

Franchise Tax Board
Fiscal Year 2010/11
Budget Change Proposals

2010/11 BCPs

BCP Issue	COST ESTIMATE (in thousands)	PY's	SUMMARY	FSR	Agency Date
TAX GAP					08/18/2009
Nonresident Withholding	\$344	4.7	Request an increase in staffing/funding of 4.7 PYs to increase compliance with nonresident withholding. The program has implemented education and outreach and discovery activities related to entertainment industry through a previous tax gap Budget Change Proposal (BCP). This effort is providing continued success and identification of new industries. These new industries such as the leasing and renting of California property by nonresident owners require additional staff to fully implement outreach activities and enforcement activities that may result.	N/A	
Compliance Enhancement - FY 08/09 BCP (ARM & Filing Division)	\$5,374	72.4	Request additional funding to extend existing limited term positions and address Compliance Enhancement Measure Initiatives. These Personnel Years (PYs) will expire June 30, 2010.	N/A	
FE - 1098 Mortgage Interest Factor	\$214	2.8	Request an increase in staffing/funding of 3 positions (2.8 PYs) to identify and estimate income of nonfilers using Form 1098 data.	N/A	
FE - 1099 Interest & 1099 Dividend	\$542	4.3	Request funding to revise the methodology for both the 1099 Interest and 1099 Dividend incomes by applying a factor to estimate the total income for a taxpayer.	N/A	
FE - Expand the use of the IRMF	\$1,016	6.6	Request funding to contact 12,000 additional nonfilers by using additional income sources. The IRS Information Return Master File (IRMF) is a database created under the Information Returns reporting requirements of the Internal Revenue Code (IRC). The file contains payer and payee interest, partnership/S Corporations distributions, gambling winnings and miscellaneous other categories.	N/A	
Expand Filing Enforcement Program to Include Limited Liability Companies (LLC's)	\$678	9.1	Request an increase in staffing/funding to increase compliance with return filing. FE currently coordinates the DLC program for Corporations. INC will pick up and pursue cases where specific income information has been reported and will process a FE case. Annually, over 200,000 corporations receive notices through the DLC process and FTB receives over \$50 million in revenue. Expanding the program to LLCs will further close the tax gap by prompting filing compliance with this large universe of business entities.	N/A	
Sub-Total Tax Gap	\$8,168	99.9			

Franchise Tax Board
Fiscal Year 2010/11
Budget Change Proposals

BCP Issue	COST ESTIMATE (in thousands)	PY's	SUMMARY	FSR	Agency Date
EDR					
Enterprise to Data Revenue	\$7	37.9	Request funding to continue with the implementation of the Enterprise to Data Revenue (EDR) project, which is strategically directed at providing a significant revenue generating and cost savings solution. This proposal represents the second year of the EDR project. The department requires an augmentation in FY 2010/11 to fund the following: a. Acquire project management consultant support services. b. Acquire project oversight services. c. Acquire the services of cost estimating consultant. d. Purchase the necessary hardware and software for the additional image data capture. e. Hire the additional permanent program staff needed to address revenue generating backlog cleanup.	08-05	08/18/2009
Limited Liability					
Limited Liability Company Protective Claims	\$172	2.8	Request funding and 3 one-year limited term positions (2.8 PYs) to process refunds resulting from the court of appeals decision in Ventas Finance, LLC v Franchise Tax Board. This request will extend the two-year limited term positions received in FL #3 in FY 08/09.	N/A	08/11/2009
Contact Centers					
Contact Center Resources	\$3,594	53.0	Request funding of \$3.6 million and an augmentation of 56 positions (53.0 PYs), to enable the contact center to attain a level of access performance goal of answering 70% of incoming calls. Given the current economic climate and in an effort to be fiscally responsible, we are adjusting our performance goal to a lower than industry standard level of access.	N/A	08/14/2009
Court Ordered Debt (COD)					
Court Ordered Debt (COD) Collections Program	\$903	7.6	Request the conversion of 8 Limited Term (LT) positions to Permanent to support the COD Collections Program.	N/A	08/11/2009
Security Workload Growth					
Security Workload Growth	\$447	4.7	Request 5 positions (4.7 PYs) and associated funding to accommodate workload growth associated with increased demands for securing FTB's critical assets and ensuring confidentiality and privacy of taxpayer information. These positions will replace 5 limited term positions set to expire in FY 2010/11.	N/A	08/12/2009
FTOP					
Federal Treasury Offset Program	\$847	10.4	Request 11 positions and \$847,000 to offset Federal overpayments, including income tax refunds and stimulus payments to satisfy delinquent Personal and Corporation Income Tax debts.	09-01	08/18/2009

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BCP Issue	COST ESTIMATE (in thousands)	PY's	SUMMARY	FSR	Agency Date
IT Refresh					
IT Refresh	\$2,642	0.0	Request funding to replace end-of life and/or end-of-support infrastructure devices/equipment that are essential to the filing of California income tax returns and the associated collection and processing of payments.	09-03	08/14/2009
Legislative BCP					
SBX4-16 Discharge FTB From Collecting Tax Debts Less Than \$500/State Agency Collection Fee On Accounts Receivables/Penalty For Late Payment Of Undisputed Invoice By State Agency			Request funding to implement all of the enacted legislative bills that have costs to the department.	N/A	08/13/2009
ABX4-17 Est Payments/Wage Withholding					
SBX2-15/SBX3-15 Economic Stimulus Tax Provisions					
Sub-Total Legislative BCP	\$665	3.2			
TOTAL COST/PY's	\$17,445	219.5			

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)
Please report dollars in thousands.**

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

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

TITLE OF PROPOSED CHANGE:

Tax Gap Enforcement

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$8.2 million and a total of 105.2 positions (99.9 PYs) for FY 2010/11 to continue with existing tax gap enforcement activities and to develop new initiatives that would further help close that gap.

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

DATE PROJECT # FSR OR SPR

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

YES
 NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #1	DATE	Title of Proposed Change:
PROGRAM	August 18, 2009	Tax Gap Enforcement
Tax Programs	ELEMENT	COMPONENT
	All Tax Programs	

	<u>Personnel Years</u>			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>			
Total Salaries & Wages a/	.0	105.2	105.2	\$ 0	\$ 4,949,000	\$ 4,949,000
Salary Savings	.0	-5.3	-5.3	\$ 0	-\$ 243,000	-\$ 243,000
Net Total Salaries and Wages	.0	99.9	99.9	\$ 0	\$ 4,706,000	\$ 4,706,000
Staff Benefits b/				\$ 0	\$ 2,053,000	\$ 2,053,000
Total Personal Services				\$ 0	\$ 6,759,000	\$ 6,759,000

Operating Expenses and Equipment

General Expenses /1		\$ 0	129,000	\$ 92,000
Printing /2		0	91,000	91,000
Communications /3		0	101,000	101,000
Postage /4		0	432,000	432,000
Travel-In-State /5		0	12,000	12,000
Travel Out-of-State		0	0	0
Training		0	0	0
Facilities Operations		0	0	0
Utilities		0	0	0
Cons & Prof Svs - Interdept'l		0	0	0
Cons & Prof Svs - External /6		0	115,000	115,000
Consolidated Data Center		0	0	0
California Health and Human Services Agency Data Center	()	()
Stephen P. Teale Data Center	()	()
Data Processing /7		0	529,000	149,000
Equipment /8		0	0	0
Other Items of Exp (Specify Below)		0	0	0
Total Operating Expense & Equipment		\$ 0	\$ 1,409,000	\$ 992,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$879 per position. Plus minor equipment @ \$1168 per new position. Plus 5 30SD phones @ \$332 per phone.

/2 Printing Costs @ \$106 per position. Plus the cost for additional mailings.

/3 Communication costs @ \$962 per position.

/4 Postage Costs for additional mailings.

/5 Travel to industry events.

/6 Includes Vendor Address Contract & Consulting Services, Address File, and online tools subscription services.

/7 Software and Hardware for PCs 21 @ \$1691 per PC and 8 @ \$2776 per PC. \$184 on-going cost for desktops and \$209 for notebooks. Plus 4 color monitors and dual monitor cards, Websphere Licenses, and SAN Performance Software.

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 1,409,000	\$ 992,000

SPECIAL ITEMS OF EXPENSE d/

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

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

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0	\$ 8,168,000	\$ 7,751,000
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Source of Funds

Appropriation No.

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

\$ 0	\$ 8,168,000	\$ 7,751,000
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	0	0
\$ 0	\$ 8,168,000	\$ 7,751,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

\$(0)	\$(0)	\$(0)
\$ 0	\$ 0	\$ 0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
\$ 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 2009/10	BY 2010/11	BY + 1 2011/12			CY	BY	BY + 1
Administrative Services Division									
Assoc Personnel Analyst	PERM	0.0	1.0	1.0	\$ 4,400	\$ 5,348	\$ 0	\$ 58,000	\$ 58,000
Assoc Personnel Analyst	PERM	0.0	1.0	1.0	\$ 4,400	\$ 5,348	\$ 0	\$ 58,000	\$ 58,000
Mailing Machines Operator I	TEMP	0.0	0.2	0.2	\$ 2,280	\$ 2,770	\$ 0	\$ 6,000	\$ 6,000
Mailing Machines Operator I - Rg B	OT				\$ 2,468	\$ 2,998	\$ 0	\$ 1,000	\$ 1,000
Total Administrative Services Division		.0	2.2	2.2			\$ 0	\$ 123,000	\$ 123,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	2.2	2.2					
Finance & Executive Services Division									
Acctg Officer Spec	PERM	0.0	1.0	1.0	\$ 3,841	\$ 4,670	\$ 0	\$ 51,000	\$ 51,000
Assoc Operations Spec/Ftb	OT				\$ 4,400	\$ 5,348	\$ 0	\$ 44,000	\$ 44,000
Total Finance & Executive Services Division		.0	1.0	1.0			\$ 0	\$ 95,000	\$ 95,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	1.0	1.0					
Accounts Receivable Management Division									
Administrator I	PERM	0.0	3.0	3.0	\$ 5,076	\$ 6,476	\$ 0	\$ 208,000	\$ 208,000
Administrator II	PERM	0.0	1.0	1.0	\$ 5,573	\$ 7,113	\$ 0	\$ 76,000	\$ 76,000
Compliance Rep, Ftb - Rg B	PERM	0.0	36.0	36.0	\$ 3,204	\$ 3,708	\$ 0	\$ 1,493,000	\$ 1,493,000
Sr Compliance Rep.,Ftb	PERM	0.0	5.0	5.0	\$ 4,619	\$ 5,616	\$ 0	\$ 307,000	\$ 307,000
Tax Technician, Ftb - Rg B	PERM	0.0	2.0	2.0	\$ 2,817	\$ 3,426	\$ 0	\$ 75,000	\$ 75,000
Tax Program Tech I, Ftb	PERM	0.0	3.0	3.0	\$ 2,638	\$ 3,209	\$ 0	\$ 105,000	\$ 105,000
Administrator I	LT	0.0	1.0	1.0	\$ 5,076	\$ 6,476	\$ 0	\$ 69,000	\$ 69,000
Compliance Rep, Ftb - Rg B	LT	0.0	7.0	7.0	\$ 3,204	\$ 3,708	\$ 0	\$ 290,000	\$ 290,000
Sr Compliance Rep.,Ftb	LT	0.0	5.0	5.0	\$ 4,619	\$ 5,616	\$ 0	\$ 307,000	\$ 307,000
Tax Program Tech II,Ftb	LT	0.0	1.0	1.0	\$ 2,951	\$ 3,588	\$ 0	\$ 39,000	\$ 39,000
Total Accounts Receivable Management Division		.0	64.0	64.0			\$ 0	\$ 2,969,000	\$ 2,969,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	64.0	64.0					
Filing Division									
Assoc Operations Spec/Ftb	PERM	0.0	1.0	1.0	\$ 4,400	\$ 5,348	\$ 0	\$ 58,000	\$ 58,000
Compliance Rep, Ftb - Rg B	PERM	0.0	6.0	6.0	\$ 3,204	\$ 3,708	\$ 0	\$ 249,000	\$ 249,000
Customer Service Specialist - Rg B	PERM	0.0	1.0	1.0	\$ 3,050	\$ 3,708	\$ 0	\$ 41,000	\$ 41,000
Sr Compliance Rep.,Ftb	PERM	0.0	1.0	1.0	\$ 4,619	\$ 5,616	\$ 0	\$ 61,000	\$ 61,000
Tax Technician, Ftb - Rg B	PERM	0.0	10.0	10.0	\$ 2,817	\$ 3,426	\$ 0	\$ 375,000	\$ 375,000
Tax Program Assistant - Rg B	PERM	0.0	3.0	3.0	\$ 2,074	\$ 2,519	\$ 0	\$ 83,000	\$ 83,000
Tax Program Tech I, Ftb	PERM	0.0	7.5	7.5	\$ 2,638	\$ 3,209	\$ 0	\$ 263,000	\$ 263,000
Tax Program Tech I, Ftb	PERM	0.0	0.5	0.5	\$ 2,638	\$ 3,209	\$ 0	\$ 18,000	\$ 18,000
Total Filing Division		.0	30.0	30.0			\$ 0	\$ 1,148,000	\$ 1,148,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	30.0	30.0					
Technology Services Division									
Sr Programmer Analyst Spec	PERM	0.0	4.0	4.0	\$ 5,571	\$ 7,109	\$ 0	\$ 304,000	\$ 304,000
Staff Info Sys Analyst Spec	PERM	0.0	4.0	4.0	\$ 5,065	\$ 6,466	\$ 0	\$ 277,000	\$ 277,000
Assoc Info Systems Analyst	OT				\$ 4,619	\$ 5,897	\$ 0	\$ 14,000	\$ 14,000
Sr Info Systems Analyst Spec	OT				\$ 5,571	\$ 7,109	\$ 0	\$ 19,000	\$ 19,000
Total Technology Services Division		.0	8.0	8.0			\$ 0	\$ 614,000	\$ 614,000
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	105.2	105.2			\$ 0	\$ 4,890,000	\$ 4,890,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	105.2	105.2					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits

	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 293,000	\$ 293,000
Dental /2	0	53,000	53,000
Health /3	0	826,000	826,000
Retirement /4	0	766,000	766,000
Vision /5	0	11,000	11,000
Medicare /6	0	68,000	68,000
Worker's Comp /7	0	32,000	32,000
Industrial Disability /8	0	1,000	1,000
Non Industrial Disability /9	0	2,000	2,000
Unemployment Insurance /10	0	1,000	1,000
Total Staff Benefits	\$ 0	\$ 2,053,000	\$ 2,053,000

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

2/ For permanent, \$539 per net personnel year.

3/ For permanent, \$8,289 per net personnel year.

4/ For permanent, 16.574% of net salary.

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

6/ 1.45% of net salary for permanent.

7/ 0.7% of net salary for permanent.

8/ 0.03% of net salary for permanent.

9/ 0.05% of net salary for permanent.

10/ 8.94% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2010/11

Budget Change Proposal

BCP No. 1

Tax Gap Enforcement

Date: August 18, 2009

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of \$8.2 million and a total of 105.2 positions (99.9 PYs) for FY 2010/11 to continue with existing tax gap enforcement activities and to develop new initiatives that would further help close that gap. This proposal will result in an estimated \$120 million in FY 2010/11 and approximately \$139 million in FY 2011/12.

In light of the fiscal issues facing the state of California, we continue to look for additional ways of maximizing revenue collections and reducing the tax gap. This proposal includes several initiatives that will achieve both. For a summary of positions, costs, and revenue related to the initiatives covered in this BCP, please refer to Attachments 1 and 2. The initiatives can be grouped into two major categories. The first group consists of those initiatives that are continuing tax gap initiatives. To continue with these initiatives, we are requesting \$5.7 million and 81.2 positions in FY 2010/11. These continuing initiatives are expected to generate approximately \$114 million in FY 2010/11 and \$119 in FY 2011/12. These continuing initiatives include:

1. Increase Compliance with Nonresident Withholding
2. Extend Compliance Enhancement Measures

The second group consists of two new initiatives. To support these new initiatives, we are requesting an augmentation of \$2.5 million and 24 positions in FY 2010/11. With this funding we expect to generate revenue of \$6 million in FY 2010/11 and \$20 million ongoing. These new proposals will:

3. Strengthen Filing Enforcement by Maximizing the Use of Non-filer Data
4. Expand Delinquency Control (DLC) program to Include Limited Liability Companies (LLCs)

B. Background

The tax gap is described as the difference between what taxpayers should pay and what is actually paid. California's income tax gap has grown over the years to approximately \$6.5 billion today. This gap has put an additional burden on those paying their fair share and creates an unnecessary strain on the state's general fund. Our system of voluntary tax compliance depends on our citizens believing the tax system is fair and equitable to all. Although we may never completely close the state's tax gap, we

are confident we can reduce it through a balanced approach of education and outreach combined with reasonably stepped-up enforcement action.

The benefits of the initiatives discussed in this proposal should be assessed not only in terms of enforcement related revenue gains, but also through increased voluntary compliance in the future and the overall impact on taxpayer behavior. We anticipate that growing federal and state economic woes, mounting consumer debt, and declining real estate markets may have additional negative impacts on voluntary tax compliance that lead us to a crossroads. The “carrot and stick” methods used to get the noncompliant taxpayers to step up to the plate and pay their fair share of taxes worked well in the past but, to make any significant headway, we need to continue to adopt additional innovative, comprehensive and proactive methods.

