

**FRANCHISE TAX BOARD
Fiscal Year 2006/07**

Budget Change Proposal

BCP No. 5

Court-Ordered Debt Expansion

Date: July 25, 2005

A. Nature of Request

The Franchise Tax Board requests additional funding of \$4.46 million and 32.4 PYs (34 positions) for FY 2006/07 to expand collection activities on delinquent court-imposed debts referred by state and local agencies to the Franchise Tax Board's (FTB) Court-Ordered Debt (COD) Collection Program. This proposal represents year one of a multi-year project in which total costs are projected to be \$19.8 million (refer to FTB FSR 05-01). This request will allow FTB to comply with the mandates of SB 246 (Chapter 380, Statutes of 2004) by providing for increased collection services and a new COD system that is robust and scalable. Revenue generated from this project is expected to be \$81 million in FY 2006/07 (of which \$17.6 million is new revenue), increasing to approximately \$136 million annually (of which, \$72 million is new revenue) upon full implementation in FY 2009/10. This revenue will directly benefit each participating county's general fund in addition to numerous county and state funds and agencies (such as State Restitution Fund, Victims-Witness Assistance Fund, domestic violence programs and alcohol prevention programs).

B. Background/History

Pursuant to AB 3343 (Chapter 1242, Statutes of 1994), the COD Collection Program has the authority to collect delinquent court-imposed fines, penalties, forfeitures and restitution orders. Since the program's inception in 1995, it has collected over \$177 million for its participating clients.

In August 2004, SB 246 made FTB's COD Collection Program permanent, requiring FTB to work with the Judicial Council of California to make the necessary efforts to allow FTB to expand its collection services to courts and counties statewide. The program allows its clients to be less dependent on the State's General Fund and Special Fund Accounts. Currently the program receives administrative costs at a rate of up to 15% of program collections, as authorized by legislation. Therefore, the program does not incur any costs to the State's General Fund. To date, 32 clients are participating in the program, which is supported by 60.8 PYs of FTB staff.

SB 246 requires FTB to offer collection services to all of California's 58 counties (representing up to 170 clients). Ongoing discussions with current and potential clients indicate strong support for expanding the program.

For FY 2004/05, the program had an appropriation of \$5.76 million. This request is for additional spending authority of \$4.46 million for FY 2006/07.

C. State Level Considerations

The COD Collection Program benefits both courts and counties that rely on the State's General Fund and special funds to operate their programs. Several clients have already invested in their systems and have based their staff level on anticipated collections from FTB's proposed program enhancements.

Three primary types of clients participate in the program: Superior Courts, Probation Departments, and Revenue Recovery Agencies. Generally, each agency refers a variety of cases, depending on which types of violations are in their jurisdiction for collections.

D. Facilities

Additional staff requested in this proposal can be accommodated within FTB's existing facilities, which will also accommodate program growth in future years.

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, efficiently, effectively, and fairly." This request fully supports FTB's mission, goals, and objectives as outlined in its Strategic Plan. FTB continuously strives to improve its ability to meet stakeholders' expectations. By expanding the COD Collection Program, FTB will improve the services and collections offered to court and county clients.

Complying with SB 246 requires increased COD Program funding and PYs to maximize collection services with its existing clients and expand services to new clients (currently 10 new clients are ready to participate in the program). At the current level of funding, the program is unable to fulfill the requirements of SB 246 and is unable to maximize its level of collection services to its clients and potential clients. Approval of this request will generate additional revenue to each participating county's general fund in addition to numerous county and state funds.

Expanding the program using the current, fragile system is not a viable option because:

- The current system cannot handle the expanded workload of all 58 counties.
- The current COD billing sub-system is on a separate database from the primary COD collection database, creating synchronization problems.
- The current process of adding new clients is time-consuming and costly.
- The current system does not interface with FTB's Interagency Offset Program and does not fully meet FTB's security requirements and privacy requirements of Section 1798.29 of the CA Civil Code (AB 700, Chapter 1054, September 2002).
- FTB staff is unable to query live data and create reports.
- The current system does not have a modeling/valuing functionality to prioritize the most critical cases for collection activity.
- Debtors are unable to view account information or make payments via web access.

