

Franchise Tax Board  
 FY 2007/08 Budget Development  
 Summary of Proposed BCPs

BCP #s	BCP ISSUE	2007/08 COST ESTIMATE (in thousands)	PYs	SUMMARY
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**Tax Gap:**

1	Tax Gap Enforcement Provisions	\$24,932	249.4	This proposal requests resources to fund a mix of new and continuing initiatives designed to attack the tax gap in a comprehensive manner. This proposal as submitted, is expected to generate revenue of \$85 million in FY 2007/08, increasing to \$108 million in FY 2009/10.
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**IT Projects:**

2	E-Commerce Portal Infrastructure (EPI)	\$5,935	1.9	This proposal requests resources to restructure the current internet infrastructure and provide redundancy that will accommodate growth in FTB's e-commerce programs. This BCP is supported by a FSR reflecting a total project cost of \$14.2 million over 3.5 years.
3	Centralized Reverse Proxy Services (CRePS) Project	\$0	-10.8	This proposal requests using \$298,000 e-file savings to fund an enhancement to the security on FTB's Internet servers. CRePS will provide additional protection against unauthorized access via the intranet by allowing for only one well-guided point of entry. This BCP is support by a FSR reflecting a total project cost of \$411,000 over 1.5 years.

**Workload Growth:**

4	Legal Support for Abusive Tax Shelters	\$1,213	9.5	This proposal will provide additional resources in the Legal Department to support Abusive Tax Shelter Workloads.
6	Restore Customer Service Level	\$6,088	88.8	This proposal requests resources to increase the level of customer service provided to California's taxpayers and tax practitioners.
7	HRA Customer Service Level	\$788	14.4	This proposal requests resources to increase the level of customer service provided to Homeowners and Renters Assistance claimants.

**Legislatively Mandated IT Projects:**

8	California Child Support Automation System (CCSAS)	-\$99,208	0.0	This proposal adjusts the project funding in order to continue the development and implementation of the CCSAS project in FY 2007/08.
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**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2007/08  
DF-46 (REV 03/03)**

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

BCP # 1	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

**TITLE OF PROPOSED CHANGE:**  
  
Tax Gap Enforcement Initiatives

**SUMMARY OF PROPOSED CHANGE:**  
  
The FTB is requesting funding of \$24.9 million and a total of 262.5 positions (249.4 PYs) for FY 2007/08 to continue with existing tax gap activities and to develop new initiatives that would further help close that gap. This proposal as submitted, is expected to generate revenue of \$85 million in FY 2007/08, increasing to \$108 million in 2009/10.

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

Pending Board Approval

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

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

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? YES  NO   
ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)									
CAPITAL OUTLAY	<input type="checkbox"/>	OTROS	<input type="checkbox"/>	FSCU	<input type="checkbox"/>	OSAE	<input type="checkbox"/>	CALSTARS	<input type="checkbox"/>

DATE SUBMITTED TO THE LEGISLATURE \_\_\_\_\_ PPBA: \_\_\_\_\_



BCP # 1	DATE 8/17/06	Title of Proposed Change:					
		Tax Gap Enforcement Initiatives					
PROGRAM	ELEMENT	COMPONENT					
Tax Programs	Personal Income Tax						
		<u>Personnel Years</u>					
		CY	BY	BY + 1	CY	BY	BY + 1
<b>Total Salaries &amp; Wages a/</b>		.0	262.5	262.5	\$ 0	\$ 13,421,000	\$ 13,421,000
Salary Savings		.0	-13.1	-13.1	\$ 0	-\$ 665,000	-\$ 665,000
<b>Net Total Salaries and Wages</b>		.0	249.4	249.4	\$ 0	\$ 12,756,000	\$ 12,756,000
Staff Benefits b/					\$ 0	\$ 4,998,000	\$ 4,998,000
<b>Total Personal Services</b>					\$ 0	17,754,000	17,754,000

**Operating Expenses and Equipment /c**

General Expenses /1		\$ 0	\$ 658,000	\$ 167,000
Printing /2		0	20,000	20,000
Communications /3		0	310,000	276,000
Postage		0	0	0
Travel-In-State /4		0	414,000	384,000
Travel Out-of-State		0	0	0
Training /5		0	24,000	13,000
Facilities Operations /6		0	666,000	420,000
Utilities		0	0	0
Cons & Prof Svs - Interdept'l		0	0	0
Cons & Prof Svs - External /7		0	5,046,000	3,989,000
Consolidated Data Center		0	0	0
California Health and Human Services Agency Data Center		( )	( )	( )
Stephen P. Teale Data Center		( )	( )	( )
Data Processing /8		0	40,000	3,000
Equipment		0	0	0
Other Items of Exp (Specify Below)		0	0	0
<b>Total Operating Expense &amp; Equipment</b>		\$ 0	\$ 7,178,000	\$ 5,272,000

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

b/ Detail provided on following pages.

c/ Refer to Attachment 1 for footnote detail.