Continuing Initiatives

The FTB has made considerable strides since the first tax gap BCP in FY 2005/06 to combat a variety of elements contributing to this ever-growing issue. This proposal builds upon the successes of past tax gap enforcement efforts which provide the rationale for FTB to seek additional funding for these continuing initiatives. The FY 2005/06 and 2007/08 Tax Gap BCPs have generated revenue of \$330 million, exceeding the planned revenue estimates by \$82 million.

1. Increase Compliance with Nonresident Withholding

Cost: 5 positions, \$344,000

Revenue: \$8 million in FY 2010/11, increasing to \$15 million in FY 2011/12, \$16.5 million in FY 2012/13, and ongoing revenue of \$18.2 million beginning in FY 2013/14.

We are requesting funding to increase compliance with nonresident withholding by pursuing new outreach, education, and discovery activities. In FY 2007/08, we received funding through the tax gap BCP to focus on noncompliance with nonresident withholding solely within the entertainment industry. These efforts have proven successful and have resulted in significant withholding increases and in the number of payees. With this proposal, we intend to target specific industries based on recommendations from our education and outreach and discovery staff.

2. Extend Compliance Enhancement Measures

Cost: 76.2 positions (62.2 permanent positions to replace 62.2 limited-term positions and extend 14 two-year limited-term positions), \$5.4 million

Revenue: \$106 million in FY 2010/11, \$104 million in FY 2011/12, and ongoing revenue of \$95 million beginning in FY 2012/13.

We are requesting funding for 62.2 permanent positions to replace 62.2 limited-term positions and to extend 14 two-year limited-term positions. These positions were authorized through the Compliance Enhancement Measures BCP, which was approved in FY 2008/09 to help close the tax gap and raise revenue for the state. The positions are set to expire on June 30, 2010. The requested funding will enable FTB to continue the following initiatives: New Data Source Pilot- DMV Luxury Auto Registration, Vendor Contract-Identify Good/Mailable Addresses for Non-filers with

Bad Addresses, and initial use of the IRS Information Return Master File (IRMF). Allowing these positions to expire will result in a significant loss of revenue.

New Initiatives

The new initiatives described below are aimed at known noncompliance problems that make up large segments of the overall tax gap.

3. Strengthen Filing Enforcement by Maximizing the Use of Non-filer Data

We are requesting funding to make system and capacity enhancements that will allow us to maximize the use of three key sources of non-filer data. These three sources are:

- a. 1098 Mortgage Interest Paid Data
- b. 1099 Interest and 1099 Dividend Income Data
- c. IRS Information Return Master File (IRMF) Data

When implemented, these improvements will allow the Filing Enforcement program to identify an additional 54,000 individual and business entity non-filers annually.

a. 1098 Mortgage Interest Paid

Cost: 3 positions, \$214,000

Revenue: \$1 million in 2010/11, \$4 million in 2011/12, \$5 million in 2012/13, increasing to \$7 million in annual revenue in the later fiscal years.

The Filing Enforcement program uses Form 1098 information to identify and estimate the income of non-filers. Form 1098 reports the amount of interest paid on any debt secured by real property. FTB receives approximately six million Form 1098s each year and contacts nearly 60,000 non-filers annually based on this data. In the initial mortgage interest study, conducted in 1996, it was determined that four-to-one was the preferred minimum ratio of income to mortgage payment that financial institutions used to qualify an individual for a mortgage. FTB staff recently completed a study using actual income to mortgage interest reported on tax returns for tax years 1998 to 2006 and concluded that we should now be applying a ratio of eight-to-one to estimate income.

b. 1099 Interest and 1099 Dividend Income Data

Cost: 4.5 positions, \$542,000

Revenue: \$3 million in 2010/11, \$9 million in 2011/12, \$12 million in 2012/13.

The Filing Enforcement program uses the interest and dividend income reported on Forms 1099-INT and 1099-DIV to identify non-filers. Currently, FTB receives more than 30 million interest and dividend records annually. We use these records and information from other income sources (wages, rents, royalties, etc) to calculate each non-filers total income. FTB staff recently completed studies that indicated we should be applying a ratio of 12 to 1 for dividend income and 10 to 1 for interest income to estimate total income of non-filers.

c. IRS Information Return Master File (IRMF) Data

Cost: 7 positions, \$1 million

Revenue: \$1 million in 2010/11, \$3 million in 2011/12, \$4 million in 2012/13, increasing to \$5 million in annual revenue in the later fiscal years.

The IRMF is a database created by the IRS under the Information Returns reporting requirements of the Internal Revenue Code (IRC). The file contains more than 250 million records and constitutes the majority of income data reported to the IRS for California taxpayers. FTB currently uses portions of this data in its Filing Enforcement program and has determined that we could use additional information from the IRMF to identify non-filers. This information includes gambling winnings, government payments and payments made by partnerships, estates and trusts.

4. Expand Delinquency Control (DLC) Program to Include Limited Liability Companies (LLCs)

Cost: 9.5 positions, \$678,000

Revenue: \$1 million in 2010/11, \$4 million in 2011/12, \$5 million in 2012/13.

Each year, FTB contacts approximately 150,000 corporations through a Delinquency Control program. Those corporate taxpayers that are qualified or incorporated to do business in California but have not filed a return will get noticed through this process. Annually, this program generates over \$50 million in revenue. This initiative proposes expanding this program to include LLCs.

By expanding the Delinquency Control program to include LLCs, we estimate an additional 59,000 taxpayers will be contacted per year. The additional contacts will result in approximately \$21 million in total revenue during the first 5 fiscal years and increasing to more than \$7 million in annual revenue in later fiscal years.

These new initiatives will also require one overhead position.

C. State Level Considerations

These proposals are a continuation of FTB's comprehensive effort to narrow the state's \$6.5 billion tax gap. What we achieved during the past three years is significant and we will continue to take action to close the tax gap and combat a variety of elements that contribute to this ever-growing issue. 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 its departments could be substantial if these efforts are not continued and developed.

Implementing this proposal does not directly impact other state agencies.

D. Facility/Capital Outlay Considerations

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

E. Justification

This proposal continues to take several necessary steps toward closing the tax gap of California, soundly supporting FTB's mission to fairly and effectively administer the state's tax system. The added revenue coupled with the improvement to taxpayer compliance will provide many long-term benefits. Benefits that not only increase the general fund, but also improve public perception and awareness in order to fully buy in to and accurately participate in the taxation process for the benefit of all Californians.

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 committee was created in 2006 and has completed three successful years of operation. 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 of All Feasible Alternatives

Alternative # 1: Approve full request for \$8.2 million and 105.2 positions.

This allows us to continue existing tax gap activities already underway, while also moving forward to implement new initiatives to generate revenue and increase voluntary compliance over the longer term. By incorporating all of these 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.

Alternative # 2: Approve continuing initiatives for \$5.7 million and 81.2 positions.

This alternative does not provide the resources needed for the proposed new initiatives. While the continuing initiatives will generate revenue in the short-term, this approach hampers our ability to adequately address this long term, chronic problem.

Alternative #3: Approve new initiatives for \$2.5 million and 24 positions.

This alternative does not recognize our past successes in addressing the tax gap and would result in a significant loss of revenue. The FY 2005/06 and FY 2007/08 Tax Gap BCPs have generated \$330 million in revenue, exceeding the planned revenue estimates by \$82 million.

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 within this proposal on July 1, 2010.

I. Recommendation

Alternative 1 is recommended. This proposal should be viewed as a corporate approach rather than several separate and disconnected proposals. The continuing initiatives are primarily tactical in scope, and will continue to focus on quick strike efforts to produce improvements in compliance as well as generate revenue. The new initiatives provide a foundation for longer-term and more strategic solutions to the tax gap problem and tie to FTB's document entitled: "Tax Gap Plan: A Strategic Approach for Reducing California's Tax Gap." These new initiatives, while providing revenue in the short term begin to have a positive impact on voluntary compliance and provide a good opportunity to produce far greater amounts of self-assessed revenue in FY 2010/11 and beyond.

Attachment 1
Tax Gap Enforcement Initiatives (Continuing)
FY 2010/11
(Dollars in thousands)

ALLOTMENTS	Initiative #1 Increase Compliance with Nonresident Withholding		Initiative #2 Extend Compliance Enhancement Measures		BY 2010/11 Continuing Initiatives TOTAL	
	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services						
Total Salaries and Wages	5.0	208	76.2	3,466	81.2	\$3,674
Salary Savings	-0.3	-10	-3.8	-170	-4.1	-\$180
Net Salaries and Wages	<u>4.7</u>	<u>198</u>	<u>72.4</u>	<u>3,296</u>	<u>77.1</u>	<u>\$3,494</u>
Staff Benefits		92		1,460		\$1,552
Net Total Personal Services	<u>4.7</u>	<u>290</u>	<u>72.4</u>	<u>4,756</u>	<u>77.1</u>	<u>\$5,046</u>
Operating Expense & Equipment						
General Expense		12		67		\$79
Printing		11		48		\$59
Communications		5		73		\$78
Postage		1		316		\$317
Travel-In-State		12				\$12
Travel-Out-of-State						\$0
Training						\$0
Facilities Operations						\$0
Utilities						\$0
Cons & Prof Svs - External		5		100		\$105
Data Processing		8		14		\$22
Equipment						\$0
Total OE & E		<u>54</u>		<u>618</u>		<u>\$672</u>
Total Expenditures	<u>4.7</u>	<u>344</u>	<u>72.4</u>	<u>5,374</u>	<u>77.1</u>	<u>5,718</u>
FUNDING						
General Fund (1730-001-0001)		344		5,374		5,718
Total		<u>344</u>		<u>5,374</u>		<u>\$5,718</u>
ANTICIPATED 2010/11 REVENUE/BENEFITS		\$8,000		\$106,300		\$114,300
ANTICIPATED 2011/12 REVENUE/BENEFITS		\$15,000		\$104,300		\$119,300

Attachment 1
Tax Gap Enforcement Initiatives (New)
FY 2010/11
(Dollars in thousands)

ALLOTMENTS	Initiative #3a		Initiative #3b		Initiative #3c		Initiative #4		BY 2010/11 New Initiatives TOTAL		BY 2010/11 TAX GAP TOTAL	
	Filing Enforcement - 1098 Mortgage Interest Paid Data		Filing Enforcement - 1099 Interest and 1099 Dividend Income Data		Filing Enforcement - IRS Information Return Master File (IRMF)		Expand Delinquency Control (DLC) Program to Include Limited Liability Companies (LLCs)					
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
Personal Services												
Total Salaries and Wages	3.0	131	4.5	238	7.0	516	9.5	390	24.0	\$1,275	105.2	\$4,949
Salary Savings	-0.2	-6	-0.2	-12	-0.4	-25	-0.4	-20	-1.2	-\$63	-5.3	-\$243
Net Salaries and Wages	2.8	125	4.3	226	6.6	491	9.1	370	22.8	\$1,212	99.9	\$4,706
Staff Benefits		54		96		178		173		\$501		\$2,053
Net Total Personal Services	2.8	179	4.3	322	6.6	669	9.1	543	22.8	\$1,713	99.9	\$6,759
Operating Expense & Equipment												
General Expense		7		9		14		20		\$50		\$129
Printing		3		7		9		13		\$32		\$91
Communications		3		4		7		9		\$23		\$101
Postage		17		34		10		54		\$115		\$432
Travel-In-State												\$12
Travel-Out-of-State												\$0
Training												\$0
Facilities Operations												\$0
Utilities												\$0
Cons & Prof Svcs - External						10				\$10		\$115
Data Processing		5		166		297		39		\$507		\$529
Equipment										\$0		\$0
Total OE & E		35		220		347		135		\$737		\$1,409
Total Expenditures	2.8	214	4.3	542	6.6	1,016	9.1	678	22.8	2,450	99.9	8,168
FUNDING												
General Fund (1730-001-0001)		214		542		1,016		678		2,450		8,168
Reimbursements												0
Total		214		542		1,016		678		2,450		8,168
ANTICIPATED 2010/11 REVENUE/BENEFITS		\$1,000		\$3,000		\$1,000		\$1,000		\$6,000		\$120,300
ANTICIPATED 2011/12 REVENUE/BENEFITS		\$4,000		\$9,000		\$3,000		\$4,000		\$20,000		\$139,300

Attachment 2
Tax Gap Enforcement Initiatives
FY 2010/11
(Dollars in thousands)

Initiative #		FY 2010/11		Revenue				
		BCP Cost	Positions	2010/11	2011/12	2012/13	2013/14	2014/15
	<u>Continuing Initiatives</u>							
1	Increase Compliance with Nonresident Withholding	\$344	5.0	\$8,000	\$15,000	\$16,500	\$18,200	\$18,200
2	Extend Compliance Enhancement Measures	\$5,374	76.2	\$106,300	\$104,300	\$95,000	\$95,000	\$95,000
	<u>New Initiatives</u>							
3	Strengthen Filing Enforcement by Maximizing the Use of Non-filer Data							
	a. 1098 Mortgage Interest Paid Data	\$214	3.0	\$1,000	\$4,000	\$5,000	\$6,000	\$7,000
	b. 1099 Interest and 1099 Dividend Income Data	\$542	4.5	\$3,000	\$9,000	\$12,000	\$14,000	\$16,000
	c. IRS Information Return Master File (IRMF)	\$1,016	7.0	\$1,000	\$3,000	\$4,000	\$5,000	\$5,000
4	Expand Delinquency Control (DLC) Program to Include Limited Liability Companies (LLCs)	\$678	9.5	\$1,000	\$4,000	\$5,000	\$5,000	\$6,000
	TOTAL CONSOLIDATED TAX GAP BCP:	\$8,168	105.2	\$120,300	\$139,300	\$137,500	\$143,200	\$147,200

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

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

TITLE OF PROPOSED CHANGE:

Enterprise Data to Revenue Project

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board is requesting funding of \$6.9 million and 40 positions for FY 2010/11 to continue implementation of the Enterprise Data to Revenue (EDR) project, which is strategically directed at providing a profound revenue generating and cost savings solution.

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 checked="" type="checkbox"/> FUTURE SAVINGS <input checked="" type="checkbox"/> REVENUE
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PREPARED BY FTB PROGRAM APPROVAL	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 IT REQUESTS, SPECIFY THE DATE A SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO), OR PREVIOUSLY BY THE DEPARTMENT OF FINANCE.

DATE Approved 1/10/2009 PROJECT # 1730-191 FSR OR SPR

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

YES NO ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #2	DATE	Title of Proposed Change:					
PROGRAM	August 18, 2009	Enterprise Data to Revenue Project					
Tax Programs	ELEMENT	COMPONENT					
	All Tax Programs						
		<u>Personnel Years</u>					
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
Total Salaries & Wages <u>a/</u>		.0	40.0	112.0	\$ 0	\$ 1,591,000	\$ 6,721,000
Salary Savings		.0	-2.1	-5.8	\$ 0	-\$ 80,000	-\$ 335,000
Net Total Salaries and Wages		.0	37.9	106.2	\$ 0	\$ 1,511,000	\$ 6,386,000
Staff Benefits <u>b/</u>					\$ 0	\$ 716,000	\$ 2,533,000
Total Personal Services					\$ 0	\$ 2,227,000	\$ 8,919,000
Operating Expenses and Equipment							
General Expenses /1					\$ 0	\$ 88,000	\$ 182,000
Printing /2					0	10,000	20,000
Communications /3					0	38,000	108,000
Postage /4					0	16,000	25,000
Travel-In-State /5					0	0	158,000
Travel Out-of-State					0	0	0
Training /6					0	0	528,000
Facilities Operations					0	0	0
Utilities					0	0	0
Cons & Prof Svs - Interdept'l /7					0	283,000	0
Cons & Prof Svs - External /8					0	1,274,000	2,448,000
Consolidated Data Center					0	0	0
California Health and Human Services Agency Data Center					()	()	()
Stephen P. Teale Data Center					()	()	()
Data Processing /9					0	2,999,000	1,410,000
Equipment					0	0	0
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment					\$ 0	\$ 4,708,000	\$ 4,879,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$879 per position. Plus minor equipment @ \$1168 per new position
 FY 2010/11 includes display phones 9 @ \$300 and wireless headsets 7 @ 386.

/2 Printing Costs @ \$106 per position. Plus one-time printing needs of \$6,000 in FY 2010/11 and \$8,000 in 2011/12.

/3 Communication costs @ \$962 per position.

/4 Postage costs for additional mailings.

/5 Travel to training events.

/6 Required training for IT staff.

/7 DGS procurement analyst.

/8 FY 2010/11 includes project management consultant support services, cost estimating services, and project oversight.
 FY 2011/12 includes project management consultant support services and IV&V.

/9 Software and hardware for PCs plus additional software and hardware purchase, licenses and maintenance.

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 4,708,000	\$ 4,879,000

SPECIAL ITEMS OF EXPENSE *d/*

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

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

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0	\$ 6,935,000	\$ 13,798,000
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Source of Funds

Appropriation No.

