff is essential in complying with the mandate of SB 246 and to accommodate the impact to statewide inventory levels.

FTB expects this alternative to generate additional revenue of \$21 million in FY 2008/09. By statute, the program is funded through actual collections; no State General Fund costs will be incurred to expand the program.

	Actual Revenue/ Revised Projection	Original Projection
FY 2003/04	\$39,000,000	
FY 2004/05	\$63,000,000	
FY 2005/06	\$55,000,000	\$63,000,000
FY 2006/07	\$71,000,000	\$81,000,000
FY 2007/08	\$74,000,000	\$81,000,000
FY 2008/09	\$95,000,000	\$135,000,000
FY 2009/10	\$99,000,000	\$135,000,000
FY 2010/11	\$99,000,000	\$135,000,000

This proposal projects less revenue than originally indicated in the FSR. FY 2004/05 was used as the baseline for future years. This FY turned out to be an anomaly. Events that directly impacted the baseline year were:

- FTB began using the New Hire Registry Data Base - this provided COD with current employer information, resulting in a much greater response rate to our levys.
- 9 new clients entered partnership with Court-Ordered Debt increasing to 39 clients, resulting in increased billings notices (EWO/OTWs).
- Existing clients increased their case referrals.

Alternative # 2 - Provide additional of \$5.7 million and 30 positions (convert 12 two-year limited term positions to permanent and will extend 18 two-year limited term positions). This will allow the CODE Project team to continue development and implementation of the new COD collection system.

This is not a viable alternative, without additional funding and resources to augment the collection and support staff for the COD Collection Program, FTB will be unable to provide collection services to additional clients, and we will not be able to accept increased caseloads from our existing clients.

In addition, this alternative does not comply with the mandate of SB 246 and will result in less than the projected additional revenue of approximately \$21 million per year. As stated in the FSR, program revenue must remain consistent in order to support funding of the CODE Project expenditures. A loss in revenue will jeopardize the project as well as exceed the 15% operating/administrative limitation based on revenue generation.

Alternative # 3 – Provide no additional funding and resources to continue the CODE Project.

This alternative will allow 30 limited-term positions to expire on June 30, 2008. This is not a viable alternative, as this will result in the inability to complete the CODE Project. Without the implementation of the new collection system, FTB will be unable to offer collection services to all clients as mandated by SB 246. The existing system cannot accommodate the impact of statewide inventory levels resulting in the loss of \$21 million in revenue.

H. TIMETABLE

Funding to be provided on July 1, 2008.

I. RECOMMENDATION

Alternative # 1 is recommended. This alternative will allow the CODE Project to continue as scheduled through Phase II of the implementation of the new collection system. By September of 2008, the collection system will be in production allowing FTB to accept all potential clients. The expansion of the COD Collection Program activities will generate an increase in revenue of \$21 million annually, benefiting each participating county's general fund in addition to numerous county and state funds. This alternative fulfills the requirements of SB 246 and makes FTB collection services available to all potential clients at no cost to the State General Fund.

**STATE OF CALIFORNIA
Budget Change Proposal - Fiscal Detail
For Fiscal Year 2008/09
DF-46 (REV 03/03)**

**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 60 Court Collection	ELEMENT 60 Court Collection	COMPONENT	

TITLE OF PROPOSED CHANGE:

Court Ordered Debt Collection Expansion.

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$7.4 million and a total of 56.5 positions (26.5 new, conversion of 12 limited term to permanent, and 18 continuing limited term) for the Court Ordered Debt (COD) Collection Program and the Court Ordered Debt Expansion (CODE) Project. SB 246 (Chapter 380, Statutes of 2004) established FTB's COD Collection Program as permanent, requiring FTB to offer collection services for all counties and superior courts statewide. This proposal represents year three of the five-year expansion project in which total one-time costs are estimated at \$13.1 million (Refer to FTB Feasibility Study Report (FSR) 1730-182).

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

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 FTB FSR 1730-182 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP # 7	DATE	Title of Proposed Change:					
		Court Ordered Debt Collection Expansion					
PROGRAM	ELEMENT	COMPONENT					
60 Court Collection	60 Court Collection						
		Personnel Years					
		CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries & Wages a/		.0	56.5	96.5	\$ 0	\$ 2,707,000	\$ 4,106,000
Salary Savings		.0	-2.7	-3.1	\$ 0	-\$ 125,000	-\$ 128,000
Net Total Salaries and Wages		.0	53.9	93.4	\$ 0	\$ 2,582,000	\$ 3,978,000
Staff Benefits b/					\$ 0	\$ 1,022,000	\$ 1,584,000
Total Personal Services					\$ 0	\$ 3,604,000	\$ 5,562,000
Operating Expenses and Equipment							
General Expenses /1					\$ 0	\$ 102,000	\$ 163,000
Printing /2					0	21,000	54,000
Communications /3					0	61,000	104,000
Postage /4					0	232,000	634,000
Travel-In-State					0	0	0
Travel Out-of-State					0	0	0
Training					0	0	0
Facilities Operations /5					0	6,000	0
Utilities					0	0	0
Cons & Prof Svs - Interdept'l					0	0	0
Cons & Prof Svs - External /6					0	3,353,000	273,000
Consolidated Data Center					0	0	0
Data Processing /7					0	29,000	21,000
Equipment /8					0	0	140,000
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment					\$ 0	\$ 3,804,000	\$ 1,389,000

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

b/ Detail provided on following pages.

- /1 General Expenses @ \$771 per position.
 Minor Equipment @ \$1059 per position (26.5 new positions).
 PCs at \$1,150 per position (26.5 new positions).
- /2 Printing @ \$73 per position (56.5 positions) plus \$17,000 for additional mailings.
- /3 Communications @ \$1078 per position (56.5 positions).
- /4 Postage Cost for additional mailings.
- /5 Facilities - Alterations.
- /6 External Contract-cost for software customisation. \$3,085,000 & \$268,000 for IV&V project Oversight Services.
- /7 Software for 26.5 new PCs @\$490 per PC. \$30 on-going software maintenance cost for the continuing positions (30 PCs).
 \$15,000 for license/maintenance.
- /8 Opex Scanners 2 @ \$70,000.