		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>		\$ 0	\$ 7,178,000	\$ 5,272,000
SPECIAL ITEMS OF EXPENSE d/		\$ 0	\$ 0	\$ 0
<b>PROGRAM ADMINISTRATION</b>		\$ 0	\$ 0	\$ 0
Distributed Admin		\$ 0	\$ 0	\$ 0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>		\$ 0	\$ 24,932,000	\$ 23,026,000
<b><u>Source of Funds</u></b>	<b><u>Appropriation No.</u></b>			
	Org - Ref - Fund			
General Fund	1730 - 001 - 0001	\$ 0	\$ 24,763,000	\$ 22,869,000
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
Reimbursements	1730 - 501 - 0995	0	169,000	157,000
<b>Totals</b>		<b>\$ 0</b>	<b>\$ 24,932,000</b>	<b>\$ 23,026,000</b>
<b>LOCAL ASSISTANCE</b>		\$( 0)	\$( 0)	\$( 0)
<b><u>Source of Funds</u></b>	<b><u>Appropriation No.</u></b>			
	Org - Ref - Fund			
General Fund	1730 - 001 - 0001	\$ 0	\$ 0	\$ 0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
Reimbursements	_____	0	0	0
<b>Totals</b>		<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

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

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	CY	Amount	
		CY 2006/07	BY 2007/08	BY + 1 2008/09			BY	BY + 1
<b>Administrative Services Division</b>								
Tax Research Specialist III	PERM	0.0	2.0	2.0	\$ 5,448 \$ 6,622	\$ 0	\$ 145,000	\$ 145,000
Program Spec II	PERM	0.0	1.0	1.0	\$ 5,208 \$ 6,329	\$ 0	\$ 69,000	\$ 69,000
Assoc Operations Spec/Ftb	PERM	0.0	2.0	2.0	\$ 4,111 \$ 4,997	\$ 0	\$ 115,000	\$ 115,000
Assoc Personnel Analyst	PERM	0.0	3.0	3.0	\$ 4,111 \$ 4,997	\$ 0	\$ 164,000	\$ 164,000
Tax Technician, Ftb - Rg B	PERM	0.0	1.0	1.0	\$ 2,632 \$ 3,201	\$ 0	\$ 35,000	\$ 35,000
Total Administrative Services Division		.0	9.0	9.0		\$ 0	\$ 528,000	\$ 528,000
Adjust for Part Year Positions		.0	.0	0.0				
Net Positions/ PYs before salary savings		.0	9.0	.0				
<b>Audit Division</b>								
Program Spec II	PERM	0.0	2.0	2.0	\$ 5,208 \$ 6,329	\$ 0	\$ 138,000	\$ 138,000
Program Spec I	PERM	0.0	18.0	18.0	\$ 4,743 \$ 5,763	\$ 0	\$ 1,135,000	\$ 1,135,000
Administrator I	PERM	0.0	5.0	5.0	\$ 4,743 \$ 5,763	\$ 0	\$ 315,000	\$ 315,000
Staff Prog Analyst Spec	PERM	0.0	1.0	1.0	\$ 4,732 \$ 5,754	\$ 0	\$ 63,000	\$ 63,000
Staff Operations Specialist/Ftb	PERM	0.0	1.0	1.0	\$ 4,516 \$ 5,489	\$ 0	\$ 60,000	\$ 60,000
Assoc Tax Auditor	PERM	0.0	40.0	40.0	\$ 4,316 \$ 5,247	\$ 0	\$ 2,296,000	\$ 2,296,000
Research Analyst II Gen	PERM	0.0	1.0	1.0	\$ 4,316 \$ 5,247	\$ 0	\$ 57,000	\$ 57,000
Staff Serv Analyst Gen - Rg B	PERM	0.0	2.0	2.0	\$ 2,850 \$ 3,465	\$ 0	\$ 76,000	\$ 76,000
Tax Technician, Ftb - Rg B	PERM	0.0	1.0	1.0	\$ 2,632 \$ 3,201	\$ 0	\$ 35,000	\$ 35,000
Tax Program Tech I, Ftb	PERM	0.0	4.0	4.0	\$ 2,465 \$ 2,998	\$ 0	\$ 131,000	\$ 131,000
Student Assistant - Rg B	TEMP	0.0	1.0	1.0	\$ 1,456 \$ 1,565	\$ 0	\$ 18,000	\$ 18,000