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

\$ 0	\$ 6,935,000	\$ 13,798,000
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	0	0
\$ 0	\$ 6,935,000	\$ 13,798,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

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

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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	CY	Amount		BY + 1
		CY 2009/10	BY 2010/11	BY + 1 2011/12			BY	BY + 1	
Administrative Services Division									
Personnel Specialist - Rg B	PERM	0.0	1.0	2.0	\$ 2,993	\$ 3,640	\$ 0	\$ 40,000	\$ 80,000
Materials & Stores Spec	PERM	0.0	1.0	3.0	\$ 2,877	\$ 3,420	\$ 0	\$ 38,000	\$ 113,000
Bus Services Officer I Spec	PERM	0.0	1.0	1.0	\$ 3,658	\$ 4,446	\$ 0	\$ 49,000	\$ 49,000
Mailing Machines Operator I	PERM	0.0	0.0	1.0	\$ 2,280	\$ 2,770	\$ 0	\$ 0	\$ 30,000
Total Administrative Services Division		.0	3.0	7.0			\$ 0	\$ 127,000	\$ 272,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	3.0	7.0					
Finance & Executive Services Division									
Acctg Officer Spec	PERM	0.0	0.0	1.0	\$ 3,841	\$ 4,670	\$ 0	\$ 0	\$ 51,000
Total Finance & Executive Services Division		.0	.0	1.0			\$ 0	\$ 0	\$ 51,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	1.0					
Accounts Receivable Management Division									
Administrator I	PERM	0.0	1.0	1.0	\$ 5,076	\$ 6,476	\$ 0	\$ 69,000	\$ 69,000
Sr Compliance Rep.,Ftb	PERM	0.0	1.0	1.0	\$ 4,619	\$ 5,616	\$ 0	\$ 61,000	\$ 61,000
Tax Technician, Ftb - Rg B	PERM	0.0	6.0	6.0	\$ 2,817	\$ 3,426	\$ 0	\$ 225,000	\$ 225,000
Tax Program Tech I, Ftb	PERM	0.0	1.0	1.0	\$ 2,638	\$ 3,209	\$ 0	\$ 35,000	\$ 35,000
Total Accounts Receivable Management Division		.0	9.0	9.0			\$ 0	\$ 390,000	\$ 390,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	9.0	9.0					
Filing Division									
Tax Program Tech I, Ftb	PERM	0.0	22.0	22.0	\$ 2,638	\$ 3,209	\$ 0	\$ 772,000	\$ 772,000
Tax Program Tech II, Ftb	PERM	0.0	3.0	3.0	\$ 2,951	\$ 3,588	\$ 0	\$ 118,000	\$ 118,000
Tax Program Supervisor	PERM	0.0	1.0	1.0	\$ 3,101	\$ 3,771	\$ 0	\$ 41,000	\$ 41,000
Total Filing Division		.0	26.0	26.0			\$ 0	\$ 931,000	\$ 931,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	26.0	26.0					
Technology Services Division									
Assoc Info Systems Analyst	PERM	0.0	1.0	3.0	\$ 4,619	\$ 5,897	\$ 0	\$ 63,000	\$ 189,000
Sys Software Spec II Tech	PERM	0.0	0.0	26.0	\$ 5,561	\$ 7,097	\$ 0	\$ 0	\$ 1,975,000
Sys Software Spec I Tech	PERM	0.0	0.0	33.0	\$ 5,064	\$ 6,465	\$ 0	\$ 0	\$ 2,283,000
Sys Software Spec III Tech	PERM	0.0	0.0	5.0	\$ 6,110	\$ 7,796	\$ 0	\$ 0	\$ 417,000
Staff Prog Analyst Spec	PERM	0.0	0.0	1.0	\$ 5,065	\$ 6,466	\$ 0	\$ 0	\$ 69,000
Data Processing Mgr II	PERM	0.0	1.0	1.0	\$ 5,849	\$ 7,464	\$ 0	\$ 80,000	\$ 80,000
Sys Software Spec I Tech	OT				\$ 5,064	\$ 6,465	\$ 0	\$ 0	\$ 64,000
Total Technology Services Division		.0	2.0	69.0			\$ 0	\$ 143,000	\$ 5,077,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	2.0	69.0					
Total Salaries and Wages									
	Positions	.0	40.0	112.0			\$ 0	\$ 1,591,000	\$ 6,721,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	40.0	112.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits

	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 93,000	\$ 396,000
Dental /2	0	21,000	57,000
Health /3	0	314,000	880,000
Retirement /4	0	251,000	1,048,000
Vision /5	0	4,000	12,000
Medicare /6	0	22,000	93,000
Worker's Comp /7	0	11,000	44,000
Industrial Disability /8	0	0	1,000
Non Industrial Disability /9	0	0	2,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 716,000	\$ 2,533,000

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

2/ For permanent, \$539 per net personnel year.

3/ For permanent, \$8,289 per net personnel year.

4/ For permanent, 16.574% of net salary.

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

6/ 1.45% of net salary for permanent.

7/ 0.7% of net salary for permanent.

8/ 0.03% of net salary for permanent.

9/ 0.05% of net salary for permanent.

10/ 8.94% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2010/11**

Budget Change Proposal

BCP No. 2

Enterprise Data to Revenue Project

DATE: August 18, 2009

A. NATURE OF REQUEST

The Franchise Tax Board is requesting funding of \$6.9 million and 40 positions (37.9 PYs) for FY 2010/11 to continue implementation of the Enterprise Data to Revenue (EDR) project, which is strategically directed at providing a significant revenue generating and cost savings solution. This proposal represents the second year of the EDR project. The one time IT project cost is estimated to be in excess of \$234 million and it is projected to achieve revenue of \$3.7 billion over the life of the nine year project (refer to Project 1730-191). Once the project is completed, the ongoing benefits from EDR is estimated at \$900 million annually. Revenue generated from this augmentation request is anticipated to be \$19.9 million in accelerated revenue for FY 2010/11 and \$27.9 million for FY 2011/12.

FTB will use the solution based procurement model to acquire a best value, business driven and innovative solution. This model is based on acquiring innovative solutions to strategic business problems that when solved result in new increased tax revenues. These revenue benefits are shared with the contractor based on a fixed price contract and the contractor is compensated only when the new tax revenues are realized and after certain State costs have been recouped. The project budget is constructed in a way so that the State does not incur out-of-pocket expenses to compensate the contractor. The proposed solution will introduce a new Personal Income Tax (PIT) and Business Entity (BE) return processing system including expanded imaging, data capture and return validation with an enterprise data warehouse and common services. In order to be successful in obtaining a benefits funded contract, and meet the control agencies requirements for a successful project, the department requires an augmentation to fund the following:

- a. Acquire project management consultant support services.
- b. Acquire project oversight services.
- c. Acquire the services of cost estimating consultant.
- d. Purchase the necessary hardware and software for the additional image data capture.
- e. Additional permanent program staff to address revenue generating backlog cleanup.

B. BACKGROUND/HISTORY

Annually, FTB processes more than 15 million PIT returns and one million BE returns, responds to more than three million phone calls, handles over seven million internet contacts and collects more than \$60 billion in tax revenues, representing nearly 67

percent of the State's general fund revenues.

FTB has performed extensive enterprise strategic planning including development of an enterprise Business Vision and Technology Target Architecture documented in the FTB Tax System Information Technology Strategic Plan (ITSP). Through this planning effort, FTB identified significant opportunities to make fundamental improvements to return processing and utilization of data. These opportunities form the basis of the EDR Project. The EDR Project offers significant opportunities to change FTB's landscape through an enterprise approach to data sharing and modernization by connecting IT systems through services resulting in significant revenue streams.

Project Management Consultant Support Services:

One of the key measures for success is to have a project team with experienced information technology project management professionals with project management professional certification or equivalent. The EDR solution will interface with and leverage FTB systems and infrastructure requiring many changes and creating many dependent State tasks. These State tasks need to be planned and executed consistent with the EDR schedule. In order to maximize successful execution of the State tasks, there needs to be a comparable level of rigor in schedule planning and execution of State tasks consistent with the contractor's project schedule. Specifically, the project management consultant will:

- a. Facilitate State planning of legacy system tasks.
- b. Develop and maintain a master project schedule with milestones and dependencies and resources including contractor and State tasks.
- c. Facilitate biweekly in-process reviews.
- d. Perform cost and schedule variance analysis for both State and contractor tasks.
- e. Recommend schedule changes.
- f. Perform "what-if" analysis of project schedule change requests.
- g. Support executive level analysis of EDR Project status.
- h. Support executive level risk and issue management.
- i. Support development of project status reports.

Project Oversight Services:

The EDR project will need to procure project oversight services from a consultant or through an inter-agency agreement. The project oversight vendor will perform independent, unbiased assessments of the project management processes and methodologies to:

- Determine performance trends that might affect the project's successful completion.
- Provide independent perspective for reviews and meetings.
- Prepare reports as mandated by the Office of the Chief Information Officer (OCIO).

- Monitor project activities.
- Evaluate the project's adherence to industry standard project management methodologies.
- Evaluate project risk management efforts.
- Evaluate project progress towards completion of the project.

Cost Estimating Consultant:

Because of the large dollars involved, unique characteristics of the project including new technologies and risk to benefits with enterprise-wide impact we need to procure the services of a cost-estimating consultant for the EDR Project. The consultant will assess the reasonableness of the costs of the selected proposal in the review and award of the contract for the EDR project. The EDR project staff used the Cost Xpert tool to estimate the cost and develop a high-level project plan for the Feasibility Study Report. The tool is based on a set number of variables based on established IT project cost estimating methodology and best practices. The project needs the consultant's expertise to help FTB select the best available variables and to configure Cost Xpert variables to ensure consistency with the unique characteristics of the EDR project and selected solution including the project business problems, scope, requirements, schedule, technologies, risks, type of project, service offering, vendor compensation strategy and comparables. FTB needs to assert a higher level of rigor in order to adequately estimate what the project bid costs should be and assess the contract risk. If consultant services are not procured, the State runs the risk of entering into an IT contract at inflated costs or beyond the capacity of a successful delivery.

Hardware and Software for Additional Image Data Capture:

In order to close the gap between paper filed returns and correspondence and electronically filed returns, additional hardware and software is required to process the additional data capture when we process the schedules attached to returns. This data is key to the additional revenue that the project will generate. EDR will leverage this equipment and further expand imaging and data capture to make return processing entirely electronic, more efficient and effective, and to make data available to the enterprise. By acquiring this equipment now, FTB can acquire it at a lower cost, eliminate paper workflow and backlogs, and narrow the gap between paper and electronic data imaging rather than have the contractor take on this responsibility with their higher costs.

Additional Program Staff for Backlog Cleanup:

We are requesting additional permanent staff for FY 2010/11 to continue cleaning up the return processing business entity backlog and the collection correspondence backlog. The ongoing backlog negatively impacts the availability of data, revenue and customer service. If these backlogs are not brought current they will severely undermine the success of the EDR project. If this happens the contractor is likely to view the prospects for revenue and benefits to be extremely risky and cost prohibitive resulting in fewer potential bidders. Additionally, the existence of revenue producing

backlogs attributable to the limitations of the current systems will create workload priority conflicts for the State and complicate the measurement of revenue benefits attributable to the new EDR system.

C. STATE LEVEL CONSIDERATIONS

The EDR project will significantly narrow the state's \$6.5 billion tax gap through a strategically planned Tax Systems Modernization effort consistent with the FTB Tax Systems ITSP, FTB IT Capital Plan and enterprise vision incorporating state IT goals and objectives. The EDR project is the first of several IT projects strategically planned to incrementally align FTB's tax systems with the FTB Strategic Plan and FTB Enterprise Tax Business Vision. This augmentation request maximizes the success of the EDR project and sets the stage to achieve the corresponding State revenue objectives and IT goals at the lowest possible costs.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

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

E. JUSTIFICATION

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

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

F. OUTCOMES AND ACCOUNTABILITY

FTB Feasibility Study Report (FSR) 08-05 (Project number 1730-191) supports this request and provides the detail about the project scope, requirements and solution. A cross section of departmental staff participated in the FSR analysis and requirements. A project manager, working with the Department's Project Oversight Guidance (POG) Section will oversee project activities including procurement to ensure all applicable policies, rules, guidelines and procedures are followed. A Project Management vendor will be engaged to ensure project management activities including schedule management earned value analysis and risk management is executed consistent with industry best practices and standards. OCIO will also be engaged to provide impartial oversight of the project to ensure the State is effectively managing their technology investments. The Project Manager will work with POG to monitor project progress and perform communication management including status reporting consistent with stakeholder and overseer needs. The FSR is the responsibility of the department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both the CIO and the Chief Financial Officer (CFO).

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative 1 - Approve funding of approximately \$6.9 million and 40 positions to continue with the implementation of the EDR project in FY 2010/2011.

This alternative represents the second year of a multi-year project that addresses fundamental problems involved with processing PIT and BE tax returns and the underutilization of data with an emphasis on cost savings and generating revenues. This alternative requests an augmentation to:

- Acquire project management consultant support services.
- Acquire project oversight services.
- Acquire the services of cost estimating consultant.
- Purchase the necessary hardware and software for the additional image data capture.
- Additional permanent program staff to address revenue generating backlog cleanup.

Alternative 2 - Hire the project management support and independent project oversight consultant services as required by SIMM 45, but do not purchase the hardware and software.

Not purchasing the hardware and software will not allow FTB to capture the additional data images and eliminate paper workflow and backlogs in preparation for data capturing the attached schedules of the returns. This data is key to additional revenue that the EDR project will generate. This alternative shifts data capture preparation costs to the contractor and increases risks and costs.

Alternative 3 - Do not purchase the hardware and software, but instead shift the project costs one year later and to the EDR Prime Solution Provider (PSP).

This alternative results in greater risks and higher costs due to the contractor's more demanding schedule and higher prices. The purchase of the hardware and software is required to process the additional data capture that is needed to process the schedules attached to returns for return validation. This data is key to the additional revenue that the project will generate from correcting more returns. The purchase of the hardware and software is necessary to set the stage for the EDR project to capture and make the data available throughout the enterprise and thus help the EDR project meet the projected revenues. While there is no alternative but to purchase the hardware and software, FTB can shift these costs to the EDR PSP but will result in a more compressed schedule and higher costs due to the contractor's higher prices.

Alternative 4 - Defer the backlog clean up.

This alternative eliminates the revenue increase for the budget year, risks adequate completion of the backlog clean up and risks future revenue. The alternative defers the backlog cleanup to the system development phase and risks the availability of State resources to adequately complete the task, as they will have to compete with other State resources needed to team up with the contractor to develop the system. Deferral of the backlog will compress the backlog cleanup schedule making it highly unlikely the task will be completed in a timely manner. This will potentially make resources needed for expanded return validation unavailable to generate benefits and achieve one of the primary objectives of the EDR project.

H. TIMETABLE

- Project management consultant will begin July 2010 and conclude December 2012.
- Project oversight will begin July 2010 and conclude December 2015.
- Hardware and software will be installed July 2010.
- Additional program staff for backlog will begin July 2010

I. RECOMMENDATION

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

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

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

TITLE OF PROPOSED CHANGE:

Limited Liability Company Protective Claims

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board is requesting the funding of \$172,000 and the extension of 3 limited term positions (2.8 PYs) for one additional year. This extension is needed to complete the processing of refunds resulting from the January 31, 2008 decision by the Court of Appeal in Northwest Energetic Services, LLC and the August 11, 2008 decision in Ventas Finance I, LLC.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
--	-------------------------------------	---

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

Pending Board Approval

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

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

DATE PROJECT # FSR OR SPR
IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

YES
 NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP # 3 **DATE: 8/11/09** **Title of Proposed Change:**
PROGRAM **ELEMENT** **LLC Protective Claims - Processing Costs**
Tax Programs **All Tax Programs** **COMPONENT**

	<u>Personnel Years</u>			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>			
Total Salaries & Wages <u>a/</u>	<u>.0</u>	<u>3.0</u>	<u>.0</u>	<u>\$ 0</u>	<u>\$ 115,000</u>	<u>\$ 0</u>
Salary Savings	<u>.0</u>	<u>-2</u>	<u>.0</u>	<u>\$ 0</u>	<u>-\$ 6,000</u>	<u>\$ 0</u>
Net Total Salaries and Wages	<u>.0</u>	<u>2.8</u>	<u>.0</u>	<u>\$ 0</u>	<u>\$ 109,000</u>	<u>\$ 0</u>
Staff Benefits <u>b/</u>				<u>\$ 0</u>	<u>\$ 53,000</u>	<u>\$ 0</u>
Total Personal Services				<u>\$ 0</u>	<u>\$ 162,000</u>	<u>\$ 0</u>
Operating Expenses and Equipment						
General Expenses /1				\$ 0	\$ 7,000	\$ 0
Printing /2				0	0	0
Communications				0	3,000	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				<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 0</u>

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
 /1 General Expense @ \$879 per position. Plus minor equipment @ \$1168 per new position.
 /2 Communication costs @ \$962 per position.

TOTAL OPERATING EXPENSES AND EQUIPMENT

SPECIAL ITEMS OF EXPENSE d/

PROGRAM ADMINISTRATION
Distributed Admin

TOTAL STATE OPERATIONS EXPENDITURES

Source of Funds

Appropriation No.