			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT			\$ 0	\$ 3,804,000	\$ 1,389,000
SPECIAL ITEMS OF EXPENSE d/			\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION			\$ 0	\$ 0	\$ 0
Distributed Admin			\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES			\$ 0	\$ 7,408,000	\$ 6,951,000
<u>Source of Funds</u>		<u>Appropriation No.</u>			
	Org	- Ref - Fund			
Court Collection Fund	1730	001 0242	\$ 0	\$ 7,408,000	\$ 6,951,000
			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>\$ 7,408,000</u>	<u>\$ 6,951,000</u>
LOCAL ASSISTANCE			\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>		<u>Appropriation No.</u>			
	Org	- Ref - Fund			
Court Collection Fund	1730	001 0242	\$ 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 2007/08	BY 2008/09	BY + 1 2009/10			CY	BY	BY + 1
Administrative Services Division									
Mailing Machines Operator I - Rg B	PERM	0.0	0.5	0.5	\$ 2,387 \$ 2,899	\$	0	\$ 16,000	\$ 16,000
Assoc Operations Spec/Ftb	PERM	0.0	0.0	1.0	\$ 4,255 \$ 5,172	\$	0	\$ 0	\$ 57,000
Assoc Operations Spec/Ftb	PERM	0.0	1.0	1.0	\$ 4,255 \$ 5,172	\$	0	\$ 57,000	\$ 57,000
Total Administrative Services Division		.0	1.5	2.5		\$	0	\$ 73,000	\$ 130,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	1.5	2.5					
Finance & Executive Services Division									
Acctg Officer Spec	PERM	0.0	1.0	1.0	\$ 3,715 \$ 4,516	\$	0	\$ 49,000	\$ 49,000
Total Finance & Executive Services Division		.0	1.0	1.0		\$	0	\$ 49,000	\$ 49,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	1.0	1.0					
Accounts Receivable Management Division									
Data Processing Mgr III	LT 24 Mo	0.0	2.0	2.0	\$ 6,884 \$ 7,968	\$	0	\$ 178,000	\$ 178,000
Data Processing Mgr II	LT 24 Mo	0.0	1.0	1.0	\$ 5,657 \$ 7,219	\$	0	\$ 77,000	\$ 77,000
Administrator II	PERM	0.0	1.0	1.0	\$ 5,390 \$ 6,879	\$	0	\$ 74,000	\$ 74,000
Sr Programmer Analyst Spec	LT 24 Mo	0.0	1.0	1.0	\$ 5,388 \$ 6,875	\$	0	\$ 74,000	\$ 74,000
Administrator I	PERM	0.0	1.0	2.0	\$ 4,909 \$ 6,263	\$	0	\$ 67,000	\$ 134,000
Staff Info Sys Analyst Spec	LT 24 Mo	0.0	8.0	8.0	\$ 4,898 \$ 6,253	\$	0	\$ 535,000	\$ 535,000
Staff Prog Analyst Spec	LT 24 Mo	0.0	1.0	1.0	\$ 4,898 \$ 6,253	\$	0	\$ 67,000	\$ 67,000
Sr Compliance Rep.,Ftb	LT 24 Mo	0.0	1.0	1.0	\$ 4,467 \$ 5,431	\$	0	\$ 59,000	\$ 59,000
Sr Compliance Rep.,Ftb	PERM	0.0	1.0	3.0	\$ 4,467 \$ 5,431	\$	0	\$ 59,000	\$ 178,000
Compliance Rep, Ftb - Rg B	PERM	0.0	2.0	2.0	\$ 3,099 \$ 3,586	\$	0	\$ 80,000	\$ 80,000
Tax Program Tech II,Ftb	PERM	0.0	1.0	1.0	\$ 2,853 \$ 3,470	\$	0	\$ 38,000	\$ 38,000
Tax Technician, Ftb - Rg B	PERM	0.0	3.0	21.0	\$ 2,724 \$ 3,313	\$	0	\$ 109,000	\$ 761,000
Tax Technician, Ftb - Rg B	PERM	0.0	14.0	14.0	\$ 2,724 \$ 3,313	\$	0	\$ 507,000	\$ 507,000
Total Accounts Receivable Management Division		.0	37.0	58.0		\$	0	\$ 1,924,000	\$ 2,762,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	37.0	58.0					
Filing Division									
Key Data Operator - Rg B	PERM	0.0	1.5	1.5	\$ 2,369 \$ 2,877	\$	0	\$ 47,000	\$ 47,000
Key Data Operator - Rg B	PERM	0.0	1.0	6.0	\$ 2,369 \$ 2,877	\$	0	\$ 31,000	\$ 189,000
Tax Program Assistant - Rg B	PERM	0.0	2.5	7.5	\$ 2,006 \$ 2,436	\$	0	\$ 67,000	\$ 200,000
Tax Program Assistant - Rg B	TEMP	0.0	7.0	15.0	\$ 2,006 \$ 2,436	\$	0	\$ 187,000	\$ 400,000
Total Filing Division		.0	12.0	30.0		\$	0	\$ 332,000	\$ 836,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	12.0	30.0					
Technology Services Division									
Sys Software Spec I Tech	LT 24 Mo	0.0	4.0	4.0	\$ 4,897 \$ 6,252	\$	0	\$ 268,000	\$ 268,000
Assoc Info Systems Analyst	PERM	0.0	1.0	1.0	\$ 4,467 \$ 5,703	\$	0	\$ 61,000	\$ 61,000
Total Technology Services Division		.0	5.0	5.0		\$	0	\$ 329,000	\$ 329,000
Adjust for Part Year Positions		.0	.0						
Net Positions/ PYs before salary savings		.0	5.0	5.0					
Total Salaries and Wages	Positions	.0	56.5	96.5		\$	0	\$ 2,707,000	\$ 4,106,000
	Part Yr Ad	.0	.0	.0					
	P.Y.s	.0	56.5	96.5					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>
OASDI /1	\$ 0	\$ 160,000	\$ 244,000
Dental /2	0	26,000	42,000
Health /3	0	345,000	569,000
Retirement /4	0	407,000	598,000
Vision /5	0	6,000	9,000
Medicare /6	0	39,000	58,000
Worker's Comp /7	0	21,000	31,000
Industrial Disability /8	0	1,000	1,000
Non Industrial Disability /9	0	6,000	9,000
Unemployment Insurance /10	0	11,000	23,000
Total Staff Benefits	\$ 0	\$ 1,022,000	\$ 1,584,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2008/09**

Budget Change Proposal

BCP No. 8

LLC Protective Claim - Denial of FTB Appeal

DATE: August 10, 2007

A. Nature of Request

The Franchise Tax Board (FTB) requests an augmentation of \$33,983,000 and 8 two-year limited term positions (7.6 PYs) to process refunds and pay potential attorney fee judgments resulting from the San Francisco Superior Court denying the Franchise Tax Board appeal on *Northwest Energetic Services, LLC v. Franchise Tax Board*, Case No. CGC-05-437721 and/or *Ventas Finance I, LLC v. Franchise Tax Board*, Case No. CGC-05-440001. This proposal includes a request of \$33.5 million to satisfy judgment for attorney fees and litigation costs awarded by the court in these cases pursuant to California Code of Civil Procedures §1021.5 and/or the Common Fund Doctrine. This request identifies the worst-case scenario. The FTB needs to be prepared to process the refunds if the method used to calculate total income and the LLC fee is determined by the court to be unconstitutional and also pay judgments for attorney fees if the appellate court awards costs pursuant to the taxpayers' request.