Approving this request will allow FTB to offer the program to all of California's 58 counties. To continue with the program's expansion efforts, the department will request additional spending authority and PYs for FYs 2007/08 through 2009/10. This will ensure maximum revenue collection, at no cost to the state's general fund, and will best serve our clients.

Funds collected by the COD program are distributed by clients according to the State Controller Manual of Accounting and Audit Guidelines for Trial Courts (<http://www.sco.ca.gov/ard/manual/cntyman.pdf>).

COD's current level of staffing does not meet the potential growth in revenue and expansion of technology in the COD arena. By increasing the program staffing and by upgrading the current technology system, full collection potential can be realized.

For details of technical and staffing solutions, refer to the associated Feasibility Study Report (FTB FSR 05-01).

F. Analysis Of All Feasible Alternatives

Alternative #1 – Develop and Implement a New System for the COD Program and Increase Collection Staff at a Cost of \$4.46 Million and 32.4 PYs (34 Positions) in FY 2006/07.

This alternative represents a project that spans four fiscal years for a total cost of \$19.8 million, and would increase staff by 115.4 PYs. This proposal provides for an FTB development effort that incorporates contracted technical assistance, and best satisfies our defined objectives and functional requirements by expanding collection services to courts and counties statewide. FTB expects this alternative to generate additional revenue of \$17.6 million in FYs 2006/07 and 2007/08 and \$72 million annually in FY 2009/10, upon full implementation. Additional collection staff (6.7 PYs) would start in July 2006 and would maximize system capacity until the new system is available. By statute, the program is funded through actual collections; no State General Fund costs will be incurred to expand the program.

Alternative #2 – Enhance/Re-write Current COD System and Increase Collection Staff.

This alternative represents a total cost of \$20 million and would increase staff by 114.3 PYs. FTB Staff would rewrite the existing COD system to accommodate additional clients and perform functionality absent from the current system. The current system would require considerable documentation review and reconstruction prior to the rewrite since it lacks documentation. Additional collection staff (6.7 PYs) would start in July 2006 and would maximize system capacity until the updated system is available. The current COD system has critical design issues with the database structure and the billing batch jobs, and the system is out of compliance with FTB's current security standards. These flaws would necessitate a re-write of the entire application. Although the cost of this alternative is similar to Alternative 1, this alternative carries the burden of limited future flexibility and non-conformity with FTB's enterprise architecture, which

would ultimately lead to another re-write.

Alternative #3 – Implement a Commercial “Off-the-Shelf” Product for the COD Program Only and Increase Collection Staff

This alternative would cost \$23.5 million and would increase staff by 115.4 PYs. We conducted a market analysis (using the Request For Information process) in order to identify commercial “off-the-shelf” (COTS) solutions. None of the solutions were deemed cost effective due to the high degree of customization required and significantly higher implementation cost. Additionally, extended timeframes would be required to fully customize the base system and business processes, which do not meet the needs of our customers, and would have an adverse impact on future revenue.

NOTE: We have determined that the following three alternatives are not viable solutions. Therefore, the costs for these alternatives were not calculated. For more details on these alternatives, refer to the associated FSR (FTB FSR 05-01).

Alternative #4 – Implement a Commercial “Off-the-Shelf” Product for All Non-tax Debt Types

This alternative expands Alternative 3 to include all non-tax debt types. As explained above, a COTS solution would not provide the flexibility needed to support the complex nature of the system’s requirements without significant customization. Implementing a COTS solution for distinctly different debt types, each with their own common and unique requirements, would significantly increase the complexity of the customization, as well as negatively impact the projected implementation schedule. This is not a viable solution since it does not meet the specific legislative mandates of SB 246. Furthermore, this alternative would not meet the needs of our COD clients and would adversely impact future revenue due to the extended timeframes needed to complete the customization of the base system.

Alternative #5 – Develop and Implement a System for All Non-tax Debt Types

Developing a single system to support the distinctly different workload requirements of all non-tax debt types is not a viable solution, since it would adversely impact the program’s future revenue due to the extended timeframes needed to complete the customization of the base system for all non-tax debt types.

Alternative #6 – Use FTB’s Accounts Receivable Collection System (ARCS) for the COD Program

Using the ARCS system for the COD program is not a viable solution. Incorporating the COD collection program into the ARCS system would substantially increase the volume of cases, jeopardizing the infrastructure that currently operates the ARCS system. Due to the extensive customization required and the potential risk to the existing system, it is not feasible to use ARCS for COD.