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

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 10,000	\$ 0
SPECIAL ITEMS OF EXPENSE <u>d/</u>	\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION	\$ 0	\$ 0	\$ 0
Distributed Admin	\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES	\$ 0	\$ 172,000	\$ 0
<u>Source of Funds</u>			
General Fund	\$ 0	\$ 172,000	\$ 0
	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	\$ 172,000	\$ 0
LOCAL ASSISTANCE	\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>			
General Fund	\$ 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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount			
		CY	BY	BY + 1		CY	BY	BY + 1	
Audit Division									
Tax Technician, Ftb - Rg B	LT*	0.0	1.5	0.0	\$ 2,817	\$ 3,426	\$ 0	\$ 56,000	\$ 0
Total Audit Division		.0	1.5	.0			\$ 0	\$ 56,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	1.5	.0					
Filing Division									
Tax Program Tech II,Ftb	LT*	0.0	1.5	0.0	\$ 2,951	\$ 3,588	\$ 0	\$ 59,000	\$ 0
Total Filing Division		.0	1.5	.0			\$ 0	\$ 59,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	1.5	.0					
Total Salaries and Wages	Positions	.0	3.0	.0			\$ 0	\$ 115,000	\$ 0
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	3.0	.0					

*Positions will expire 6/30/2011

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 6,000	\$ 0
Dental /2	0	2,000	0
Health /3	0	24,000	0
Retirement /4	0	18,000	0
Vision /5	0	0	0
Medicare /6	0	2,000	0
Worker's Comp /7	0	1,000	0
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 53,000	\$ 0

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2010/2011**

Budget Change Proposal

BCP No.: #3

LLC Protective Claim – Processing

Date: August 11, 2009

A. Nature of Request

The Franchise Tax Board (FTB) requests an augmentation of \$172,000 and the extension of 3 limited term positions (2.8 PYs) for one additional year. The extension is needed to complete the processing of refunds resulting from the January 31, 2008 decision by the Court of Appeal in *Northwest Energetic Services, LLC v. Franchise Tax Board (Northwest)*, and the August 11, 2008 decision by the Court of Appeal in *Ventas Finance I, LLC v. Franchise Tax Board (Ventas)*. This proposal would allow for the remainder of the refunds to be processed for Limited Liability Companies (LLCs) that have no activities in California or for LLCs that did business within and outside California and where the fee paid exceeds the amount that should have been assessed, as the Court has determined in *Northwest* and *Ventas* that the LLC fee was unconstitutional as applied to these entities.

B. Background/History

Under state law, an LLC that is 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, pursuant to former California Revenue and Taxation Code (CR&TC) section 17942, was based on the LLC total income from all sources reportable to the state. "Total Income" was 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. This excluded the flow-through of income from one LLC to another LLC, if that income has already been subject to California's annual LLC fee.

Three separate cases have been filed challenging the constitutionality of the LLC fee as calculated pursuant to former CR&TC section 17942, in effect prior to January 1, 2007. Each case presents separate factual circumstances. Two of the cases, *Northwest* and *Ventas* are now final with respect to the constitutional issue regarding the LLC fee. The third case, *Bakersfield Mall, LLC v. Franchise Tax Board*, is ongoing.

In the *Northwest* case, the California Court of Appeal held the LLC fee imposed pursuant to the former CR&TC section 17942 was unconstitutional as applied to *Northwest* because assessing an LLC fee on an entity that had no income attributable to activities in California violates the Commerce Clause of the United States Constitution. Therefore, the fee should be refunded. Subsequently, FTB began processing claims for LLCs with substantially the same facts as *Northwest* (an LLC that did no business in California).

In *Ventas*, the California Court of Appeal held that the LLC fee imposed pursuant to the former CR&TC section 17942 was unconstitutional as applied to *Ventas* because the statute did not use a method of fair apportionment to calculate the total income upon which the LLC fee was based. The LLC fee was based on *Ventas*' total income from all sources, and was not limited to income

derived from, or attributable to, California. The refund of the LLC fee paid will be limited to the amount of the LLC fee that "exceeds the amount it would have been assessed, without violating the Commerce Clause, using a method of fair apportionment." The Court of Appeal's decision in *Ventas* is final as to the constitutional issue and FTB has begun to process refund claims from LLCs with substantially similar facts to *Ventas*, an LLC that earned income within and outside California.

Processing Costs - \$172,000

Taxpayers have filed protective refund claims in anticipation of the court's decision in these cases, and also in the related case of *Bakersfield Mall, LLC v. Franchise Tax Board*. As of April 2009, the total protective claims received involve over 42,000 LLC accounts (approximately 120,000 tax years), totaling approximately \$540 million. These claims were filed to protect their Statute of Limitation while awaiting the court's decision on these cases. FTB maintains a database for these protective claims and anticipates it will continue to receive protective claims for refund as a result of the LLC fee litigation. Not all these claims will result in a refund; however, all claims received will need to be reviewed.

The *Northwest* decision impacts only LLCs that did no business in California. The *Ventas* decision limits the amount of the refund for LLC claims to instances where the LLC fee paid exceeds the amount that should have been assessed for activities and income derived from sources within California. Based on the total amount of protective claims received (42,000 LLC accounts and approximately 120,000 tax years) as of April 2009, the department will need to process refunds for approximately 3,600 LLCs, involving an estimated 8,600 tax years, and refund claims totaling approximately \$72,000,000.

C. State Level Considerations

This proposal will not impact any other state agencies.

D. Facility/Capital Outlay Considerations

The program area represented in this BCP has the space available.

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.

The extension of the limited-term positions are needed due to following:

- The delay in the *Ventas* court decision becoming final (April 6, 2009) - LLCs with substantially similar facts to *Ventas* have until August 20, 2009 to notify FTB of the method to use in calculating their refund (See FTB Notice 2009-04)

- Increased *Northwest* claims for refund received - 400 original projection, an estimated 1,000 received to date
- Claims are more complex to process
- Delay in the State Controller issuing refunds

F. Outcomes and Accountability

FTB is obligated to comply with the courts' decisions regarding *Ventas* and *Northwest* 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 is the responsibility of the Department's Chief Financial Officer.

G. Analysis of all Feasible Alternatives

Alternative #1 – Approve funding of \$172,000 and the extension of 3 limited term positions (2.8 PYs) for one additional year.

It is anticipated that the processing costs of \$172,000 to cover the one-year extension of 3 limited term positions will be needed to complete the processing of refunds related to the issues decided in both the *Northwest* and *Ventas* claims.

Alternative #2 – No additional resources

Due to the sensitivity of this workload and the need to process the refunds, processing resources will be redirected to this workload. If no resources are received for this effort, FTB will need to evaluate other Filing Division processing workloads and prioritize according to the resources available. As a result, other critical workloads may not be processed timely causing further backlogs and delays. This impact will affect FTB's compliance programs, customer service staff, and ultimately taxpayers. Furthermore, the State's revenue will be 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.

H. TIMETABLE

The funding is needed July 1, 2010

I. RECOMMENDATION

Alternative #1 – Provide funding of \$172,000 and the extension of 3 limited term positions for one additional year.

This alternative provides for an additional \$172,000 of funding and 3 one-year limited term positions to process claims for an estimated \$72,000,000 in refunds and issue timely refunds for the approximate 8,600 tax years affected. It also saves the state money by preventing the payment of interest on the refunds that are not processed timely.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

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

Please report dollars in thousands.

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

TITLE OF PROPOSED CHANGE:

Contact Center Resources - Tax

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board requests funding of \$3.6 million and an augmentation of 56 positions (53.2 PYs), to enable the contact center to attain a level of access performance goal of answering 70% of incoming calls. Given the current economic climate and in an effort to be fiscally responsible, we are adjusting our performance goal to a lower than industry standard level of access.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input 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"/> FUTURE SAVINGS
		<input type="checkbox"/> FULL-YEAR COSTS	<input type="checkbox"/> REVENUE
		<input type="checkbox"/> FACILITIES/CAPITAL COSTS	

PREPARED BY:	DATE	REVIEWED BY:	DATE
FTB PROGRAM MANAGER:			
DEPARTMENT DIRECTOR:	DATE	POLICY TECH:	DATE

Pending Board Approval

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

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

DATE _____ PROJECT # _____ FSR OR SPR
IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? _____ N/A

YES NO ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE: _____ PPBA: _____

STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL - FISCAL DETAIL
 FOR FISCAL YEAR 2010/11
 DF-46 (REV 07/06)

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

BCP # 4	DATE 8/14/2009	Title of Proposed Change:			CY	BY	BY + 1
		Contact Center Resources - Tax COMPONENT					
PROGRAM	ELEMENT						
Tax Programs	All Tax Programs						
		Personnel Years					
		CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries & Wages a/		.0	56.0	56.0	\$ 0	\$ 2,230,000	\$ 2,230,000
Salary Savings		.0	-3.0	-3.0	\$ 0	-\$ 111,000	-\$ 111,000
Net Total Salaries and Wages		.0	53.0	53.0	\$ 0	\$ 2,119,000	\$ 2,119,000
Staff Benefits b/					\$ 0	\$ 1,002,000	\$ 1,002,000
Total Personal Services					\$ 0	\$ 3,121,000	\$ 3,121,000
Operating Expenses and Equipment							
General Expenses /1					\$ 0	\$ 127,000	\$ 114,000
Printing /2					0	6,000	6,000
Communications /3					0	145,000	145,000
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 /4					0	195,000	34,000
Equipment					0	0	0
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment					\$ 0	\$ 473,000	\$ 299,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$879 per position, minor equipment @ \$1,168, headsets & display phones for 56 pos @ \$240 ea.

/2 Printing Costs @ \$106 per position.

/3 Communication costs @ \$962 per position plus Megacom (line & call throttling) costs of \$91,264 annually.

/4 Software and Hardware for PCs @ \$1,691 per PC, \$184 on-going cost for PCs, plus one-time Workforce Management, Qfinity & Instant Messaging licensing costs of \$99,512.

TOTAL OPERATING EXPENSES AND EQUIPMENT

SPECIAL ITEMS OF EXPENSE d/

PROGRAM ADMINISTRATION
Distributed Admin

TOTAL STATE OPERATIONS EXPENDITURES

Source of Funds

Appropriation No.

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

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 473,000	\$ 299,000
SPECIAL ITEMS OF EXPENSE <u>d/</u>	\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION	\$ 0	\$ 0	\$ 0
Distributed Admin	\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES	\$ 0	\$ 3,594,000	\$ 3,420,000
Source of Funds			
General Fund	\$ 0	\$ 3,594,000	\$ 3,420,000
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
Reimbursements	0	0	0
Totals	\$ 0	\$ 3,594,000	\$ 3,420,000
LOCAL ASSISTANCE	\$(0)	\$(0)	\$(0)
Source of Funds			
General Fund	\$ 0	\$ 0	\$ 0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
Reimbursements	0	0	0
Totals	\$ 0	\$ 0	\$ 0

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions	Positions			Salary Range	CY	Amount		
	CY 2009/10	BY 2010/11	BY + 1 2011/12			BY	BY + 1	
Administrative Services Division								
Assoc Personnel Analyst PERM	0.0	1.0	1.0	\$ 4,400 \$ 5,348	\$ 0	\$ 58,000	\$ 58,000	
Total Administrative Services Division	.0	1.0	1.0		\$ 0	\$ 58,000	\$ 58,000	
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Finance & Executive Services Division								
Assoc Accounting Analyst PERM	0.0	1.0	1.0	\$ 4,619 \$ 5,616	\$ 0	\$ 61,000	\$ 61,000	
Total Finance & Executive Services Division	.0	1.0	1.0		\$ 0	\$ 61,000	\$ 61,000	
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Filing Division								
Customer Service Specialist - Rg B PERM	0.0	5.0	5.0	\$ 3,050 \$ 3,708	\$ 0	\$ 203,000	\$ 203,000	
Customer Service Sup PERM	0.0	2.0	2.0	\$ 4,622 \$ 5,576	\$ 0	\$ 122,000	\$ 122,000	
Tax Technician, Ftb - Rg B PERM	0.0	46.0	46.0	\$ 2,817 \$ 3,426	\$ 0	\$ 1,723,000	\$ 1,723,000	
Total Filing Division	.0	53.0	53.0		\$ 0	\$ 2,048,000	\$ 2,048,000	
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	53.0	53.0					
Technology Services Division								
Assoc Info Systems Analyst PERM	0.0	1.0	1.0	\$ 4,619 \$ 5,897	\$ 0	\$ 63,000	\$ 63,000	
Total Technology Services Division	.0	1.0	1.0		\$ 0	\$ 63,000	\$ 63,000	
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Total Salaries and Wages								
Positions	.0	56.0	56.0		\$ 0	\$ 2,230,000	\$ 2,230,000	
Part Yr Adj	.0	.0	.0					
P.Y.s	.0	56.0	56.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 131,000	\$ 131,000
Dental /2	0	27,000	27,000
Health /3	0	438,000	438,000
Retirement /4	0	352,000	352,000
Vision /5	0	6,000	6,000
Medicare /6	0	31,000	31,000
Worker's Comp /7	0	15,000	15,000
Industrial Disability /8	0	1,000	1,000
Non Industrial Disability /9	0	1,000	1,000
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 1,002,000	\$ 1,002,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2010/11

Budget Change Proposal

BCP No. 4

Contact Center Resources - Tax

Date: August 14, 2009

A. Nature of Request

The Franchise Tax Board (FTB) requests funding of \$3.6 million and an augmentation of 56 positions (53.2 PYs), to enable the contact center to attain a level of access performance goal of answering 70% of incoming calls. Given the current economic climate and in an effort to be fiscally conservative, we are adjusting our performance goal to a lower than industry standard level of access.

B. Background/History

FTB's contact center is California's primary contact for taxpayers and tax practitioners seeking information regarding the State's extensive Personal Income Tax (PIT) and Business Entity (BE) laws and policies. The goal of the contact center is to help taxpayers who are already compliant stay compliant and to assist those who are not compliant to become compliant. Contact center agents facilitate the collection of revenue through pre-filing compliance support and responding to notices.

The contact center provides the primary telephone support for FTB's main filing enforcement program, the Integrated Non-filer Compliance (INC) program. Contact center agents enforce the filing requirements for taxpayers receiving one of the approximately 2 million INC notices sent to individuals and businesses each year for failure to file. These contact center activities directly generate a portion of the approximately \$750 million revenue tied to these notices and help to reduce California's Tax Gap.

In FY 2008/09, the contact center was unable to answer 1.5 million calls, or 51% of the total calls received. These calls were either deflected (callers received a busy signal and were forced to hang up) or abandoned (callers hung up after waiting for their call to be answered) (refer to Attachment #1).

FTB encourages voluntary compliance through taxpayer education by providing pre-filing assistance such as providing general information, processing forms requests, explaining filing requirements, tax law and return preparation and providing account specific information such as payments made. Offering this service up front is less costly than pursuing tax compliance via involuntary collection methods.

The contact center is integral to the collection of revenue. This proposal does not specify a quantifiable positive revenue impact, but we estimate that the contact center assists with the collection of approximately \$2 billion in return payments (of the \$6 billion collected departmentally) through pre-filing assistance. 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.

The contact center, when properly staffed and performance measures met, is effective in minimizing the back-end costs associated with audit and collection functions that result from incorrectly/incompletely filed returns or filing non-compliance. The contact center establishes, maintains and helps implement FTB's public service standards, policies, and strategic planning efforts.

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

- Promoting voluntarily compliance with State tax laws by responding in English and other languages to taxpayers and tax practitioners via telephone and 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 business entities 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.

FTB produces more than 9 million billing notices annually, many of these generating contacts to the contact center. The contact center is responsible for responding to the voluntary compliance notices sent by the department. This equates to more than 60% of the taxpayer inquiries associated with the 9 million notices the department produces. Since the notices request immediate payment and/or 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.

Although call volumes increase during filing season (January – April), notices and statements are issued throughout the year by return processing areas, collections, audit and filing enforcement areas. This causes the demand for service in our contact center to remain constant, and as a result, the need to remain fully staffed throughout the year.

Performance Measures

- Level of Access (LOA) = Percentage of calls offered that are answered
- Level of Service (LOS) = Percentage of calls answered within two-minutes

The government industry standard performance goal is to answer 95% of calls. This metric is referred to as Level of Access (LOA). The IRS LOA goal is 82%, although it was reduced during FYs 2007/08 and 2008/09 to 77% due to the federal economic stimulus program.

Of the calls answered, the goal is to answer 80% within two minutes. This metric is known as Level of Service (LOS). 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 two minutes or better.

These two metrics are industry benchmarks for government and, when realized, minimize caller complaints and increase accuracy, compliance and service. Due to reduced staffing, however, the FTB contact center LOA goal for FY 2008/09 was adjusted to a more realistic 60% of the incoming calls (refer to Attachment 1 for detail of call demand and resource needs to reach performance goal).

In support of these performance goals and to mitigate a decreasing level of access, the department submitted several BCPs requesting over 100 positions to improve the LOA in the contact center. All of these requests were denied. During these uncertain economic times it may be unreasonable to expect industry standard service of 95% LOA. However, the current level of access is unacceptable to the taxpayer. The contact center need still exists as shown by the LOA figures from recent years and as compared to the IRS.

Fiscal Year	FTB	IRS
2005/06	71.3%	82%
2006/07	56.8%	82.4%
2007/08	46.4%	69.6% ²
2008/09	48.9% ¹	65.5% ²

Footnotes:

- 1.) Increase over 07/08 due to overtime.
- 2.) Stimulus years.