B. Background/History

Under current California state law, a Limited Liability Company (LLC) not classified as a corporation must pay the annual LLC fee if it is organized, doing business, or registered in California. The annual LLC fee is based on the LLC total income from all sources reportable to the state. "Total Income" is defined as gross income from whatever source derived plus the cost of goods sold that are paid or incurred in connection with a trade or business; excluding the flow through of income from one LLC to another LLC if that income has already been subject to California's annual LLC fee.

In *Northwest Energetic Services, LLC v. Franchise Tax Board*, Case No. CGC-05-437721 and *Ventas Finance I, LLC v. Franchise Tax Board*, Case No. CGC-05-440001, the San Francisco Superior Court held in its Statement of Decision that the LLC fee could not be applied constitutionally because the unapportioned tax on income violates the Commerce Clause of the United States Constitution and the Due Process Clauses of the California and United States Constitutions (see attachment). In the case of *Northwest Energetic Services, LLC*, the income was derived solely from sources outside of California. In the case of *Ventas Financial I, LLC* the income was derived from sources within and outside of California.

In the cases being cited, the LLC fee was determined to be unconstitutional because it is not fairly apportioned. A fundamental principle governing state taxation (grounded in the Due Process and Commerce Clauses) is that a state tax must be fairly apportioned; it must be calibrated to the level of activity in the state. The LLC fee is based on worldwide gross

receipts rather than in-state activity. Adding an apportionment mechanism into the current statute would run contra to the Legislature's expressed intent. The legislative history establishes that the Legislature considered and rejected apportionment.

FTB has appealed these decisions in the California Court of Appeal, and will continue to enforce the LLC fee requirement as it is currently assessed, unless a final appellate decision is rendered to the contrary.

Taxpayers have begun to file protective claims for refunds in anticipation that the court will find the LLC fee unconstitutional. Should the court deny FTB's appeal to reverse the trial court's decision, FTB will be required to issue refunds on approximately 38,000 LLC accounts, impacting approximately 100,000 tax years. The value of these claims total approximately \$500 million. These claims were filed to protect their Statute of Limitations while awaiting the court's decision on the cases discussed above. FTB maintains a database for these protective claims.

Currently, the LLC refund workload is minimal and requires few dedicated resources. Ultimately, the denial of FTB's appeals will result in a significant increase of workload requiring additional resources until the protective claims are processed.

Timing of Court Decisions

Based on current proceedings in the *Northwest Energetic Services, LLC v. Franchise Tax Board* case, FTB expects that a court date could be set sometime in late 2007, and a decision to be made approximately 90 days thereafter. However, depending on the court's decision, the case could be appealed to the California Supreme Court.

With regard to the *Ventas Finance I, LLC v. Franchise Tax Board* case, the current proceedings suggest that a court date could be set sometime in late 2007 or early 2008 with a decision thereafter. Like the earlier case, this case could be appealed to the California Supreme Court depending on the decision of the appellate court.

It should be noted that in both these cases, requests for extensions could impact the timelines described above. Also, each case includes a separate, but related court case concerning reimbursement of legal fees that could impact the timing of a court date and or decision.

Potential Judgment of Attorney's Fees

With regard to attorney's fees, the Revenue and Taxation Code¹ (R&TC) provides that taxpayers may be entitled to recover costs incurred in pursuing litigation for tax refunds, including attorneys' fees, from FTB. The California Code of Civil Procedures² (CCP), the Private Attorney General provision, allows the recovery of attorneys' fees in any action that has resulted in the enforcement of an important right affecting the public interest. In essence, the R&TC provides relief for actual costs while the CCP provides a method of relief by multiplying actual costs, which can significantly increase an award of attorney fees.

¹ §19717

² §1021.5

Plaintiff's representatives in the Ventas case asked the court to award attorney fees of \$30 million based on the CCP. FTB argued that the R&TC provision exclusively controls the allowance of attorney fees resulting from litigation of tax matters. The trial court awarded \$219,000 based on plaintiff's argument. Both parties have appealed judgment.

Plaintiff's representatives in Northwest Energetic sought attorney fees of approximately \$5 million also based on arguments outside of that relief provided by the R&TC. FTB again argued that the R&TC controls. The trial court awarded \$3.5 million on plaintiff's argument. FTB has appealed this judgment.

It is also noteworthy to mention that in March 2007, FTB held an interested parties meeting to discuss delaying payment of any LLC fee refunds, providing a credit mechanism, and allowing the Legislature the opportunity to pass a government claims bill to fund such payments.

C. State Level Considerations

If the court upholds the decisions on the constitutionality of the LLC fees and rules against FTB with regard to attorney fees, FTB and the State of California will be obligated to satisfy judgment. These issues combined may negatively impact the General Fund by up to \$500 million for refunds of collected fees and \$34 million in attorney fees and support costs.

D. Facility/Capital Outlay Considerations

The program area represented in this BCP has the space available to accommodate these additional staff, although some workstation alterations are necessary.

E. Justification

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 returns, etc.

Strategic Goal #2: Increase Fairness and Compliance with Tax Law

- Provide fair and impartial treatment for every taxpayer.

In order to issue the appropriate refunds in a manner consistent with FTB's strategic goals listed above, new resources will be necessary. The additional resources will allow FTB to timely process these claim for refunds consistent with Strategic Goal #1 in a fair and impartial manner consistent with Strategic Goal #2.