G. Timetable

- Additional collection staff will start in July 2006.
- Phase 1, Database and Core Functionality, of the system implementation will start in July 2006 and conclude in September 2008.
- Phase 2, Required Collection Functionality, will begin in September 2008 and conclude in May 2009.
- Phase 3, External Reporting and Debtor Access, will begin in September 2008 and conclude in October 2009.

H. Recommendation

Alternative #1 is recommended: This alternative would expand the COD Program's collection activities, thereby increasing revenue benefiting each participating county's general fund in addition to numerous county and state funds. The system redesign will provide a much more stable and maintainable system well into the future. Finally, this alternative fulfills the requirements of SB 246 and generates approximately \$136 million annually to benefit participating county's general fund, in addition to numerous county and state general funds and agencies.

**STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL - COVER SHEET
 FOR FISCAL YEAR 2006/07
 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 60 Court Collections	ELEMENT 60 Court Collections	COMPONENT	

TITLE OF PROPOSED CHANGE:

Court Ordered Debt Expansion

SUMMARY OF PROPOSED CHANGE:

This proposal requests 32.4 PYs and \$4.46 million representing funding for year one of the Court Ordered Debt Expansion Project in support of SB 246. SB 246, Chapter 380, Statutes of 2004 (Escutia), requires the FTB, in consultation with the Judicial Council, to seek whatever additional resources are needed to accept collection referrals from all 58 counties. Approval of this request will benefit each participating county's general fund in addition to numerous county and state funds and agencies.

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"/> 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
Pending Board Approval			
PROGRAM APPROVED:	DATE	AGENCY SECRETARY:	DATE
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

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

YES NO

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

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

DATE PROJECT # FSR 05-01 FSR OR SPR

**DOF ANALYST USE
 (ADDITIONAL REVIEW)**

CAPITAL OUTLAY TIRU FSCU OSAE CALSTARS

BCP #5	DATE	07/25/2005		Title of Proposed Change:			
				Court Ordered Debt Expansion			
PROGRAM	ELEMENT	COMPONENT					
Court Collections	Court Collections						
		Personnel Years			Current Year	Budget Year	Budget Yr +1
		CY	BY	BY + 1			
Salary Savings		.0	34.0	34.0	\$ 0	\$ 2,081,000	\$ 2,081,000
		.0	-1.6	-1.6	\$ 0	-\$ 87,000	-\$ 87,000
Staff Benefits b/		.0	32.4	32.4	\$ 0	\$ 1,994,000	\$ 1,994,000
					\$ 0	\$ 692,000	\$ 692,000
					\$ 0	\$ 2,686,000	\$ 2,686,000
General Expenses /1					\$ 0	\$ 257,000	\$ 88,000
Printing /2					0	18,000	18,000
Communications /3					0	26,000	26,000
Postage /4					0	73,000	73,000
Travel-In-State					0	0	0
Travel Out-of-State					0	0	0
Training /5					0	176,000	27,000
Facilities Operations /6					0	11,000	11,000
Utilities					0	0	0
Cons & Prof Svs - Interdept'l					0	0	0
Cons & Prof Svs - External /7					0	986,000	3,600,000
Consolidated Data Center					0	0	
California Health and Human Services Agency Data Center					()	()	()
Stephen P. Teale Data Center					()	()	()
Data Processing /8					0	163,000	33,000
Equipment /9					0	59,000	0
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment /10					\$ 0	\$ 1,769,000	\$ 3,876,000

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

b/ Detail provided on following pages.

- /1 General Expense @ \$658 per position. Plus minor equipment @ \$1,784 per position. 32 PCs @ \$1,350 per position. 3 Laptops @ \$2,500 each. \$123,000 for consultant PC configuration packages.
- /2 Cost for additional printing of envelopes and notices.
- /3 Standard rate @ \$762 per position.
- /4 Cost for additional mailings.
- /5 Training needs for IT staff.
- /6 Facilities costs @ \$330 per position
- /7 Cost for software customization, \$812,000, and \$174,000 for IV&V Services.
- /8 Software for PCs @ \$500 per position and software purchase/license costs of \$146,000.
- /9 Equipment - Hardware costs for new system, \$59,000.
- /10 See page II-5 for BY+1 Detail.