The state is incurring unnecessary costs and losing revenue providing an LOA that is essentially half of the industry standard. When the contact 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. Common errors include using the incorrect filing status, claiming incorrect amounts for estimated tax payments, using incorrect standard/itemized deduction amounts and incorrect tax computations, etc. Balance due notices are then unnecessarily generated causing taxpayers and tax practitioners to call for explanations and/or payment options.
- Returns are not filed. This generates filing enforcement notices causing additional calls and/or additional notices that can ultimately result in collection actions.
- Taxpayers' not receiving assistance with Head of Household letters, automated audit letters, etc. If not responded to timely and accurately, these letters can result in balance due notices being issued and can ultimately result in collection actions.

FY 2008/09 Experience

In FY 2008/09, the contact center answered an average of 49% of incoming calls. Almost none of the calls were answered within the performance goal of 80% within 2 minutes. It was common to answer only 35% of all incoming calls and respond to as few as 2% of the calls within two minutes. Taxpayers often waited up to 45 minutes to speak with a CSR.

Impact of Filing Season

Call volumes increase significantly during the filing season due to additional contacts from taxpayers filing their tax returns. LOA and LOS are significantly impacted by the increased demand, the number of staff available to answer incoming calls, the caller's tolerance, or lack thereof, to wait for a CSR, the types of services being provided and the CSRs' skill and knowledge levels.

	Level of Access	Level of Service	Average Wait Time	Calls Offered	Calls Answered	Answered Within Target
<u>FY 2006/07:</u>						
Non-Peak Jul - Dec 2006	65.7%	44.1%	5:59	911,935	599,535	264,395
Peak Jan - Jun 2007	52.5%	20.4%	8:11	1,888,749	992,287	202,427
Total	56.8%	29.7%	7:35	2,800,684	1,591,822	466,821
<u>FY 2007/08:</u>						
Non-Peak Jul - Dec 2007	54.5%	unavailable ¹	unavailable ¹	1,040,476	567,188	unavailable ¹
Peak Jan - Jun 2008	42.4%	26.3%	9:41	2,144,776	910,326	239,416
Total	46.4%	unavailable	unavailable	3,185,252	1,477,514	unavailable
<u>FY 2008/09:</u>						
Non-Peak Jul - Dec 2008	51.0%	20.7%	10:56	1,127,448	575,499	119,128
Peak Jan - Jun 2009	47.6%	9.5%	12:40	1,961,265	932,802	88,803
Total	48.8%	14.0%	12:01	3,088,713	1,508,301	207,931

Footnotes:

1.) The 2007 non-peak statistics are unavailable due to the switch from CallWise to Genesys CTI reporting.

Generally, taxpayers wait to speak with CSRs, but a chronically understaffed contact center dramatically increases wait times. Additionally, callers are known to repeatedly hang up and redial in an attempt to gain quicker access to CSRs. The repeat callers only aggravate an already desperate situation by overwhelming the telephone system and causing it to deflect callers before their calls are even acknowledged. Repeat callers also inflate the true call demand and misleadingly lower the LOA. Augmenting the contact center staff will reduce the number of taxpayers who repeatedly call and hang up, lessen the burden on the telephone system and reduce the number of deflected calls and wait times.

Automated self-services (Internet and Interactive Voice Response (IVR) systems) work well for simple issues, but do not provide solutions to complex issues (refer to Attachment 1). 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 be placed on hold, vent their frustrations over long wait times and, finally, receive the desired service.

When the caller is a tax professional, insufficient service issues are amplified because they represent many individuals or business entities that call a toll-number, the Tax Practitioner Hotline, and therefore expect a higher degree of service. The Tax Practitioner Hotline call volumes continue to increase as more taxpayers are turning to tax practitioners for assistance. Part of FTB's commitment to taxpayers includes improving the service provided and resolving issues with a single point of contact. By improving our level of access, FTB will put an end to this ineffective cycle, meeting the increasing needs and expectations of taxpayers and tax practitioners.

Solutions Implemented to Maximize the Level of Access

- Self-service Internet Options: In an effort to reduce incoming calls the department continues to provide taxpayers more self-service options via the internet.
 - Prepare and file returns on-line
 - Check status of an e-filed return
 - Check refund status
 - "My FTB Account": view payments, check total and specific tax year balance due, verify wages and withholding information, view FTB issued forms such as 1099-G and 1099-INT.
- A contact center Escalation Plan was developed to assist phone agents during peak call demand periods.
- New contact center equipment and technology have been implemented to better handle call demand and route calls directly to phone agents based upon skill set and knowledge level.
- Contact center hours of operation have been reduced, increasing the number of phone agents available at any given time by spreading the same number of agents over fewer hours of operation.

FTB continues to look to the future to maximize customer service with available technology and resources.

Reductions in Contact Center

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. Since 2004, the contact center has lost more than 80 positions as a result of these budget cuts. These cuts ultimately reduced the LOA to the current 49%. Automation provides increased self-assistance to the taxpayer, but does not eliminate the need and/or desire for them to speak to an agent. To reach the current targeted performance goal of 70% would require an additional 56 positions to support the contact center and provide for administrative overhead:

- Taxpayer and Tax Practitioner Contact Center (53 Positions)
- Administrative Overhead (3 Positions)

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

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

Taxpayer Comments

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

- *I am still trying to resolve my issue. If there is any way I can reach you directly, please let me know I have called no less than six times, had 3 busy signals, been on hold for 22 minute, 68 minutes, and 43 minutes and all calls ended with a pre-recorded message and then hung up on me. I have also faxed you to no avail. I am out of state otherwise I would drive to Sacramento. Please, please, please call me on my cell phone at xxx-xxx-xxxx.*
- *I submitted an amended Form 540X for a state income tax due that was incorrectly filed. However I cannot get a hold of anybody at the FTB and the automated system consistently says to call back later because of high volume. This is always the case with FTB! Please fix your phone system. The FTB is an agency that should be properly managed so people don't waste their time. The phone system is terrible and needs to be replaced.*
- *Why don't you answer your phones? I've been calling for a week now and get a recording to call back later. It is the WORST answering system I've ever dealt with.*

When taxpayers cannot obtain the information needed to file their returns timely and accurately and/or clarify a balance due notice, the level of voluntary compliance drops. This results in reduced revenue. Taxpayer and tax practitioner 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.

C. State Level Consideration

Increasing the 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 agencies.

Although chronically understaffed in recent years, FTB's contact center is still acknowledged as one of the most efficient and best-executed contact centers in the State. For this reason the department was asked to partner with the Governor's Office of Emergency Services (OES) to provide use of our contact center. Under this agreement,

OES utilizes the department's contact center during extreme weather conditions, emergency events, or disaster response operations to quickly provide public information to Californians who are impacted by these circumstances. The success of the partnership may be in jeopardy as call demand continues to increase while resource levels remain static and insufficient.

D. Facility/Capital Outlay Considerations

The program areas represented in this BCP have the space available to accommodate the additional staff requested. No additional facility/capital outlay costs will be incurred.

E. Justification

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

Strategic Goal #1: Improve Customer Service

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

Strategic Goal #5: Demonstrate Operational Excellence

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

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

F. Outcomes and Accountability

FTB is accountable for providing and improving taxpayer service and increasing fairness and compliance with tax laws. With that direction, FTB established a Customer Service Action Committee (CSAC). The CSAC is chaired by Division Chiefs and its membership is comprised of department-wide staff that head program areas which directly impact customer service levels. The action committee establishes standards for appropriate levels of access and 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 via regular reports to Executive Management discussing 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 \$3.6 million funding and 56 Positions to answer an additional 451,000 incoming calls and achieve the targeted 70% Level of Access (percentage of calls offered that are answered) (refer to Attachment 2 for cost detail).

Augmenting the contact center with the above funding request will enable the department to maintain a minimum LOA of 70% to sustain its role in providing filing compliance and proactive collection support. Although this alternative allows FTB to answer 70% of the calls, it does not support the industry standard performance goal of answering 95% of the calls. Given the current economic environment, however, this alternative does provide a significant increase in the contact center LOA and LOS while remaining fiscally responsible.

Alternative #2 - Approve \$2.2 million funding and 35 Positions to answer an additional 252,000 incoming calls and achieve a 60% Level of Access (percentage of calls offered that are answered) (refer to Attachment 3 for cost detail).

Although this alternative allows FTB to answer 60% of the calls, it does not support the industry standard targeted performance goal of 95%. It does not provide a significant increase in the contact center LOA and LOS, thereby impacting taxpayers that call the contact center requesting general information and account data necessary to voluntarily comply with their filing obligations. This alternative also impacts FTB's ability to collect all the tax revenue available and does not fully support voluntary compliance.

Alternative #3 - Maintain Current Customer Service Levels of 49% Level of Access (percentage of calls offered that are answered) - 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, thereby widening the Tax Gap and increasing 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, 2010.

I. Recommendation

Alternative #1 is recommended. This alternative provides for an additional \$3.5 million funding and 56 Positions to help reinforce voluntary compliance and accelerate revenue collection. It allows FTB to provide increased service to taxpayers and tax practitioners by answering 70% of calls received.

**Attachment 1
Contact Center - Restore Customer Service Level
FY 2010/11**

Taxpayer and Tax Practitioner Contact Center Volumes and Hours 2008/09 Fiscal Year

Workload	Voice Recording Demand	Voice Recording Answered	Call Center Demand	Live Agent Answered	Taxpayer Hung Up	Calls Lost
Taxpayer Services	5,059,469	2,240,260	2,705,437	1,261,346	432,608	1,011,483
Tax Practitioner Services	N/A	N/A	386,410	249,875	34,761	101,774
Total	5,059,469	2,240,260	3,091,847	1,511,221	467,369	1,113,257

Taxpayer and Tax Practitioner Contact Center Need for Alternative #1

Workload	Current Workload Demand		Current Workload Capacity		Staff Shortfall at Desired Performance Goal	
	Hours	PY	Hours	PY	Hours	Positions
Taxpayer Services	311,742	178.2	236,535	135.2	75,207	46.0
Tax Practitioner Services	21,627	12.4	19,878	11.4	1,749	1.0
Leads, Supervisors, Administrators	117,183	67.0	106,689	61.0	10,494	6.0
Total	450,552	257.6	363,102	207.6	87,450	53.0

Training Team Need ¹

Workload	Current Workload Demand		Current Workload Capacity		Staff Shortfall at Desired Performance Level	
	Hours	Positions	Hours	Positions	Hours	Positions
Training and preparation	12,243	7.0	10,494	6.0	1,749	1.0

**Attachment 1
Restore Customer Service Level
FY 2010/11**

Audit Support Service Need ¹

Workload	Current Workload Demand		Current Workload Capacity		Staff Shortfall at Desired Performance Level	
	Hours	Positions	Hours	Positions	Hours	Positions
Audit Support for Contact Centers	10,144	5.8	9,270	5.3	874	0.5
New Law Training	2,449	1.4	1,749	1.0	700	0.4
Internal Information Updates	7,871	4.5	7,346	4.2	525	0.3
Total	20,464	11.7	18,365	10.5	2,099	1.0

Overhead Support Need

Division	Position Type	Positions
Administrative Services	Associate Personnel Analyst	1.0
Finance and Executive Services	Associate Accounting Analyst	1.0
Technology Services	Associate Information System Analyst	1.0
Total Overhead Need		3.0

Footnotes:

- 1.) The Training Team need (1 position) and Audit Support Services need (1 position) are being excluded from the current BCP to keep costs as low as possible.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

BCP # 5	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Court Collections	ELEMENT Court Collections	COMPONENT	

TITLE OF PROPOSED CHANGE:

Court Ordered Debt

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board is requesting the funding of \$903,000 and the conversion of 8-Limited Term (LT) positions to Permanent to support and maintain the Court Ordered Debt (COD) Collections Program.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
--	-------------------------------------	--

PREPARED BY:	DATE	REVIEWED BY:	DATE
FTB PROGRAM APPROVAL:		<h1>Pending Board Approval</h1>	
DEPARTMENT DIRECTOR:	DATE		

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

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

DATE PROJECT # FSR OR SPR

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

YES NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #5 PROGRAM Court Collections	DATE August 11, 2009 ELEMENT Court Collections	Title of Proposed Change: Court Ordered Debt Expansion COMPONENT	<u>Personnel Years</u>			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>			
Total Salaries & Wages a/			<u>.0</u>	<u>8.0</u>	<u>8.0</u>	<u>\$ 0</u>	<u>\$ 672,000</u>	<u>\$ 672,000</u>
Salary Savings			<u>.0</u>	<u>-4</u>	<u>-4</u>	<u>\$ 0</u>	<u>-\$ 34,000</u>	<u>-\$ 34,000</u>
Net Total Salaries and Wages			<u>.0</u>	<u>7.6</u>	<u>7.6</u>	<u>\$ 0</u>	<u>\$ 638,000</u>	<u>\$ 638,000</u>
Staff Benefits b/						<u>\$ 0</u>	<u>\$ 239,000</u>	<u>\$ 239,000</u>
Total Personal Services						<u>\$ 0</u>	<u>\$ 877,000</u>	<u>\$ 877,000</u>
Operating Expenses and Equipment								
General Expenses /1						\$ 0	\$ 7,000	\$ 7,000
Printing /2						0	1,000	1,000
Communications /3						0	8,000	8,000
Postage						0	0	0
Travel-In-State /4						0	2,000	2,000
Travel Out-of-State						0	0	0
Training /5						0	8,000	8,000
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						<u>\$ 0</u>	<u>\$ 26,000</u>	<u>\$ 26,000</u>

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
 b/ Detail provided on following pages.
 /1 General Expense @ \$879 per position.
 /2 Printing Costs @ \$106 per position.
 /3 Communication costs @ \$962 per position.
 /4 In-State Travel at \$269 per position.
 /5 Training at \$1,000 per position.

TOTAL OPERATING EXPENSES AND EQUIPMENT

SPECIAL ITEMS OF EXPENSE d/

PROGRAM ADMINISTRATION
Distributed Admin

TOTAL STATE OPERATIONS EXPENDITURES

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
Court Collection	1730		001		0242
Reimbursements	1730		501		0995
Totals					

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 26,000	\$ 26,000
SPECIAL ITEMS OF EXPENSE <u>d/</u>	\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION	\$ 0	\$ 0	\$ 0
Distributed Admin	\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES	\$ 0	\$ 903,000	\$ 903,000
<u>Source of Funds</u>			
Court Collection	\$ 0	\$ 903,000	\$ 903,000
	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	\$ 903,000	\$ 903,000
LOCAL ASSISTANCE	\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>			
General Fund	\$ 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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount			
		CY	BY	BY + 1		CY	BY	BY + 1	
Technology Services Division									
Data Processing Mgr II	PERM	0.0	1.0	1.0	\$ 5,849	\$ 7,464	\$ 0	\$ 90,000	\$ 90,000
Sr Programmer Analyst Spec	PERM	0.0	2.0	2.0	\$ 5,571	\$ 7,109	\$ 0	\$ 171,000	\$ 171,000
Staff Info Sys Analyst Spec	PERM	0.0	2.0	2.0	\$ 5,065	\$ 6,466	\$ 0	\$ 155,000	\$ 155,000
Sys Software Spec II Tech	PERM	0.0	3.0	3.0	\$ 5,561	\$ 7,097	\$ 0	\$ 256,000	\$ 256,000
Total Technology Services Division		.0	8.0	8.0			\$ 0	\$ 672,000	\$ 672,000
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	\$ 672,000	\$ 672,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	8.0	8.0					

Note: Salaries costed at top step as employee's in the positions are currently at that level.

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 42,000	\$ 42,000
Dental /2	0	4,000	4,000
Health /3	0	66,000	66,000
Retirement /4	0	111,000	111,000
Vision /5	0	1,000	1,000
Medicare /6	0	10,000	10,000
Worker's Comp /7	0	5,000	5,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 239,000	\$ 239,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2010/11

Budget Change Proposal
Court Ordered Debt Expansion

BCP No. 5
DATE: August 11, 2009

A. NATURE OF REQUEST

The Franchise Tax Board is requesting the funding of \$903,000 and the conversion of 8-Limited Term (LT) positions to Permanent to support and maintain the Court Ordered Debt (COD) Collections Program.

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. SB 246 mandated FTB to offer collections service to all of California's counties and courts. The Court Ordered Debt Expansion (CODE) Project developed and implemented a collection system to administer a statewide COD Collection inventory. The CODE Project is a joint venture between contracted staff and FTB staff, most of whom are in LT positions. The contracted staff will depart after implementation of the project in August of 2009 leaving FTB staff to maintain the application.

C. STATE LEVEL CONSIDERATIONS

This proposal will enable all California courts and counties, who rely on the State General Fund and Special Funds, to benefit from the COD Collection Program enhancement through statewide implementation. 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 and the 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 area represented in this proposal has the space available to accommodate staff.

E. JUSTIFICATION

This proposal will provide FTB with the resources necessary for the maintenance and operation of the new COD collection system and provide the Collection support needed to operate the program, while providing significant revenue sources to the courts and counties. This proposal fully supports FTB's mission, goals and objectives as outlined in its Strategic Plan including improving customer service, increasing transparency and demonstrating operational excellence.

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.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 - Approve funding of \$903,000 and convert 8 limited-term positions to permanent. This will allow FTB to continue providing support for the maintenance and operation of the new COD collection system to increase the collection program activities.