F. Outcomes and Accountability

If the court does not reverse its decisions FTB will be obligated to comply and refund the appropriate fee to the LLCs within the acceptable timeframes. Timely processing of these claims fall under the direction of the Filing Division Chief. Ensuring that appropriate funds are

available to pay support costs and attorney fee judgments is the responsibility of the Department's Chief Financial Officer.

G. Analysis of all Feasible Alternatives

Alternative #1 – Approve \$34 million of funding and 8 two-year limited term positions for FY 2008/09

If the courts find the LLC fee unconstitutional. FTB will be required to refund the fee to those taxpayers that filed a protective claim, approximately 100,000 tax years affected, totaling \$500 million and satisfy judgment for attorney fees of \$33.5 million. This alternative allows for the timely response to the direction provided by the courts. In addition to demonstrating customer service and issuing timely refunds, this alternative will save the state funds on future interest.

Alternative #2 – Approve \$33.5 million for attorney fees, and \$178,000 for 3 one-year limited term positions for 2008/09

If the courts find only the apportionment component of the court case unconstitutional then processing costs will be \$178,000. However, FTB will still be obligated to pay the cost of attorney fees. If FTB is directed to recalculate "total income" based on California source income, an estimated 10,000 tax years will be impacted, totaling approximately \$60 million in refunds. This alternative would allow FTB to timely process all of the protective claims filed.

Alternative #3 - No additional resources

Due to the sensitivity of this workload and the need to process the refunds, resources will be redirected to this workload. If no resources are received for this effort, FTB will need to evaluate other Business Entities processing workloads and prioritize according available resources. As a result, other critical workloads will not be processed timely causing further backlogs and delays. This impact could negatively affect FTB's compliance programs, customer service staff, and ultimately taxpayers. Furthermore, the state's revenue will be negatively impacted due to the additional interest that will be paid on refunds as a result of the delayed processing of the protective claims and other return workloads.

Furthermore, FTB cannot absorb from its operational budget a \$33.5 million judgment for attorney fees without severe impact to FTB's revenue processes and the programs dependent on such revenue.

H. TIMETABLE

Funding to be provided on July 1, 2008.

I. RECOMMENDATION

Alternative #1 is recommended.

This alternative provides for an additional \$34 million of funding and 8 two-year limited term positions to issue timely refunds for the approximate 100,000 tax years affected and provides funding to satisfy potential attorney fee judgments of \$33.5 million. It also saves the state money by preventing the payment of interest on the refunds that are not processed timely. This requests addresses the worst-case scenario: the San Francisco Superior Court holds that the unapportioned tax on income is unconstitutional and the full amount of attorney fees are awarded.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

**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 Tax Program	ELEMENT Corp Tax Program	COMPONENT	

TITLE OF PROPOSED CHANGE:

Limited Liability Company Protective Claim - Denial of FTB Appeal

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board requests an augmentation of \$33,983,000 and 8 two-year limited term Positions (7.6 PYs) to process refunds and pay potential attorney judgements resulting from the San Francisco Supier Court denying the Franchise Tax Board appeal on Northwest Energitic Services, LLC v. Franchise Tax Board, Case No. CGC-05-437721 and/or Venas Finance I, LLC v. Franchise Tax Board Case No.CGC-05-440001.

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:	DATE	REVIEWED BY:	DATE
Pending Board Approval			
PROGRAM APPROVAL:			
DEPARTMENT L...	DATE	AGENCY...	DATE

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? _____ 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

TOTAL OPERATING EXPENSES AND EQUIPMENT

\$ 0 \$ 33,559,000 \$ 16,000

SPECIAL ITEMS OF EXPENSE d/

\$ 0 \$ 0 \$ 0

PROGRAM ADMINISTRATION

Distributed Admin

\$ 0 \$ 0 \$ 0

\$ 0 \$ 0 \$ 0

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0 \$ 33,983,000 \$ 447,000

Source of Funds

Appropriation No.

Org - Ref - Fund

General Fund 1730 001 0001

\$ 0 \$ 33,983,000 \$ 447,000

0 0 0

0 0 0

0 0 0

0 0 0

0 0 0

0 0 0

0 0 0

Reimbursements 1730 501 0995

0 0 0

Totals

\$ 0 \$ 33,983,000 \$ 447,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

Org - Ref - Fund

General Fund 1730 001 0001

\$ 0 \$ 0 \$ 0

0 0 0

0 0 0

0 0 0

0 0 0

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
Filing Division								
Tax Program Tech II,Ftb	2 Year LT	0.0	8.0	8.0	\$ 2,853 \$ 3,470	\$ 0	\$ 304,000	\$ 304,000
Total Filing Division		.0	8.0	8.0		\$ 0	\$ 304,000	\$ 304,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	8.0	8.0				
Total Salaries and Wages								
	Positions	.0	8.0	8.0		\$ 0	\$ 304,000	\$ 304,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	8.0	8.0				

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 18,000	\$ 18,000
Dental /2	0	4,000	4,000
Health /3	0	56,000	56,000
Retirement /4	0	49,000	49,000
Vision /5	0	1,000	1,000
Medicare /6	0	4,000	4,000
Worker's Comp /7	0	2,000	2,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	1,000	1,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 135,000	\$ 135,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.

COMMERCE:

From **The Constitution of the United States, Article 1, Section 9, Clause 6:**

No Preference shall be given by any Regulation of Commerce or Revenue to the Ports of one State over those of another: nor shall Vessels bound to, or from, one State, be obliged to enter, clear, or pay Duties in another.

DUE PROCESS:

From **The Constitution of the United States, Amendment 14, Section 1:**

All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law, which shall abridge the privileges or immunities of citizens of the United States, nor shall any State deprive any person of life, liberty, or property, without due process of law, nor deny to any person within its jurisdiction the equal protection of the laws.

From **The Constitution of the State of California, Article 1, Section 7:**

SEC. 7. (a) A person may not be deprived of life, liberty, or property without due process of law or denied equal protection of the laws; provided, that nothing contained herein or elsewhere in this Constitution imposes upon the State of California or any public entity, board, or official any obligations or responsibilities which exceed those imposed by the Equal Protection Clause of the 14th Amendment to the United States Constitution with respect to the use of pupil school assignment or pupil transportation.