Current Year Budget Year Budget Yr +1

\$ 0 \$ 1,769,000 \$ 3,876,000

\$ 0 \$ 0 \$ 0

\$ 0 \$ 0 \$ 0

\$ 0 \$ 0 \$ 0

\$ 0 \$ 4,455,000 \$ 6,562,000

\$ 0 \$ 4,455,000 \$ 6,562,000

0 0 0

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\$ 0 \$ 4,455,000 \$ 6,562,000

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

Appropriation No.

Org - Ref - Fund

Court Collection Fund

1730 001 0242

Reimbursements

Totals

Appropriation No.

Org - Ref - Fund

Reimbursements

Totals

\$ 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.

		<u>Positions</u>			<u>Salary Range</u>	<u>Amount</u>		
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
		<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>				
Assoc Info Systems Analyst	OT		0.0			\$ 0	\$ 9,000	
Mailing Machines Operator I	PERM	0.0	0.5		\$ 2,130 \$2,588	\$ 0	\$ 18,000	
Total Administrative Services Division		.0	.5	.0		\$ 0	\$ 27,000	\$ 0
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	.5	.0				

Assoc Info Systems Analyst	OT					\$ 0	\$ 10,000	
Acctg Officer Spec	PERM	0.0	0.5		\$ 3,589 \$4,363	\$ 0	\$ 24,000	
Total Finance & Executive Services Division		.0	.5	.0		\$ 0	\$ 34,000	\$ 0
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	.5	.0				

Administrator II	LT 38mos	0.0	1.0		\$ 5,208 \$6,329	\$ 0	\$ 69,000	
Staff Info Sys Analyst Spec	LT 38mos	0.0	2.0		\$ 4,732 \$5,754	\$ 0	\$ 126,000	
Principal Compliance Rep	LT 38mos	0.0	1.0		\$ 4,516 \$5,489	\$ 0	\$ 60,000	
Sr Compliance Rep.,Ftb	LT 38mos	0.0	2.0		\$ 4,316 \$5,247	\$ 0	\$ 115,000	
Sr Compliance Rep.,Ftb	PERM	0.0	1.0		\$ 4,316 \$5,247	\$ 0	\$ 57,000	
Compliance Rep, Ftb - Rg B	PERM	0.0	2.0		\$ 2,994 \$3,465	\$ 0	\$ 78,000	
Tax Program Tech II,Ftb	PERM	0.0	1.0		\$ 2,757 \$3,353	\$ 0	\$ 37,000	
Tax Technician, Ftb - Rg B	PERM	0.0	3.0		\$ 2,632 \$3,201	\$ 0	\$ 105,000	
Total Accounts Receivable Management Division		.0	13.0	.0		\$ 0	\$ 647,000	\$ 0
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	13.0	.0				

Tax Program Tech I, Ftb	PERM	0.0	0.5		\$ 2,465 \$2,998	\$ 0	\$ 16,000	
Key Data Operator - Rg B	PERM	0.0	1.0		\$ 2,289 \$2,780	\$ 0	\$ 30,000	
Tax Program Tech I, Ftb	TEMP	0.0	2.0		\$ 2,465 \$2,998	\$ 0	\$ 66,000	
Key Data Operator - Rg B	TEMP	0.0	0.5		\$ 2,289 \$2,780	\$ 0	\$ 15,000	
Total Filing Division		.0	4.0	.0		\$ 0	\$ 127,000	\$ 0
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	4.0	.0				