This alternative provides the necessary knowledge and technical skills necessary to maintain and operate the COD System. The expected conversion of the limited-term positions to permanent is necessary to efficiently process the increase in inventory as a result of the addition of new counties and courts. This program is benefits funded as COD is funded through reimbursement (administrative fee) from the revenue collected by the program.

Alternative #2 - Provide additional \$1.9 million annually for contracted services necessary to maintain and operate the COD system.

This alternative requires additional funding and time to acquire contracted vendors with the requisite business knowledge and technical skills necessary to maintain and operate the COD system. The unique infrastructure of the COD system requires technical skills that are not readily available. Additionally, the time required for the contractor acquisition and vendor training will negatively impact the consistence of the system maintenance. This alternative jeopardizes the COD system and the ability of FTB to collect court ordered debt.

Alternative #3 - Provide no additional funding and resources to maintain and operate the COD System.

This alternative will allow 8 limited-term positions to expire on June 30, 2010. This is not a viable alternative, as this will result in the inability to maintain and operate the COD system. The loss of the knowledgeable FTB staff will result in the discontinuation of technical services required to support the COD system used to collect court ordered debts.

H. TIMETABLE

Funding to be provided on July 1, 2010.

I. RECOMMENDATION

Alternative #1 is recommended. This alternative will allow the COD Program to continue providing support for the maintenance and operations of the new COD collection system to increase the collection program activities. The benefit will provide revenue to the participating counties and courts at no cost to the general fund.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

BCP # 6	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Tax Programs	ELEMENT All Tax Programs	COMPONENT	

TITLE OF PROPOSED CHANGE:

Security Workload Growth

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$447,000 and 5 permanent positions (4.7 PYs) to replace 5 limited-term positions to accommodate workload growth associated with increased demands for securing FTB's critical assets and ensuring the confidentiality, integrity, and privacy of taxpayer information.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
FTB PROGRAM APPROVAL:		<h1>Pending Board Approval</h1>	
DEPARTMENT DIRECTOR:	DATE		

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

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

DATE PROJECT # FSR OR SPR

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

YES NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #6	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
PROGRAM	August 12, 2009	Security Workload Growth						
Tax Programs	ELEMENT All Tax Programs	COMPONENT						
Total Salaries & Wages a/			<u>.0</u>	<u>5.0</u>	<u>5.0</u>	\$ 0	\$ 323,000	\$ 323,000
Salary Savings			<u>.0</u>	<u>-3</u>	<u>-3</u>	\$ 0	-\$ 16,000	-\$ 16,000
Net Total Salaries and Wages			<u>.0</u>	<u>4.7</u>	<u>4.7</u>	\$ 0	\$ 307,000	\$ 307,000
Staff Benefits b/						\$ 0	\$ 129,000	\$ 129,000
Total Personal Services						\$ 0	\$ 436,000	\$ 436,000
Operating Expenses and Equipment								
General Expenses /1						\$ 0	\$ 4,000	\$ 4,000
Printing /2						0	1,000	1,000
Communications /3						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						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 /4						0	1,000	1,000
Equipment						0	0	0
Other Items of Exp (Specify Below)						0	0	0
Total Operating Expense & Equipment						\$ 0	\$ 11,000	\$ 11,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
 b/ Detail provided on following pages.
 /1 General Expense @ \$879 per position.
 /2 Printing Costs @ \$106 per position.
 /3 Communication costs @ \$962 per position.
 /4 \$184 on-going cost for PCs .

TOTAL OPERATING EXPENSES AND EQUIPMENT

SPECIAL ITEMS OF EXPENSE d/

PROGRAM ADMINISTRATION
Distributed Admin

TOTAL STATE OPERATIONS EXPENDITURES

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
DMV - Motor Vehicle Acct.	1730		001		0044
DMV - License Fee Acct.	1730		001		0064
Court Ordered Debt	1730		001		0242
Reimbursements	1730		501		0995
Totals					

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 11,000	\$ 11,000
SPECIAL ITEMS OF EXPENSE <u>d/</u>	\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION	\$ 0	\$ 0	\$ 0
Distributed Admin	\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES	\$ 0	\$ 447,000	\$ 447,000
Source of Funds			
General Fund	\$ 0	\$ 232,000	\$ 232,000
DMV - Motor Vehicle Acct.	0	33,000	33,000
DMV - License Fee Acct.	0	66,000	66,000
Court Ordered Debt	0	116,000	116,000
	0	0	0
	0	0	0
	0	0	0
Reimbursements	0	0	0
Totals	\$ 0	\$ 447,000	\$ 447,000
LOCAL ASSISTANCE	\$(0)	\$(0)	\$(0)
Source of Funds			
General Fund	\$ 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 2009/10	BY 2010/11	BY + 1 2011/12		CY	BY	BY + 1	
Administrative Services Division									
Sys Software Spec II Tech	PERM	0.0	2.0	2.0	\$ 5,561	\$ 7,097	\$ 0	\$ 152,000	\$ 152,000
Assoc Info Systems Analyst	PERM	0.0	2.0	2.0	\$ 4,619	\$ 5,897	\$ 0	\$ 126,000	\$ 126,000
Programmer I - Rg B	PERM	0.0	1.0	1.0	\$ 3,364	\$ 4,087	\$ 0	\$ 45,000	\$ 45,000
Total Administrative Services Division		.0	5.0	5.0			\$ 0	\$ 323,000	\$ 323,000
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	\$ 323,000	\$ 323,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	5.0	5.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 19,000	\$ 19,000
Dental /2	0	3,000	3,000
Health /3	0	39,000	39,000
Retirement /4	0	51,000	51,000
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	0	0
Unemployment Insurance /10	0	0	0
Other/11	0	10,000	10,000
Total Staff Benefits	\$ 0	\$ 129,000	\$ 129,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.
- 11/ For permanent \$2073 per net personnel year.

**FRANCHISE TAX BOARD
Fiscal Year 2010/11**

Budget Change Proposal

BCP No. 6

Security Workload Growth

Date: August 12, 2009

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$447,000 and 5 permanent positions (4.7 PYs) to replace 5 limited-term positions. These limited-term positions were authorized to accommodate workload growth associated with increased demands for securing FTB's critical assets and ensuring the confidentiality, integrity, and privacy of taxpayer information. These positions will expire on June 30, 2010. FTB will be unable to continue meeting security workload demands without approval of this proposal. In FY 2008/09, a portion of the funding for the five limited-terms positions was offset by redirected e-file savings. This savings is no longer available in our budget; therefore, we are requesting funding for the full amount.

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 disrupt business or access confidential data in an unauthorized manner. 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 defend all the 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, attackers began to look for new and improved ways to infiltrate the inside layers. Although the statistics may vary slightly, most studies now indicate that 60 to 80 percent of threats come from inside an organization. Therefore, the increased risk of internal threats requires organizations to focus additional resources in protecting these layers.

The resources requested in this proposal will allow FTB to continue 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):

The Information Security Audit Unit (ISAU) staff performs security audits analyzing system and application audit logs that identify instances of inappropriate use and access. The staff collects logs from, and monitors over 34 tax related systems and over 300 server event logs. Their 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. Over the past two years, the positions authorized as a result of the FY 2008/09 Security Workload Growth BCP have been able to:

- Increase monitoring and auditing of the Business Entity Tax System (BETS) to identify instances of unauthorized access and inappropriate monetary activities. The BETS system produces more than 14 million audit records per month and accounts for over \$14 billion dollars of business entities payments during the 2008/09 fiscal year.
- Perform additional programming and development in support of audit activities, which allows information security auditors access to reports based on current trends in fraud cases.
- Conduct technical audits on systems identified through Intrusion Detection System (IDS) alerts and assessments by the Compliance Monitoring Unit. These assessments have identified:
 - Unauthorized software that can result in an increased risk to the department from potential security vulnerabilities;
 - Systems that have been infected with a virus (a virus can negatively affect the entire FTB network);
 - Servers out of compliance with FTB's Information Security Policy that could expose confidential data to individuals who are not authorized to access the data.

Information Security Audit staff also administer the mandatory workloads identified below. As these workloads increase over the years, our ability to appropriately address critical on-going workloads that ensure information security decrease.

- 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 these audits provides substantiation to support the appropriate actions to be taken.
- Investigating reports of misuse of State assets filed under the California Whistleblower Protection Act (WBA). The WBA provides for the anonymous reporting of misuse of State assets to the Bureau of State Audits (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 nine complaints in 2008. 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. Due to the complexity of these types of investigations, on average, WPA cases take three to four weeks to complete (120 - 160 hours). Therefore, the level of resources dedicated to this workload is not discretionary and has significantly increased since 2002. This trend is expected to continue into FY 2010/11 and beyond.

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

In compliance with State Administrative Manual (SAM) – Chapter 5300, FTB's Compliance Monitoring Unit 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. The positions authorized as a result of the FY 2008/09 Security Workload Growth BCP have been performing technical security assessments of FTB's information systems, as well as enforcement and compliance activities in support of FTB's Information Security Policy. These positions have been able to:

- Conduct an additional 15 assessments of FTB's major information system security assessments by project area or function (i.e. ECOM, PASS, INC, mainframe, network infrastructure, internal application servers, etc.).
- Address timely the additional ad-hoc security assessments of servers resulting from configuration changes which, amounts to an average of approximately 120 additional assessments per year.
- Actively monitor approximately 4,000 systems at any one time using an enterprise vulnerability management tool. This number rises to as much as 7,000 during peak filing season as more systems are online.

FTB's information systems contain vast amounts of confidential and sensitive data that if compromised, will result in a negative impact to the collection of tax revenues. The shortage of staff within the Compliance Monitoring Unit will result in less enforcement and compliance with FTB's Information Security Policy, and critical vulnerabilities introduced to FTB's systems will go undetected. Staff play a vital role in discovering vulnerabilities as they apply to FTB's complex and diverse IT infrastructure. An increase in vulnerabilities will result in a significant increase in risk to FTB's information resources. Exploitation of those vulnerabilities negatively impacts FTB's mission by causing the redirection of critical resources to respond to the attacks, and return impacted systems to an operational and secure status.

As FTB continues to expand 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, data storage, 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 to continue to maintain FTB's security standards—consistent with industry standards—permanent resources are necessary to be proactive in mitigating risk and ensuring the protection of confidential, sensitive, and personal 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 the requested resources are not provided to address this workload, inappropriate accesses and activities may go unnoticed and will subject the department to unreasonable levels of risk. This could result in damages, liability, and losses in revenue due to fraudulent activity, additionally putting the department at risk of losing access to IRS data. Furthermore, in an event of a compromise the public's trust placed with FTB and the State can be jeopardized; not only for 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 taxpayer data from the Internal Revenue Service (IRS). The data 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." The IRS requires that agencies conduct security assessments of information systems 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

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

E. JUSTIFICATION

The required security controls to protect the confidential, sensitive, and personal information entrusted to FTB from unauthorized access and information system vulnerabilities, unauthorized accesses by FTB and other State employees as well as 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, 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, sensitive, and personal information, 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, sensitive, and personal information.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 – Approve funding of \$447,000 for 5 permanent positions (4.7 PYs).

This alternative allows FTB 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 – Approve funding of \$447,000 for 5 limited-term positions (4.7 PYs).

This alternative proposes temporary funding and resources to meet the permanent increase in security workload demands. The positions were originally established as LT due to the uncertainty whether security workloads would continue to sustain the need for these resources. We have clearly demonstrated the continued need for these resources.

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, 2010.

I. RECOMMENDATION

Alternative #1 is the recommended solution. This will allow FTB to meet current workload demands with permanent staff to ensure that the data entrusted to us remains secure.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

BCP # 7	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Tax Programs	ELEMENT All Tax Programs	COMPONENT	

TITLE OF PROPOSED CHANGE:

FTOP

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board is requesting funding of \$847,000 and 11 positions (10.4 PYs) for FY 2010/11 to implement the Federal Treasury Offset Program (FTOP). This proposal represents year one of a four-year project in which total project costs are projected to be \$11 million. Revenue generated from this proposal is expected to be \$6 million in FY 2010/11, increasing to \$93 million by FY 2013/14.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input 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: FTB PROGRAM MANAGER	DATE	REVIEWED BY: DEPARTMENT DIRECTOR	DATE
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Pending Board Approval

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

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

DATE PROJECT # FSR OR SPR
IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

YES NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP # 7	DATE 8/18/09	Title of Proposed Change:					
		FTOP					
PROGRAM	ELEMENT	COMPONENT					
Tax Programs	All Tax Programs						
<u>Personnel Years</u>							
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
Total Salaries & Wages a/		.0	11.0	11.0	\$ 0	\$ 488,000	\$ 488,000
Salary Savings		.0	-6	-6	\$ 0	-\$ 24,000	-\$ 24,000
Net Total Salaries and Wages		.0	10.4	10.4	\$ 0	\$ 464,000	\$ 464,000
Staff Benefits b/					\$ 0	\$ 207,000	\$ 207,000
Total Personal Services					\$ 0	\$ 671,000	\$ 671,000
Operating Expenses and Equipment							
General Expenses /1					\$ 0	\$ 23,000	\$ 10,000
Printing /2					0	2,000	21,000
Communications /3					0	11,000	11,000
Postage /4					0	93,000	1,552,000
Travel-In-State					0	0	0
Travel Out-of-State					0	0	0
Training					0	0	0
Facilities Operations					0	0	0
Utilities					0	0	0
Cons & Prof Svs - Interdept'l					0	0	0
Cons & Prof Svs - External /5					0	7,000	111,000
Consolidated Data Center					0	0	0
California Health and Human Services Agency Data Center		()	()	()	()	()	()
Stephen P. Teale Data Center		()	()	()	()	()	()
Data Processing /6					0	40,000	23,000
Equipment					0	0	0
Other Items of Exp (Specify Below)					0	0	0
Total Operating Expense & Equipment					\$ 0	\$ 176,000	\$ 1,728,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$879 per position. Plus minor equipment @ \$1168 per new position.

/2 Printing Costs @ \$106 per position plus \$1,166 for notices. FY 11/12 \$19,431 for notices.

/3 Communication costs @ \$962 per position.

/4 Postage and envelopes.

/5 WALZ envelope bar coding.

/6 Software for PCs @ \$658 per PC; \$184 on-going cost for PCs; FMS Network connection and maintenance; Qfiniti; headset & lifter; ongoing maintenance costs.

TOTAL OPERATING EXPENSES AND EQUIPMENT

SPECIAL ITEMS OF EXPENSE d/

PROGRAM ADMINISTRATION
Distributed Admin

TOTAL STATE OPERATIONS EXPENDITURES

Source of Funds

Appropriation No.

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

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT	\$ 0	\$ 176,000	\$ 1,728,000
SPECIAL ITEMS OF EXPENSE <u>d/</u>	\$ 0	\$ 0	\$ 0
PROGRAM ADMINISTRATION	\$ 0	\$ 0	\$ 0
Distributed Admin	\$ 0	\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES	\$ 0	\$ 847,000	\$ 2,399,000
<u>Source of Funds</u>			
General Fund	\$ 0	\$ 847,000	\$ 2,399,000
	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	\$ 847,000	\$ 2,399,000
LOCAL ASSISTANCE	\$(0)	\$(0)	\$(0)
<u>Source of Funds</u>			
General Fund	\$ 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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount			
		CY	BY	BY + 1		CY	BY	BY + 1	
Accounts Receivable Management Division									
Sr Compliance Rep.,Ftb	PERM	0.0	1.0	1.0	\$ 4,619	\$ 5,616	\$ 0	\$ 61,000	\$ 61,000
Administrator I	PERM	0.0	1.0	1.0	\$ 5,076	\$ 6,476	\$ 0	\$ 69,000	\$ 69,000
Tax Technician, Ftb - Rg B	PERM	0.0	5.0	5.0	\$ 2,817	\$ 3,426	\$ 0	\$ 187,000	\$ 187,000
Tax Program Tech I, Ftb	PERM	0.0	1.0	1.0	\$ 2,638	\$ 3,209	\$ 0	\$ 35,000	\$ 35,000
Tax Program Tech II,Ftb	PERM	0.0	1.0	1.0	\$ 2,951	\$ 3,588	\$ 0	\$ 39,000	\$ 39,000
Compliance Rep, Ftb - Rg B	PERM	0.0	1.0	1.0	\$ 3,204	\$ 3,708	\$ 0	\$ 41,000	\$ 41,000
Compliance Rep, Ftb - Rg C	PERM	0.0	1.0	1.0	\$ 3,841	\$ 4,670	\$ 0	\$ 51,000	\$ 51,000
Total Accounts Receivable Management Division		.0	11.0	11.0			\$ 0	\$ 483,000	\$ 483,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	11.0	11.0					
Filing Division									
Key Data Operator - Rg B	OT				\$ 2,450	\$ 2,975	\$ 0	\$ 2,000	\$ 2,000
Tax Program Assistant - Rg B	OT				\$ 2,074	\$ 2,519	\$ 0	\$ 3,000	\$ 3,000
Total Filing Division		.0	.0	.0			\$ 0	\$ 5,000	\$ 5,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	.0					
Total Salaries and Wages									
	Positions	.0	11.0	11.0			\$ 0	\$ 488,000	\$ 488,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	11.0	11.0					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 28,000	\$ 28,000
Dental /2	0	6,000	6,000
Health /3	0	86,000	86,000
Retirement /4	0	76,000	76,000
Vision /5	0	1,000	1,000
Medicare /6	0	7,000	7,000
Worker's Comp /7	0	3,000	3,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
Other	0	0	0
Total Staff Benefits	\$ 0	\$ 207,000	\$ 207,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2010/11

Budget Change Proposal
Federal Treasury Offset Program

BCP No. 7
Date: August 11, 2009

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) is requesting funding of \$847,000 and 11 positions (10.4 PYs) for FY 2010/11 to implement the Federal Treasury Offset Program (FTOP). This proposal represents year one of a four-year project in which total project and program costs are projected to be \$11 million (refer to FTB FSR 09-01). Revenue generated from this proposal is expected to be \$6 million in FY 2010/11, increasing to \$93 million by FY 2013/14.