Filing Division
 Business Entities Section (BES) - 760
 Workload Indicator Schedule
 LLC Protective Claim for Refund Workload

Alternative 1:

FY 2008/2009			
Volume	Rate	Hours	PY's
50,000	3.75	13,333	7.6

FY 2009/2010			
Volume	Rate	Hours	PY's
57,500	3.75	15,333	8.8

Total			
Volume	Rate	Hours	PYs
107,500	3.75	28,667	16.4

Alternative 2:

FY 2008/2009			
Volume	Rate	Hours	PY's
10,000	1.95	5,128	2.9

FY 2009/2010			
Volume	Rate	Hours	PY's

Total			
Volume	Rate	Hours	PYs
10,000	0	5,128	2.9

Alternative 1: Fee unconstitutional, refund fee for all protective claims.

Methodology:

A two-year funding approach was taken to resolve this workload. As of May 14, 2007, there were approximately 100,000 tax years impacted. The 100,000 tax years were divided in half: 8/9 = 50,000 and 9/10 = 50,000. Because it is uncertain how much the workload will increase, a 15% growth rate was added to the base of 50,000 resulting in a total universe of 57,500 for the 9/10 FY. For an estimated total of 107,500 tax years.

The processing of an LLC protective claim refund will require approximately 16 minutes of staff time for each taxable year. Based on the current 107,500 tax years, it is estimated that processing these refunds in a timely manner will require 8 PYs for each fiscal year.

Calculation: $(107,500 \times 16) / 60 \text{ min} = 28,667 \text{ hours} / 1749 \text{ (PY base)} = 16 \text{ PYs} / 2 \text{ yrs} = 8$

Classification Requested: TPT II LT

Alternative 2: Apportionment component of fee found unconstitutional, FTB directed to apportion fee based on California source income. Refund only those affected by apportionment.

Methodology:

A one-year funding approach was taken to resolve this workload. As of May 14, 2007, there were approximately 100,000 tax years impacted. Of this, approximately 10,000 tax years will require the fee to be apportioned before the refund may be processed.

Audit program activity = 1.42 PYs

FTB will be required to apportion each of the 10,000 tax years. It is estimated that each tax year will require 15 minutes to determine the apportioned fee.

Calculation: $(10,000 \times 15) / 60 \text{ min} = 2,500 \text{ hours} / 1749 \text{ (PY base)} = 1.42 \text{ PYs}$

Processing activity = 1.5 PYs

The processing of an LLC protective claim refund will require approximately 16 minutes of staff time for each taxable year. Based on the current 10,000 tax years, it is estimated that processing these refunds in a timely manner will require 3 new PYs. Calculation: $(10,000 \times 16) / 60 \text{ min} = 2,666 \text{ hours} / 1749 \text{ (PY base)} = 1.5 \text{ PYs}$.

Classification Requested: TPT II LT

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

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

BCP # 9	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Various	ELEMENT Various	COMPONENT	

TITLE OF PROPOSED CHANGE:

Security Workload Growth

SUMMARY OF PROPOSED CHANGE:

This proposal requests five new positions (4.7 PYs) and \$449,000 to assist with workload growth associated with increased demands for securing FTB's critical assets and ensuring confidentiality and privacy of taxpayer data.

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 type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> REVENUE <input checked="" type="checkbox"/> FACILITIES/CAPITAL COSTS
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PREPARED BY:	DATE	REVIEWED BY:	DATE
<h1>Pending Board Approval</h1>			
PROGRAM APPROVAL:			
DEPARTMENT DIRECTOR:			DATE

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? _____ 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #9	DATE 8/10/07	Title of Proposed Change: Security Workload Growth						
PROGRAM	ELEMENT	COMPONENT						
Various	Various							
		Personnel Years						
		CY	BY	BY + 1	CY	BY	BY + 1	
Total Salaries & Wages a/		.0	5.0	5.0	\$ 0	\$ 312,000	\$ 312,000	
Salary Savings		.0	-3	-1	\$ 0	-\$ 16,000	-\$ 7,000	
Net Total Salaries and Wages		.0	4.7	4.9	\$ 0	\$ 296,000	\$ 305,000	
Staff Benefits b/					\$ 0	\$ 114,000	\$ 114,000	
Total Personal Services					\$ 0	\$ 410,000	\$ 419,000	
Operating Expenses and Equipment								
General Expenses /1					\$ 0	\$ 15,000	\$ 4,000	
Printing					0	0	0	
Communications /2					0	5,000	5,000	
Postage					0	0	0	
Travel-In-State					0	0	0	
Travel Out-of-State					0	0	0	
Training					0	0	0	
Facilities Operations /3					0	17,000	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 /4					0	2,000	0	
Equipment					0	0	0	
Other Items of Exp (Specify Below)					0	0	0	
Total Operating Expense & Equipment					\$ 0	\$ 39,000	\$ 9,000	

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

b/ Detail provided on following pages.

/1 General Expense \$771 per position. Plus minor equipment @ \$1,059 per position. 5 PCs @ \$1,150 per position.

/2 Communication Costs at \$1,078 per position.

/3 Alterations to existing workspace @ \$17,000.

/4 Software for PCs @ \$490 per PC, \$30 on-going cost for PCs .

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 39,000	\$ 9,000

SPECIAL ITEMS OF EXPENSE d/	\$ 0	\$ 0	\$ 0
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PROGRAM ADMINISTRATION	\$ 0	\$ 449,000	\$ 428,000
Distributed Admin	\$ 0	-\$ 449,000	-\$ 428,000

TOTAL STATE OPERATIONS EXPENDITURES	<u>\$ 0</u>	<u>\$ 449,000</u>	<u>\$ 428,000</u>
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<u>Source of Funds</u>	<u>Appropriation No.</u>					
	Org	- Ref	- Fund			
General Fund	1730	001	0001	\$ 0	\$ 428,000	\$ 407,000
General Fund - HRA	1730	001	0001	0	7,000	7,000
General Fund - PRA	8640	001	0001	0	1,000	1,000
DMV-Motor Vehicle Acct.	1730	001	0044	0	2,000	2,000
DMV Lic Fee Acct.	1730	001	0064	0	4,000	4,000
Court Ordered Debt	1730	001	0242	0	7,000	7,000
				0	0	0
				0	0	0
Totals				<u>\$ 0</u>	<u>\$ 449,000</u>	<u>\$ 428,000</u>