Assoc Info Systems Analyst	OT				\$ 0	\$ 126,000		
Asst Info Systems Analyst	OT				\$ 0	\$ 10,000		
Staff Prog Analyst Spec	OT				\$ 0	\$ 7,000		
Sys Software Spec I Tech	OT				\$ 0	\$ 78,000		
Assoc Info Systems Analyst	PERM	0.0	1.0	\$ 4,316	\$5,247	\$ 0	\$ 57,000	
Data Processing Mgr II	PERM	0.0	1.0	\$ 5,206	\$6,327	\$ 0	\$ 69,000	
Sr Info Systems Analyst Spec	PERM	0.0	1.0	\$ 5,206	\$6,327	\$ 0	\$ 69,000	
Sr Programmer Analyst Spec	PERM	0.0	1.0	\$ 5,206	\$6,327	\$ 0	\$ 69,000	
Staff Info Sys Analyst Spec	PERM	0.0	6.0	\$ 4,732	\$5,754	\$ 0	\$ 377,000	
Staff Prog Analyst Spec	PERM	0.0	1.0	\$ 4,732	\$5,754	\$ 0	\$ 63,000	
Sys Software Spec I Tech	PERM	0.0	3.0	\$ 4,731	\$5,753	\$ 0	\$ 189,000	
Sys Software Spec I Tech	LT 24mos	0.0	1.0	\$ 4,731	\$5,753	\$ 0	\$ 63,000	
Sys Software Spec II Tech	LT 18mos	0.0	1.0	\$ 5,196	\$6,316	\$ 0	\$ 69,000	
Total Technology Services Division		.0	16.0			\$ 0	\$ 1,246,000	\$ 0
Adjust for Part Year Positions		.0	1.0					
Net Positions/ PYs before salary savings		.0	15.0					
	Positions	.0	34.0			\$ 0	\$ 2,081,000	\$ 0
	Part Yr Adj	.0	1.0					
	P.Y.s	.0	33.0					

Staff Benefits

	2005/06	2006/07	2007/08
OASDI /1	\$ 0	\$ 123,000	\$ 0
Dental /2	0	16,000	0
Health /3	0	196,000	0
Retirement /4	0	285,000	0
Vision /5	0	2,000	0
Medicare /6	0	28,000	0
Worker's Comp /7	0	19,000	0
Industrial Disability /8	0	2,000	0
Non Industrial Disability /9	0	3,000	0
Unemployment Insurance /10	0	18,000	0
Total Staff Benefits	\$ 0	\$ 692,000	\$ 0

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

2/ For permanent, \$543 per net personnel year.

3/ For permanent, \$6,558 per net personnel year.

4/ For permanent, 17.022% of net salary.

5/ For permanent, \$85 per net personnel year.

6/ 1.45% of net salary for permanent.

7/ 1.1% of net salary for permanent.

8/ 0.1% of net salary for permanent.

9/ 0.17% of net salary for permanent.

10/ 22.57% of net salary for temporary help.

FRANCHISE TAX BOARD
 BCP #5 Court Ordered Debt Expansion
 BY+1 Detail

EXPENDITURES	Supplemental Schedule Information									
	Budget Year		One-Times		Partial Year Adjustments		New Positions or New OE&E For BY+1		Budget	
	PY	Amount	PY	Amount	PY	Amount	PY	Amount	PY	
Personal Services										
Total Salaries and Wages	34.0	2,081,000							1/	34.0
Salary Savings	1.6	(87,000)								1.6
Net Salaries and Wages	32.4	1,994,000	0.0	0						32.4
Staff Benefits		692,000								
Total Personal Services	<u>32.4</u>	<u>2,686,000</u>	<u>0.0</u>	<u>0</u>						<u>32.4</u>
Operating Expenses and Equipment										
General Expenses		257,000		(171,200)				2,000		
Printing		18,000								
Communications		26,000								
Postage		73,000								
Travel-In-State										
Travel-Out-of-State										
Training		176,000		(176,000)				27,000		
Facilities Operations		11,000								
Utilities										
Utilities										
Cons & Prof Svcs - Interdept'l		986,000						2,614,000		
Cons & Professional - Ext										
Consolidated Data Center										
Data Processing		163,000		(145,000)				15,000		
Equipment		59,000		(59,000)						
Other Items of Expenses										
Total Operating Exp & Equipment		<u>1,769,000</u>		<u>(551,200)</u>				<u>2,658,000</u>		
Total Funding		<u>4,455,000</u>		<u>(551,200)</u>				<u>2,658,000</u>		
For Information Only										
New Positions										
Salaries and Wages/New Positions									1/	

1/ = Same

get Year + 1
Display

Amount

2,081,000

(87,000)

1,994,000

692,000

2,686,000

88,000

18,000

26,000

73,000

0

0

27,000

11,000

0

0

0

3,600,000

0

33,000

0

0

3,876,000

6,562,000