FTOP is a federal collection tool working in partnership with the Debt Management Services (DMS), the Financial Management Services (FMS) and the Internal Revenue Service (IRS) under the US Department of Treasury. FMS, a bureau of the Department of Treasury, is the US Government's financial manager and central collection agency. They administer FTOP at the federal level that is used to collect federal tax debt, federal non-tax debt, child support debt, and state debt, including state income tax. Full automated participation in the FTOP will create a new revenue source which will generate new and accelerated revenue for the state and reduce California's Tax Gap.

B. BACKGROUND/HISTORY

Federal law¹ provides for the collection of various past due liabilities owed to the state—including state tax obligations—by the federal government through the reduction in the amount of refunds payable to federal taxpayers. In return, the federal government requires states to offset against state tax refunds certain federal obligations. Currently, forty states participate in the Treasury Offset Program (TOP) and have reciprocal arrangements with the IRS with respect to tax delinquencies. Of all the states having a state income tax, only California and one other state, do not currently submit state income tax debt to FMS.

Representatives from the Federation of Tax Administrators (FTA) and the National Association of State Auditors, Comptrollers and Treasurers (NASACT) view the state income tax offset program as an effective collection tool. In 2008, FMS collected more than \$380 million in delinquent state income tax debt on behalf of states through offset of federal income tax refunds and stimulus payments.

FTOP uses a computerized process to compare the names and taxpayer identification numbers (TIN) of debtors with the names and TINs of recipients of federal payments, including tax refunds. If there is a match, the federal payment is reduced, or offset, to satisfy the overdue debt. FMS currently charges \$22 per successful offset. This fee is deducted prior to fund transmissions. FTB will offset the fee by passing the burden to the debtor as a collection fee.

¹ Federal legislation passed by Congress in 1998 (P.L. 105-206).

FTOP Limited Participation Pilot

In July 2008, FTB began participating in the FTOP in a limited manual capacity. The pilot was initiated to determine the feasibility and cost effectiveness of a fully automated process. In order to comply with the FMS certification agreement and due to current system limitations, cases were limited to those with all debt less than 10 years old and no agency-offset request. This decreased the universe of potential accounts meeting criteria for offset by 45%. This reduction will be restored once the program is fully automated.

The pilot has proved to be successful in many ways. In the first 12 months of operation, the program has generated 700 taxpayer contacts and collected over \$2 million. Upon receiving a Notice of Intent to Offset, many taxpayers chose to submit payment directly to FTB while others were motivated to file previously unfiled, delinquent tax returns.

This proposal is directed at addressing noncompliant taxpayers. FTB is continuing to take action to close the tax gap resulting in more equitable taxation for those taxpayers who voluntarily comply with the state tax laws. Approximately 10 percent of California's \$6.5 billion income tax gap consists of reported but unpaid taxes. This proposal would further the department's efforts to narrow the tax gap by adding a revenue source which will generate new and accelerated revenue for the state's general fund as illustrated in the table below.

FTOP Revenue Projections

Projections	FY 10/11	FY 11/12	FY 12/13	FY 13/14	Total
Revenue	\$6,000,000	\$80,000,000	\$113,000,000	\$93,000,000	\$292,000,000
Expenses*	\$1,821,000	\$3,598,000	\$2,777,000	\$2,806,000	\$11,002,000
Net Revenue	\$4,179,000	\$76,402,000	\$110,223,000	\$90,194,000	\$280,998,000
ROI	\$3.3 to 1	\$22.2 to 1	\$40.7 to 1	\$33.2 to 1	\$26.5 to 1

*Includes redirected resources.¹

The FTOP project will consist of four phases. The first phase will incrementally expand the current pilot program as well as begin the design, development and enhancements of our accounting and collection systems for Personal Income Tax (PIT) cases. The second phase will begin the automated transmission of PIT data to FMS. Phases three and four will implement Business Entity (BE) accounts and automate BE transmission to FMS. This proposal is requesting resources for phases one and two.

In light of the state's current economic conditions, every effort is being made to utilize our existing Information Technology (IT) staff resources throughout the FTOP project. FTB is requesting an augmentation of 11 program positions (10.4 PYs). These positions are needed to address the increase in the FTOP manual workload. This includes identifying cases, generating and mailing of notices, balance adjustments, case maintenance, responding to incoming calls and correspondence.

C. STATE LEVEL CONSIDERATIONS

FTB continues to take actions that improve collection activity to increase revenue. This augmentation will generate an additional \$6 million per year in revenue for the general fund beginning in FY 2010/11. This figure is expected to reach \$93 million by FY 2013/14.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The program areas affected by this proposal have the space available to accommodate the additional staff.

E. JUSTIFICATION

FTB's mission is "to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness." This proposal fully supports FTB's Strategic Plan Goals #2 "Increase Fairness and Compliance with Tax Law" and #5 "Demonstrate Operational Excellence." The State Administrative Manual -section 8776.6 Nonemployee Accounts Receivable- recommends that agencies pursue offsets as a means to collect delinquent accounts. Offsetting taxpayer Federal income tax refunds and payments may be a less burdensome action that has a lower impact to the taxpayer's finances than a bank levy or wage garnishment.

F. OUTCOMES AND ACCOUNTABILITY

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

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative # 1 – Approve funding of \$847,000 and 11 positions (10.4 PYs) to implement and automate the FTOP project.

This alternative represents year one of a four-year project in which total project and program costs are projected to be \$11 million². This alternative modifies our existing accounting and collection platforms, thereby limiting risk while adhering to our Enterprise Architecture. It will also allow for the broadest universe of delinquent accounts receivable, increasing revenue potential. Automation will lessen the chances of user error and over/under collection of offsets. This alternative will allow FTB to incorporate our existing delinquent accounts receivable while timely pursuing new delinquent debts. This alternative will bring in an

² Costs include redirected resources of \$3.37 million.

additional \$6 million in new and accelerated revenue in FY 2010/11, increasing to \$93 million by FY 2013/14.

Alternative # 2 – Approve funding of \$1.8 million and 29 positions (28 PYs).

This alternative would modify our existing accounting and collection systems, as in alternative 1, but the certified, return-receipt-requested envelopes would be manually generated instead of purchased. This alternative would save \$0.22 per certified envelope. This savings is negated by the need to add an additional 18 positions to handle the certified mailings. This alternative is not considered the most cost effective solution and would result in additional cost of approximately \$1 million compared to alternative 1.

Alternative # 3 – Provide no additional resources or funding.

This alternative would not add the funds to implement FTOP. This would result in a loss of potential revenue that would reach \$93 million by FY 2013/14. Considering the state's current budgetary crisis, this would be a costly missed opportunity to add revenue to the general fund in a method that has proved successful across the nation.

H. TIMETABLE

Funding to be provided on July 1, 2010.

I. RECOMMENDATION

Alternative # 1 is recommended. This will allow FTB to implement FTOP and modify our existing collection and accounting systems using the most cost-effective method.

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

BCP # 8	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Tax Programs	ELEMENT All Tax Programs	COMPONENT	

TITLE OF PROPOSED CHANGE:

IT Refresh

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board requests a one-time augmentation of \$2.64 million in FY 2010/11, \$2.37 million in FY 2012/13 and \$2.37 million in FY 2013/14, for a total BCP request of \$9.74 million (financed over 4 years). This multi-year augmentation will fund replacing key components of network switches and replacing the Enterprise Tap Library, to reduce the risk that these items will fail and impact FTB's revenue-generating activities.

REQUIRES LEGISLATION <input type="checkbox"/> YES <input 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

PREPARED BY:	DATE	REVIEWED BY:	DATE
FTB PROGRAM MANAGER:			
DEPARTMENT DIRECTOR:	DATE	AGENCY EXECUTIVE:	DATE

Pending Board Approval

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

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

DATE _____ PROJECT # FTB 09-03 . FSR OR SPR
IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? _____ N/A

YES
 NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS DCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #8 DATE 8/11/2009 Title of Proposed Change:
 IT Refresh
 PROGRAM ELEMENT COMPONENT
 Tax Programs All Tax Programs

	Personnel Years			CY	BY	BY + 1
	CY	BY	BY + 1			
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 /1				0	19,000	0
Travel Out-of-State				0	0	0
Training /2				0	30,000	10,000
Facilities Operations				0	0	0
Utilities				0	0	0
Cons & Prof Svs - Interdept'l				0	0	0
Cons & Prof Svs - External /3				0	226,000	0
Consolidated Data Center				0	0	0
California Health and Human Services Agency Data Center				()	()	()
Stephen P. Teale Data Center				()	()	()
Data Processing /4				0	2,125,000	2,125,000
Equipment				0	0	0
Other Items of Exp (Specify Below) /5				0	242,000	242,000
Total Operating Expense & Equipment				\$ 0	\$ 2,642,000	\$ 2,377,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
 b/ Detail provided on following pages.
 /1 Travel to district offices
 /2 Training to support and use the upgraded infrastructure equipment
 /3 Network wiring vendor
 /4 Hardware & software purchase @ \$2,125,000 per year (for four years) for a total of \$8,498,000
 /5 Financing charge, 5.25% interest @ approx \$242,000 per year (for four years) for a total of \$968,000

TOTAL OPERATING EXPENSES AND EQUIPMENT

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
	\$ 0	\$ 2,642,000	\$ 2,377,000

SPECIAL ITEMS OF EXPENSE d/

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

PROGRAM ADMINISTRATION
Distributed Admin

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

TOTAL STATE OPERATIONS EXPENDITURES

	\$ 0	\$ 2,642,000	\$ 2,377,000
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Source of Funds

Appropriation No.

	Org	Ref	Fund
General Fund	1730	001	0001
DMV - Motor Vehicle Acct.	1730	001	0044
DMV - License Fee Acct.	1730	001	0064
Court Ordered Debt	1730	001	0242
Reimbursements	1730	501	0995
Totals			

	\$ 0	\$ 2,534,852	\$ 2,280,599
	0	11,742	10,564
	0	22,017	19,808
	0	73,389	66,028
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	\$ 0	\$ 2,642,000	\$ 2,377,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

	Org	Ref	Fund
General Fund	1730	001	0001
Reimbursements			
Totals			

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

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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

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

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits

	2009/10	2010/11	2011/12
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, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.

**FRANCHISE TAX BOARD
Fiscal Year 2010/11**

**Budget Change Proposal
IT-Refresh**

**BCP No. 8
DATE: August 14, 2009**

A. NATURE OF REQUEST

The Franchise Tax Board (FTB) requests a one-time augmentation of \$2.64 million in FY 2010/11, \$2.37 million in FY 2011/12, \$2.37 million in FY 2012/13 and \$2.37 million in FY 2013/14, for a total BCP request of \$9.74 million (financed over 4 years). This multi-year augmentation will fund replacing key components of network switches and replacing the Enterprise Tape Library (both the mainframe and the distributed systems components). Also, FTB requests an ongoing augmentation of \$10,000 to FTB's budget baseline starting in FY 2011/12 and thereafter to support upgrades to the Enterprise Tape Library.

This project seeks funding to replace aging equipment and software that is out-of-support and/or hampered by old, inadequate technologies, to reduce the risk that these items will fail and impact FTB's revenue-generating capabilities. This request is supported by FSR 09-03 as approved by State and Consumer Services Agency on July 16, 2009 and submitted to the Office of the State Chief Information Officer on July 20, 2009.

B. BACKGROUND/HISTORY

Each year, FTB processes more than 15 million Personal Income Tax (PIT) tax returns and one million Business Entity (BE) returns, responds to more than 1.5 million telephone calls, handles over seven million Internet contacts, and collects about \$60 billion – an average of more than 65% of the state's general revenue each year. To a large extent, the FTB Data Center supports many of these transactions.

The FTB Data Center handles about 17 million online transactions in an average month, with a peak high of 20 million transactions, and runs more than 237,000 batch processes per month, with a high of 298,000 during peak season. Batch processes are large numbers of data transactions that run in "batches" without human interaction.

This project seeks funding to replace aging equipment and software that is out-of-support and/or hampered by old, inadequate technologies, to reduce the risk that these items will fail and impact FTB's revenue-generating capabilities. The programs administered by FTB rely heavily on networked, automated systems. In particular, these activities rely on:

1. The Data Center's mainframe computer, which houses FTB's two key tax accounting systems: TI (Taxpayer Information) and BETS (Business Entities Tax System);
2. Continuous access to accurate, up-to-date information;
3. FTB's internal network, which provides access to the mainframe; to FTB's revenue- and return-processing systems such as Cashiering and the paper return-

processing "pipeline," and to server-based applications including Integrated Non-filer Compliance (INC), Accounts Receivable Collection System (ARCS), and Professional Audit Support System (PASS).

Replacing aging, obsolete, end-of-support equipment that is part of FTB's network and mainframe infrastructure supports what FTB has termed the "Blue Path." The "Red Path" represents the systems and programs that are engaged in processing tax obligations that are filed incorrectly or that require remediation in the collection of taxes owed. Conversely, the blue path represents the systems and programs that are engaged in processing tax obligations that are filed correctly and timely. By replacing equipment at the appropriate time, we avoid equipment failures that cost the state money, and we maximize our return on investment.

This project seeks funding to replace:

Switches and Switch Components

Key components of 84 network switches are essential for connecting FTB staff and automated devices to the FTB network. Without network connectivity, FTB's highly automated business processes would be severely impacted. End-of-support switches and switch components are part of the FTB network's access and distribution layers. The replacement includes supervisor engines, line modules, power supplies and chassis/fans. The replacement components include vendor support and maintenance. This project does not seek funding to replace switches or switch components that will not reach end of life prior to 2013.

Enterprise Tape Library System

The Enterprise Tape Library system (ETL). The ETL provides continuous access to the up-to-date, accurate information that FTB's automated systems and staff rely on to send accurate notices and perform appropriate, timely revenue-generating activities.

The proposed Distributed environment will consist of a new backup tape infrastructure that replaces the existing Super Digital Linear Tape (SDLT) infrastructure. This environment will allow FTB to provide a solution that utilizes a new Automated Tape Library (ATL), backup system disk pooling and/or that can leverage the advantages of Virtual Tape Library technology. This will enhance our ability to achieve our onsite / offsite backups and Disaster Recovery goals.

The proposed distributed solution will enhance the department's current backup infrastructure by:

- Replacing SDLT format tapes that have limited capacity and high error rates
- Installing new Automated Tape Library (ATL) that supports LTO drives
- Installing new Tape drives that utilizes LTO4 compliant hardware for writing to physical tapes that are stored offsite for Disaster Recovery processing

- Providing backup system disk pools that eliminate physical tape mounts, reducing the chance of errors tied to physical tape media for onsite requirements; or take advantage of Virtual Tape Library technology to reduce utilization of real tape devices that allow the backups to complete faster and more reliably, with little or no change needed to the backup environment.
- Providing a designed infrastructure that is “scalable” - expandable in the future with minimal changes to the existing infrastructure.

The proposed Mainframe Tape Backup and Storage Environment will consist of a new tape infrastructure that replaces the existing End of Service Life tape infrastructure. This new environment will allow FTB to provide a solution that combines a mainframe Virtual Tape Solution and real tape resources in order to meet the department’s daily batch processing and our onsite / offsite backups and Disaster Recovery requirements.

C. STATE LEVEL CONSIDERATIONS

Replacing FTB’s aging equipment and software reaching “end-of-support” will ensure consistency throughout the department and also ensure security processes are current. Also, reduce the risk that these items fail and impact FTB’s revenue-generating capabilities. FTB is required to exchange information with external entities including but not limited to private citizens, businesses, State entities, and Federal entities such as the IRS. The requirement to exchange information makes it necessary for the FTB’s technology to be compatible with the technology used by its customers.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

No facilities alterations required to accommodate the placement of the network switches and the Enterprise Tape Library System.

E. JUSTIFICATION

The existing FTB network and mainframe infrastructure face a critical challenge. Many of the network switches and the Enterprise Tape Library are reaching end-of-support or are hampered by old, inadequate technologies. The proposed solution meets all of the objectives and business requirements for Switches/Switch Components and the Enterprise Tape Library. This solution will provide FTB with uninterrupted network connectivity for its staff and the automated systems on the internal network and perform backup services more efficiently and effectively. This is the foundation of our process improvement efforts as stated in the FTB’s strategic goal #4, “Conduct our business efficiently and effectively.”