LOCAL ASSISTANCE	\$(0)	\$(0)	\$(0)
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<u>Source of Funds</u>	<u>Appropriation No.</u>					
	Org	- Ref	- Fund			
				\$ 0	\$ 0	\$ 0
				0	0	0
				0	0	0
				0	0	0
				0	0	0
				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	Amount			
		CY	BY	BY + 1		CY	BY	BY + 1	
		2007/08	2008/09	2009/10					
Administrative Services Division									
Sys Software Spec II Tech	PERM	0.0	2.0	2.0	\$ 5,378	\$ 6,864	\$ 0	\$ 147,000	\$ 147,000
Assoc Info Systems Analyst	PERM	0.0	2.0	2.0	\$ 4,467	\$ 5,703	\$ 0	\$ 122,000	\$ 122,000
Programmer I - Rg B	PERM	0.0	1.0	1.0	\$ 3,253	\$ 3,953	\$ 0	\$ 43,000	\$ 43,000
Total Administrative Services Division		.0	5.0	5.0			\$ 0	\$ 312,000	\$ 312,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	5.0	5.0					
Total Salaries and Wages	Positions	.0	5.0	5.0			\$ 0	\$ 312,000	\$ 312,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	5.0	5.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits	2007/08	2008/09	2009/10
OASDI /1	\$ 0	\$ 18,000	\$ 18,000
Dental /2	0	3,000	3,000
Health /3	0	35,000	35,000
Retirement /4	0	50,000	50,000
Vision /5	0	1,000	1,000
Medicare /6	0	4,000	4,000
Worker's Comp /7	0	2,000	2,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	1,000	1,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 114,000	\$ 114,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2008/09

Budget Change Proposal
Security Workload Growth

BCP No. 9
DATE: August 10, 2007

A. NATURE OF REQUEST

This proposal requests five new positions (4.7 PYs) and \$449,000 to assist with workload growth associated with increased demands for securing Franchise Tax Board's (FTB's) critical assets and ensuring confidentiality and privacy of taxpayer data.

B. BACKGROUND/HISTORY

FTB employs a "Defense-in-Depth" strategy to protect the information it is entrusted with. Defense-in-Depth is a widely accepted and documented information assurance strategy where multiple layers of defense are placed throughout an Information Technology system.

The idea behind the Defense-in-Depth concept is to have multiple layers of protection so that if one or more layers fail, additional layers exist to prevent an attack. An attacker would have to break through multiple defensive countermeasures, in order to successfully access a system. This increases the likelihood of being able to identify and prevent an attack from occurring.

Because the outer physical and network layers are the first lines of defense against an external threat, they expose an organization to the greatest risk. FTB has always strived to utilize resources to defend all the defensive layers. However, like many organizations, FTB has historically focused on the outer physical and network perimeter layers. This was based on the concept prevalent throughout the industry that attackers reside outside of an organization rather than from within.

As the outer layers became difficult to penetrate and data became more of a commodity, the attackers began to look for new and improved ways to infiltrate the inside layers. Although the statistics may vary slightly, there is no argument that the biggest threat to any organization is now from within. Most studies indicate that 60-80% of threats come from inside an organization. Therefore, the increased risk of internal threats requires organizations to focus additional resources in protecting these layers as well.

The resources requested in this proposal will allow FTB to meet this expanding and changing workload while still maintaining a manageable level of risk.

Addressing Inside Security Threats – Information Security Auditing (2.7 PYs):

FTB's Privacy, Security and Disclosure Bureau (PSDB), utilizes staff in the Information Security Audit Unit (ISAU) to perform security audits that analyze system and application audit logs that

identify instances of inappropriate use and access. The following activities and workloads have increased significantly over the past few years due to the increased risk of internal threats and the complexity of ensuring the data entrusted to FTB remains secure.

- ***Special audit requests in response to potential inappropriate or fraudulent activities by internal staff.***

These audits are generally reactive in nature as they are often a result of a specific incident that indicates the possibility of inappropriate and/or fraudulent activities by internal staff. The information collected through the audit provides substantiation to support the appropriate actions to be taken.

- ***An increase in reports filed under the California Whistleblower Protection Act (WBA) that require investigation and response to the Bureau of State Audits (BSA).***

The WBA provides for the anonymous reporting of misuse of State assets to the BSA. The WBA authorizes the BSA to investigate allegations of improper governmental activity and to publicly report on substantiated allegations. A hotline is provided to both government agencies and the public to report "improper governmental activity." Effective July 2002, all state departments are required to annually notify their employees about the BSA's hotline to report misuse within an agency. Since this requirement became effective, FTB has experienced an increase from zero whistleblower complaints in 2002 to six complaints in 2006. The BSA has delegated the responsibility of investigations to FTB. If the BSA determines a report of misuse is credible, the WBA requires the employing agency to assist in the investigation at the direction of the BSA. Therefore, the level of resources dedicated to this workload is not discretionary and has significantly increased since 2002 and this trend is expected to continue into FY 2008/09 and beyond.

These workloads are mandatory in nature and must be addressed regardless of available resources. Therefore, as these workloads increase over the years, it decreases our ability to appropriately address critical on-going workloads that ensure information security.

Addressing External Security Threats – Compliance Monitoring (2 PYs):

In compliance with State Administrative Manual (SAM) – Chapter 4800, the Compliance Monitoring Unit within FTB's PSDB, performs vulnerability assessments of perimeter and internal network-attached devices, certifies the security of new systems, and coordinates annual independent security assessments by outside vendors. Again, the following activities and workloads have increased significantly over the past few years. In order to continue to maintain the FTB security standards (which are consistent with industry standards) that FTB has put in place, additional resources are necessary to meet the demands of doing business with our customers and maintaining the trust of protecting their data.

- ***Increase in the number of compliance and accreditation workloads***

As FTB has expanded its e-commerce presence, the IT infrastructure has become more complex to monitor for purposes of ensuring departmental security standards and industry best practices are met. Compliance and accreditation workloads ensure the security of FTB applications, network devices, servers, multifunction printers, and other

system appliances. If appropriate resources are not available to address this workload then the department risks putting systems on the network that may be vulnerable to attack, which could negatively impact data security and taxpayer privacy concerns.

In order for FTB to meet the demands of ever-changing attack methods, the staff augmentation is necessary to enable PSDB to be proactive in mitigating risk and ensuring the protection of sensitive and/or private information entrusted to us by our customers.

Furthermore, with identity theft on the rise and sensitivity to this issue, the need to protect taxpayer data from exposure to unethical individuals has become critically important. If additional resources are not provided to address this workload, inappropriate accesses and activities may go un-noticed and will subject the department to unreasonable levels of risk. This could result in revenue losses due to fraudulent activity and put the department at risk of losing access to IRS data. Additionally, the public's trust placed with FTB and the State would be compromised; not only by taxpayers and business partners, but also the State and Federal agencies that entrust us with protecting their data. The loss of revenue to the State that may result from the loss of Federal tax data would be detrimental to the State's budget and economy.

C. STATE LEVEL CONSIDERATIONS

FTB provides access to its data to employees of other State departments such as the Board of Equalization (BOE), Employment Development Department (EDD), and the Department of Child Support Services (DCSS). Interagency Agreements and FTB policy requires FTB to log external accesses to FTB systems. In addition, FTB employees access systems from other State agencies and non-State entities such as Department of Motor Vehicles (DMV), EDD, BOE, the Credit Reporting System, and Lexis/Nexis. FTB's Interagency Agreement with DMV specifically requires FTB to audit activity by FTB employees to DMV's system. The increase in FTB's mandatory workloads related to information security could compromise the department's ability to appropriately audit systems containing taxpayer data.

In addition, FTB also receives confidential data from the Internal Revenue Service (IRS). The information that IRS provides is critical to the success of FTB's ability to meet its obligation of collecting the right amount of tax and closing the tax gap. As part of the agreement, IRS requires that we follow IRS Publication 1075, "TAX INFORMATION SECURITY GUIDELINES FOR FEDERAL, STATE AND LOCAL AGENCIES AND ENTITIES". This publication requires that agencies conduct a security assessment of the information system to determine if security controls are implemented correctly, including auditing users to ensure that only those who have a "need to know" access federal data. Failure to adequately protect this data could result in the refusal of the IRS to provide the data, which would have a substantial negative impact on State revenue.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program area represented in this BCP has the space available to accommodate these additional staff, although some workstation alterations are necessary.

E. JUSTIFICATION

The required security actions to protect the State of California private, sensitive, and confidential data from unauthorized access and system vulnerabilities; FTB employees unauthorized access and the monitoring of FTB internal networks, and production systems is required as previously stated. This proposal adheres to FTB's strategic goals, which include:

Strategic Goal #3: Increase Transparency

This proposal supports FTB's goal to increase transparency with our taxpayers. Transparency includes increasing the amount of FTB information that is accessible to taxpayers. The resources provided in this proposal will allow FTB to make information available to taxpayers in a secure environment that - in turn - increases public trust and voluntary compliance.

Strategic Goal #5: Demonstrate Operational Excellence

Demonstrate Operational Excellence by delivering high quality secure business results so that FTB management can make better informed business decisions, to streamline security audit processes for cost effectiveness, completeness, and timeliness, increased security audit agility, productivity, and quality.

Strategic Goal #6: Protect Taxpayer Information and Privacy

Protect Taxpayer Information and Privacy by improving how FTB safeguards confidential information it has been entrusted with, leading to increased taxpayer confidence in our internal processes, increased education of FTB staff to protect taxpayer information, reducing our exposure to threats and vulnerabilities, expanding our security and privacy compliance audits and controls, and the use of industry best practices for Information Security at all levels. Providing FTB with five positions for managing this workload is representative of the commitment that the State of California places on protecting taxpayer information and privacy.

F. OUTCOMES AND ACCOUNTABILITY

In an effort to address the ever-changing demands of securing FTB's confidential, private and sensitive data, FTB Executive Management has established the Information Security Audit and Compliance Monitoring Units under the direction of FTB's Chief Security Officer (CSO). The CSO reports directly to the Executive Officer on all matters related to the department's compliance with policies and procedures regarding the security of critical assets. The implementation and on-going progress of the initiatives addressed in the BCP will be monitored by the CSO who will provide regular reports to Executive Management regarding the challenges and successes of securing one of FTB's most critical assets – confidential, private and sensitive data.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 - Provide five positions (4.7 PYs) and \$449,000 to mitigate the exposed risk of FTB's critical assets.

This proposal will augment the department's budget by five positions (4.7 PYs) in FY 2008/09. This alternative allows PSDB to meet its strategic goals and objectives and increased workload

demands. This alternative mitigates security risks and limits the associated potential exposure of breaches in which confidential, sensitive, and personal information is exposed and/or misused. It has the potential of saving FTB significant costs associated with such security incidents.

Alternative #2 - Provide three positions (2.8 PYs) at a cost of \$277,000 to partially mitigate the exposed risk of FTB's critical assets.

Both workloads addressed in this proposal (auditing and compliance) are distinctly different and each have associated critical risks if not addressed. If only a portion of this proposal is approved, the department will have to assume some additional risk and the potential costs associated with not providing oversight and monitoring of inappropriate activities. In addition, the department will incur increased risk of potential security breaches by not proactively identifying vulnerabilities before exposing FTB's critical assets to threats and attacks. Not only would the department face monetary expenditures, but also the potential harm to the State of California's reputation due to failure to protect taxpayer data. This could negatively impact the voluntary compliance foundation that California's tax system is based on. Prioritization of work to be completed if only a portion of this request is approved must be determined by the Executive Officer of FTB, as she is ultimately responsible for information technology security and risk management (See SAM section 4841.1).

Alternative #3 - Consulting Services at a cost of \$1.9 million to enable FTB to address the unacceptable risk of FTB's critical assets.

This alternative provides for FTB to enter into a contractual agreement with an independent consulting company to provide the additional auditing and compliance workload services. This alternative enables FTB to meet its risk mitigation objectives without adding new positions, but at a much higher cost. This alternative also introduces a higher degree of risk associated with providing contract personnel with access to FTB's environment, and much of FTB's most sensitive applications, systems, and network infrastructure information. The cost for this alternative would equal or exceed \$1.9 million to fully meet FTB's objectives.

H. TIMETABLE

Funding to be provided on July 1, 2008.

I. RECOMMENDATION

Alternative #1 – Augment FTB's budget by five positions (4.7 PYs) and \$449,000. This will allow FTB to meet current workload demands to ensure that the data entrusted to us remains secure and would also allow us to address the increasing risk of internal threats and to continue the expectations of our customers in protecting the sensitive, confidential and private data entrusted to FTB.

**FRANCHISE TAX BOARD
Fiscal Year 2008/09**

Budget Change Proposal

BCP No: 13

California Sea Otter Fund

Date: August 10, 2007

A. Nature of Request

This proposal requests \$6,000 funding in fiscal year 2008/09 to establish and maintain the California Sea Otter voluntary contribution fund. AB 2485 (Stats. 2006, Chapter 296) as enacted on September 18, 2006 made changes to existing California law affecting voluntary contribution funds. The Franchise Tax Board (FTB) is mandated under these provisions to provide additional voluntary contribution options for the California Sea Otter Fund on the personal income tax form for tax year 2006. This fund was added to the California personal income tax form in 2006.