F. OUTCOMES AND ACCOUNTABILITY

This BCP is supported by a fully developed Feasibility Study Report, which provides detail of the project implementation plan. The FSR was developed by a project team made up

of members from across the enterprise. The progress of the project is overseen by a Project Manager who works in conjunction with the department's Project Oversight and Guidance (POG) office to ensure all applicable guidelines and procedures are addressed. The FSR is the responsibility of the Department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both CIO and the Chief Financial Officer (CFO).

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 (Financing Option – 4 Years) – Provide one-time BCP funding of \$2.64 million in FY 2010/11, \$2.37 million in FY 2011/12, \$2.37 million in FY 2012/13 and \$2.37 million in FY 2013/14, for a total BCP request of \$9.74 million (financed over 4 years). Also, FTB requests an ongoing baseline augmentation of \$10,000 starting in FY 2011/12 and thereafter to support revenue activities of the department.

This augmentation (4 year financing) is necessary to replace key components of 84 network switches in the Central Office & the District Offices. Also, replace the Enterprise Tape Library (both mainframe and the distributed systems components). In addition, an ongoing augmentation to FTB's baseline budget starting in FY 2011/12 is necessary to support upgrades to the Enterprise Tape Library.

Alternative #2 (Same as #1 with no Financing Option) – Provide one-time BCP funding of \$8.8 million in FY 2010/11. Also, FTB requests an ongoing baseline augmentation of \$10,000 starting in FY 2011/12 and thereafter to support revenue activities of the department.

Same as Alternative #1 - without 4 year financing option. This augmentation is necessary to replace key components of 84 network switches in the Central Office & the District Offices. Also, replace the Enterprise Tape Library (both mainframe and the distributed systems components). In addition, an ongoing augmentation to FTB's baseline budget starting in FY 2011/12 is necessary to support upgrades to the Enterprise Tape Library.

Alternative #3 (No Financing Option) – Provide one-time BCP funding of \$7.26 million in FY 2010/11. Also, FTB requests an ongoing baseline augmentation of \$10,000 starting in FY 2011/12 and thereafter to support revenue activities of the department.

This augmentation is necessary to replace key components of 84 network switches in the Central Office & the District Offices. Also, replace the Enterprise Tape Library – ETL (both mainframe and the distributed systems components). Same as Alternative #1 - except remove Automated Tape Library from the ETL solution. In addition, an ongoing augmentation to FTB's baseline budget starting in FY 2011/12 is necessary to support upgrades to the Enterprise Tape Library.

Alternative #4 (No Financing Option) – Provide one-time BCP funding of \$6.28 million in FY 2010/11. Also, FTB requests an ongoing baseline augmentation of \$10,000 starting in FY 2011/12 and thereafter to support revenue activities of the department.

This augmentation is necessary to replace key components of 84 network switches in the Central Office & the District Offices. Also, replace the Enterprise Tape Library – ETL (both mainframe and the distributed systems components). Same as Alternative #1 - except remove Automated Tape Library and Mainframe Virtual Tape System from the ETL solution. In addition, an ongoing augmentation to FTB's baseline budget starting in FY 2011/12 is necessary to support upgrades to the Enterprise Tape Library.

Alternative #5 – Do not approve this request.

Equipment failures cost the state money and security processes may be vulnerable. These risks could impact FTB's revenue-generating activities.

H. TIMETABLE

Funding to be provided on July 1, 2010.

I. RECOMMENDATION

Alternative #1 is recommended. This proposal will provide the appropriate IT infrastructure to support the department's revenue activities with the least possible financial impact to the state especially in the current fiscal climate. With this funding the department will be able to replace its outdated network switches and Enterprise Tape Library as they reach "end-of-support". Alternative #1 meets the business objectives and functional requirements necessary to maintain existing systems without risking major equipment or software failure, as identified in FTB's IT Refresh/Replacement Feasibility Study Report (FTB FSR 09-03).

**STATE OF CALIFORNIA
BUDGET CHANGE PROPOSAL - COVER SHEET
FOR FISCAL YEAR 2010/11
DF-46 (REV 04/08)**

Please report dollars in thousands.

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

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

TITLE OF PROPOSED CHANGE:

Legislative Bills BCP

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board (FTB) is requesting funding of \$665,000 and a total of 3.5 positions (3.2 PYs) for FY 2010/11 to implement and administer two Legislative Bills that were recently chaptered as well as the continuation of a bill that was chaptered in February 2009. The legislation requires FTB to modify its systems to accommodate these new changes. The three Legislative Bills in this request include:

1. SBX4 -16: FTB Discharged from Collecting Tax Debts Less than \$500/State Agency Collection Fee on Accounts Receivables/ Penalty for Late Payment of Undisputed Invoice by State Agency (Stats, 2009, Ch. 23)
2. ABX4 -17: Estimated Payments Withholding (Stats, 2009, Ch. 15)
3. SBX2 -15/SBX3-15: Economic Stimulus Tax Provisions (Stats, 2009, Ch. 11 & 17)

REQUIRES LEGISLATION <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	CODE SECTION(S) TO BE AMENDED/ADDED	BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input checked="" type="checkbox"/> FULL-YEAR COSTS <input type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE
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PREPARED BY:	DATE	REVIEWED BY:	DATE
Pending Board Approval			
FTB 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 IT REQUESTS, SPECIFY THE DATE A SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO), OR PREVIOUSLY BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR OR SPR

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

YES NO ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP #9	DATE	Title of Proposed Change:		
PROGRAM	ELEMENT	Legislative Bills BCP COMPONENT		
Tax Programs	All Tax Programs			
<u>Personnel Years</u>				
	CY	BY	BY + 1	
Total Salaries & Wages <u>a/</u>	.0	3.5	2.5	\$ 0 \$ 543,000 \$ 196,000
Salary Savings	.0	-3	-2	\$ 0 -\$ 9,000 -\$ 6,000
Net Total Salaries and Wages	.0	3.2	2.3	\$ 0 \$ 534,000 \$ 190,000
Staff Benefits <u>b/</u>				\$ 0 \$ 100,000 \$ 54,000
Total Personal Services				\$ 0 \$ 634,000 \$ 244,000
Operating Expenses and Equipment				
General Expenses /1				\$ 0 \$ 7,000 \$ 2,000
Printing				0 0 0
Communications /2				0 3,000 2,000
Postage /3				0 10,000 10,000
Travel-In-State /4				0 3,000 3,000
Travel Out-of-State				0 0 0
Training				0 0 0
Facilities Operations				0 0 0
Utilities				0 0 0
Cons & Prof Svs - Interdept'l				0 0 0
Cons & Prof Svs - External				0 0 0
Consolidated Data Center				0 0 0
California Health and Human Services Agency Data Center	()	()	()	() () ()
Stephen P. Teale Data Center	()	()	()	() () ()
Data Processing /5				0 8,000 3,000
Equipment				0 0 0
Other Items of Exp (Specify Below)				0 0 0
Total Operating Expense & Equipment				\$ 0 \$ 31,000 \$ 20,000

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.
b/ Detail provided on following pages.
 /1 General Expense @ \$879 per position. Plus minor equipment @ \$1168 per new position.
 /2 Communication costs @ \$962 per position.
 /3 Postage Costs for additional mailings.
 /5 Software and Hardware for PCs @ 1691 and 2776 per PC, \$184 on-going cost for PCs .

TOTAL OPERATING EXPENSES AND EQUIPMENT

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 31,000	\$ 20,000

SPECIAL ITEMS OF EXPENSE d/

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

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

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0	\$ 665,000	\$ 264,000
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Source of Funds

Appropriation No.

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

\$ 0	\$ 665,000	\$ 264,000
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	\$ 665,000	\$ 264,000

LOCAL ASSISTANCE

Source of Funds

Appropriation No.

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

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

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

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions	Positions			Salary Range	Amount			
	CY	BY	BY + 1		CY	BY	BY + 1	
Audit Division								
Program Spec I PERM	0.0	1.0	1.0	\$ 5,076	\$ 6,476	\$ 0	\$ 69,000	\$ 69,000
Total Audit Division	.0	1.0	1.0			\$ 0	\$ 69,000	\$ 69,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	1.0					
Finance & Executive Services Division								
Research Prog Specialist I OT				\$ 4,833	\$ 5,874	\$ 0	\$ 2,000	\$ 0
Total Finance & Executive Services Division	.0	.0	.0			\$ 0	\$ 2,000	\$ 0
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	.0	.0					
Accounts Receivable Management Division								
Tax Technician, Ftb - Rg B PERM	0.0	1.0	1.0	\$ 2,817	\$ 3,426	\$ 0	\$ 37,000	\$ 37,000
Total Accounts Receivable Management 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								
Tax Program Tech II,Ftb PERM	0.0	0.5	0.5	\$ 2,951	\$ 3,588	\$ 0	\$ 20,000	\$ 20,000
Tax Program Tech I, Ftb OT				\$ 2,638	\$ 3,209	\$ 0	\$ 105,000	\$ 70,000
Total Filing Division	.0	.5	.5			\$ 0	\$ 125,000	\$ 90,000
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	.5	.5					
Technology Services Division								
Staff Info Sys Analyst Spec LT	0.0	1.0	0.0	\$ 5,065	\$ 6,466	\$ 0	\$ 69,000	\$ 0
Staff Prog Analyst Spec OT				\$ 5,065	\$ 6,466	\$ 0	\$ 241,000	\$ 0
Total Technology Services Division	.0	1.0	.0			\$ 0	\$ 310,000	\$ 0
Adjust for Part Year Positions	.0	.0	.0					
Net Positions/ PYs before salary savings	.0	1.0	.0					
Total Salaries and Wages								
Positions	.0	3.5	2.5			\$ 0	\$ 543,000	\$ 196,000
Part Yr Adj	.0	.0	.0					
P.Y.s	.0	3.5	2.5					

**Schedule of Staff Benefits Costs
FOR FISCAL YEAR 2010/11**

Staff Benefits	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 35,000	\$ 12,000
Dental /2	0	0	0
Health /3	0	25,000	18,000
Retirement /4	0	31,000	20,000
Vision /5	0	0	0
Medicare /6	0	8,000	3,000
Worker's Comp /7	0	1,000	1,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	0	0
Unemployment Insurance /10	0	0	0
Total Staff Benefits	\$ 0	\$ 100,000	\$ 54,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$539 per net personnel year.
- 3/ For permanent, \$8,289 per net personnel year.
- 4/ For permanent, 16.574% of net salary.
- 5/ For permanent, \$110 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.7% of net salary for permanent.
- 8/ 0.03% of net salary for permanent.
- 9/ 0.05% of net salary for permanent.
- 10/ 8.94% of net salary for temporary help.

FRANCHISE TAX BOARD
Fiscal Year 2010/11

Budget Change Proposal

BCP No. 9

Legislative Bills BCP

Date: August 13, 2009

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding of \$665,000 and a total of 3.5 positions (3.2 PYs) for FY 2010/11 to implement and administer two Legislative Bills that were recently chaptered as well as the continuation of a bill that was chaptered in February 2009. The legislation requires FTB to modify its systems to accommodate these new changes. The three Legislative Bills in this request include:

1. SBX4 -16: FTB Discharged from Collecting Tax Debts Less than \$500/State Agency Collection Fee on Accounts Receivables/ Penalty for Late Payment of Undisputed Invoice by State Agency (Stats, 2009, Ch. 23)
2. ABX4 -17: Estimated Payments Withholding (Stats, 2009, Ch. 15)
3. SBX2 -15/SBX3-15: Economic Stimulus Tax Provisions (Stats, 2009, Ch. 11 & 17)

B. Background

The Governor has signed a series of bills into law that are intended to address California's fiscal emergency. These reforms will provide immediate and long-term benefits to California's economy.

SBX4-16: FTB Penalty for Late Payment of Undisputed Invoice by State Agency/Discharge FTB from Collecting Tax Debts Less than \$500/State Agency Collection Fee on Accounts Receivables.

Provision 1:

Penalty for Late Payment of Undisputed Invoice by State Agency

This provision would add a definition of "payment" to mean the issuance of a warrant or a registered warrant by the Controller or the issuance of a revolving fund check by a state agency to a claimant in the amount of an undisputed invoice.

The provision would clarify existing law that if the state agency presented a correct claim schedule to the Controller by the required payment approval date, and the payment is not issued within 45 calendar days from the state agency receipt of the undisputed invoice, the state agency is responsible for payment of the penalty to the claimant. If the Controller does not issue a payment within 15 days of the receipt of a correct claim schedule from a state agency, and the payment is not issued with 45 days from the date the agency received the invoice, then the Controller is responsible to pay the penalty.

Provision 2:

Discharge FTB From Collecting Tax Debts Less Than \$500

This bill will increase the discharge from accountability threshold from \$250 to \$500. This bill would also release state agencies from the responsibility of collecting amounts owed that are less than \$500, although taxpayers are not relieved of the liability.

Provision 3:

State Agencies Impose Fee to Recover Costs of Collection and Provide Report to Controller on Accounts Receivables

This provision would authorize a state agency, department, or office to impose a collection fee not to exceed the actual costs of collection to recover the agency collection costs on past due accounts. The provisions would require an agency to submit an annual report to the Controller of the agency's accounts receivables and discharged accounts. The Controller would be required to provide the format and submission date for the annual report.

FTB would interpret this provision of the bill to allow FTB to pass the costs of participating in the FTOP program on to the taxpayer, as it is an additional cost to collect the unpaid tax liability, and any other collection costs that FTB may incur in the collection of tax debts.

Implementing this bill would require reprogramming the department's accounting systems to increase the write-off thresholds as well as additional programming.

A collection cost recovery fee is currently assessed on delinquent tax debts; therefore, FTB is interpreting these provisions to apply to the imposition of a collection fee on the nontax debts FTB collects, which would be assessed by the client agency and added to the amounts referred for collection.

ABX4-17 Estimated Payments Withholding

Provision 1:

Increase Withhold Rate on Wages, Supplemental Wages, Stock Options and Bonus Payments

This provision would require FTB to prepare wage withholding tables that would equate to an amount that is 10 percent higher than the amounts estimated to be due on wages earned under current law for wages paid on or after November 1, 2009.

This provision would also increase the fixed rate of tax withhold from supplemental wages from 6 percent to 6.6 percent, and would increase the fixed rate withheld from stock options and bonus payments from 9.3 percent to 10.23 percent from amounts paid on or after November 1, 2009.

Provision 2:

Modify Estimated Tax Payment Percentages

This provision would provide explicit authority for FTB to apply wage withholding in percentages consistent with the percentages required for estimated tax payments for taxable years beginning on or after January 1, 2009.

- Revise the percentages used to determine estimated tax payment requirements under the annualized income installment method to percentages consistent with SBX1-28 (Senate Committee on Budget, Stats. 2008, First Extraordinary Session, Ch. 1) for taxable years beginning after January 1, 2009 and before January 1, 2010.
- Eliminate the 3rd quarter estimated tax payment by revising the estimated tax payment percentages.
- Revise the percentages used to determine estimated tax payment requirements under the annualized income installment method to percentages consistent with percentages in item 3 above for taxable years beginning on or after January 1, 2010.

Implementing this bill requires FTB to make changes to existing computer systems and tax forms and instructions.

SBX2-15/SBX3-15 Economic Stimulus Tax Provisions

This bill was part of package signed by the Governor on February 20, 2009. FTB was approved for 3 Limited Term (12 months) positions and \$265,000 for the 2009/10 fiscal year to implement and administer these new tax credits. The request for an additional 1.5 Permanent positions and \$139,000 will allow FTB to continue administering these legislatively approved bills.

Provision 1:

Small Business Hiring Credit

This provision provides a credit to small businesses (20 employees or less) of \$3,000 for each new full-time equivalent employee. The credit will be available beginning in the 2009 tax year until the total funds of \$400 million are distributed.

Provision 2:

Film/TV Production Credit

This provision provides a credit of 20 percent or up to 25 percent of the qualified production cost of qualified motion pictures of TV series that are produced in California. Producers must first apply to the California Film Commission for a credit allocation, and, upon completion receive a credit certificate from the commission. The commission would be limited to \$100 million of credit allocations in any fiscal year. Allocations would begin in FY 09/10, and the first tax credits could be claimed for tax year 2011. A total of \$500 million of allocations would be available over five years.

Continuing the implementation of this bill requires FTB to monitor the allowance of the credits, establish maintenance of information sharing with the CA Film Commission, develop specifications and audit procedures, validate, quality review and test.

C. State Level Considerations

FTB will comply with the mandates of SBX4-16, ABX4-17 and SBX2-15/SBX3-15 with the additional resources requested.

D. Facility/Capital Outlay Considerations

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

E. Justification

This proposal will provide FTB with the resources and funding necessary to administer the mandated legislative bills.

F. Outcomes and Accountability

It is the responsibility of FTB to administer these tax changes. The resulting changes to the tax forms are subject to the oversight of the Tax Forms Design Unit under the direction of the Filing Division Chief. The programming and system changes will be under the direction of the Technology Services Division Chief.

G. Analysis of All Feasible Alternatives

Alternative # 1: Approve full request for \$665,000 and 3.5 positions.

This option provides the resources and funding necessary to fully implement and comply with the new laws.

Alternative # 2: Provide no additional resources or funding

This approach fails to comply with SBX4-16, ABX4-17, and SBX2-15/SBX3-15 and FTB would be out of compliance with the mandate to administer these new laws.

H. Timetable

Implement the resources within this proposal on July 1, 2010.

I. Recommendation

Alternative #1 is recommended.