B. Background/History

Current state law allows taxpayers to contribute amounts in excess of their tax liability to various voluntary contribution funds listed on the state tax return by checking a box on their California income tax return. Each fund provides for the reimbursement of the FTB and Controller's costs to administer the fund.

AB 2485 (Stats. 2006, Chapter 296) requires FTB to revise the 2006 personal income tax return form to include one additional line item; entitled the California Sea Otter Fund. Designations to the accounts in the form of the check-off feature will be allowed on the 2006 tax return (filed in 2007) and will last appear on the 2010 tax return (filed in 2011) unless another statute extends the sunset date or the estimated contributions are less than \$250,000 after the first taxable year. If the annual contributions equate to less than \$250,000, the law authorizing designations for these funds is repealed.

C. State Level Considerations

This proposal will allow FTB to fulfill the legislative requirement to support the collection and administration of these funds.

D. Justification

The addition of another voluntary contribution funds will increase data entry and error resolution costs, and fund reporting costs. The FTB is not currently budgeted to establish and maintain an account for taxpayer contributions to this fund. This bill allows the FTB to be reimbursed for the administrative costs from the proceeds of the funds. This BCP provides the necessary mechanism to establish the funds.

Money raised as a result of the check-off feature for the California Sea Otter Fund will be used to establish a research program focused on reducing sea otter mortality from non-point source pollution, and developing water and wastewater treatment technologies for pathogens or other causes affecting sea otter mortality.

FTB's mission is "to efficiently, effectively and fairly administer both the state's income tax program as well as other programs entrusted to the department and to collect the revenues needed to serve the people of California." This funding request is consistent with the following mission, goals and objectives outlined in FTB's Strategic Plan:

Increase Satisfaction with the Administration of Our Programs

FTB is continuously striving to improve its ability to meet stakeholders' expectations. By increasing FTB's spending authority to establish these funds, revenue will be provided to the California Sea Otter Fund, and will thereby increase satisfaction with the program.

Conduct Our Business Efficiently and Effectively

FTB provides efficient and effective collection of the contributions to each of the voluntary contribution funds. Because the systems and processes to support voluntary contributions are already in place, FTB will be able to maximize collections and minimize costs for the California Sea Otter Fund.

E. Analysis Of All Feasible Alternatives

Alternative #1 – Augment FTB's budget to administer the new California Sea Otter Fund.

The FY 2008/09 funding request of \$6,000 will provide the needed resource for the FTB to comply with the mandates of the statutes and provide revenue for the California Sea Otter Fund. These administrative costs are calculated at 2.4% of the estimated total amount contributed to each fund. FTB estimates that the funds will achieve at least \$250,000 for FY 2008/09.

Alternative #2 – Provide no additional resources.

FTB's costs to administer this program would be covered by FTB's General Fund support budget. This approach is not consistent with the provisions of AB 2485 (Stats. 2006, Chapter 296), which requires that FTB's costs be supported by proceeds from the California Sea Otter Fund.

F. Outcomes and Accountability

It is the responsibility of FTB, in partnership with the State Controller, to administer this Fund. The resulting changes to the tax forms are subject to the oversight of the Tax Forms Design Unit under the direction of Anne Miller in the Filing Division. The management of the receipts falls within the responsibilities of the Accounting Officer who ultimately reports to the Chief Financial Officer.

G. Timetable

Provide for Temporary Help funding on July 1, 2008.

H. Recommendation

Alternative #1 is recommended.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2008/09
DF-46 (REV 03/03)**

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

BCP # 13	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

TITLE OF PROPOSED CHANGE:

California Sea Otter Fund

SUMMARY OF PROPOSED CHANGE:

To provide funding for administrative costs to process contributions to the California Sea Otter Fund in accordance with the provisions of AB 2485 (Stats. 2006, Chapter 296).

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 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:	DATE	DEPARTMENT 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? 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 OTROS FSCU OSAE CALSTARS

DATE SUBMITTED TO THE LEGISLATURE: PPBA:

BCP # 13	DATE	8/10/2007	Title of Proposed Change:				
			California Sea Otter Fund				
PROGRAM	ELEMENT	COMPONENT					
Tax Programs	Personal Income Tax						
		Personnel Years					
		CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries & Wages a/		.0	.0	.0	\$ 0	\$ 6,000	\$ 6,000
Salary Savings		.0	.0	.0	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages		.0	.0	.0	\$ 0	\$ 6,000	\$ 6,000
Staff Benefits b/					\$ 0	\$ 0	\$ 0
Total Personal Services					\$ 0	\$ 6,000	\$ 6,000
Operating Expenses and Equipment							
General Expenses					\$ 0	\$ 0	\$ 0
Printing					0	0	0
Communications					0	0	0
Postage					0	0	0
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					0	0	0
Equipment					0	0	0
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment					\$ 0	\$ 0	\$ 0

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

b/ Detail provided on following pages.

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 0	\$ 0

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	\$ 6,000	\$ 6,000
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Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
California Sea Otter Fund	1730		001		8047
Reimbursements	1730		501		0995
Totals					

\$ 0	\$ 6,000	\$ 6,000
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
\$ 0	\$ 6,000	\$ 6,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
California Sea Otter Fund	1730		001		0001
Reimbursements					
Totals					

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

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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount		
		CY	BY	BY + 1		CY	BY	BY + 1
Filing Division								
Key Data Operator - Rg B	OT					\$ 0	\$ 3,000	
Program Spec I	OT					\$ 0	\$ 3,000	
Total Filing Division		.0	.0	.0		\$ 0	\$ 6,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	.0	.0				
Total Salaries and Wages								
	Positions	.0	.0	.0		\$ 0	\$ 6,000	\$ 0
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	.0	.0				
Key Data Operator - Rg B	OT	0	0	0			3,000	3,000

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2008/09**

Staff Benefits	2007/08	2008/09	2009/10
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, \$545 per net personnel year.
- 3/ For permanent, \$7,355 per net personnel year.
- 4/ For permanent, 16.997% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.05% of net salary for permanent.
- 9/ 0.21% of net salary for permanent.
- 10/ 5.68% of net salary for temporary help.