Seasonal Clerk	TEMP	0.0	1.0	1.0	\$ 1,325 \$ 1,514	\$ 0	\$ 17,000	\$ 17,000
Total Audit Division		.0	77.0	77.0		\$ 0	\$ 4,341,000	\$ 4,341,000
Adjust for Part Year Positions		.0	.0	0.0				
Net Positions/ PYs before salary savings		.0	77.0	.0				
<b>Legal Division</b>								
Tax Counsel III Spec	PERM	0.0	6.0	6.0	\$ 6,902 \$ 8,517	\$ 0	\$ 555,000	\$ 555,000
Total Legal Division		.0	6.0	.0		\$ 0	\$ 555,000	\$ 555,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	6.0	.0				
<b>Finance &amp; Executive Services Division</b>								
Assoc Operations Spec/Ftb	PERM	0.0	3.0	3.0	\$ 4,111 \$ 4,997	\$ 0	\$ 164,000	\$ 164,000
Acctg Officer Spec	PERM	0.0	1.0	1.0	\$ 3,589 \$ 4,363	\$ 0	\$ 48,000	\$ 48,000
Total Finance & Executive Services Division		.0	4.0	4.0		\$ 0	\$ 212,000	\$ 212,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	4.0	4.0				
<b>Accounts Receivable Management Division</b>								
Investigation Spec II, Ftb	PERM	0.0	2.0	2.0	\$ 5,123 \$ 6,188	\$ 0	\$ 136,000	\$ 136,000
Investigator Spec II, Tech	PERM	0.0	10.0	10.0	\$ 5,120 \$ 6,180	\$ 0	\$ 678,000	\$ 678,000
Administrator I	PERM	0.0	3.0	3.0	\$ 4,743 \$ 5,763	\$ 0	\$ 189,000	\$ 189,000
Investigation Spec I, Ftb - Rg B	PERM	0.0	5.0	5.0	\$ 4,663 \$ 5,625	\$ 0	\$ 309,000	\$ 309,000
Assoc Tax Auditor	PERM	0.0	7.0	7.0	\$ 4,316 \$ 5,247	\$ 0	\$ 405,000	\$ 405,000
Sr Compliance Rep.,Ftb	PERM	0.0	9.0	9.0	\$ 4,316 \$ 5,247	\$ 0	\$ 516,000	\$ 516,000
Compliance Rep, Ftb - Rg B	PERM	0.0	17.0	17.0	\$ 2,994 \$ 3,465	\$ 0	\$ 659,000	\$ 659,000
Tax Technician, Ftb - Rg B	PERM	0.0	26.0	26.0	\$ 2,632 \$ 3,201	\$ 0	\$ 911,000	\$ 911,000
Tax Program Tech I, Ftb	PERM	0.0	11.0	11.0	\$ 2,465 \$ 2,998	\$ 0	\$ 361,000	\$ 361,000
Tax Auditor - Rg B	PERM	0.0	1.0	1.0		\$ 0	\$ 43,000.00	\$ 43,000
Total Accounts Receivable Management Division		.0	91.0	91.0		\$ 0	\$ 4,207,000	\$ 4,207,000
Adjust for Part Year Positions		.0	.0	0.0				
Net Positions/ PYs before salary savings		.0	91.0	91.0				



**Filing Division**

Sr Operations Specialist/Ftb	PERM	0.0	1.0	1.0	\$ 4,960	\$ 6,028	\$ 0	\$ 66,000	\$ 66,000
Staff Operations Specialist/Ftb	PERM	0.0	4.0	4.0	\$ 4,516	\$ 5,489	\$ 0	\$ 240,000	\$ 240,000
Assoc Tax Auditor	PERM	0.0	6.0	6.0	\$ 4,316	\$ 5,247	\$ 0	\$ 344,000	\$ 344,000
Sr Compliance Rep.,Ftb	PERM	0.0	4.0	4.0	\$ 4,316	\$ 5,247	\$ 0	\$ 230,000	\$ 230,000
Assoc Operations Spec/Ftb	PERM	0.0	1.0	1.0	\$ 4,111	\$ 4,997	\$ 0	\$ 55,000	\$ 55,000
Tax Program Supervisor	PERM	0.0	1.0	1.0	\$ 2,898	\$ 3,524	\$ 0	\$ 39,000	\$ 39,000
Customer Service Specialist - Rg B	PERM	0.0	1.0	1.0	\$ 2,850	\$ 3,465	\$ 0	\$ 38,000	\$ 38,000
Tax Program Tech II,Ftb	PERM	0.0	19.0	19.0	\$ 2,757	\$ 3,353	\$ 0	\$ 697,000	\$ 697,000
Tax Technician, Ftb - Rg B	PERM	0.0	1.0	1.0	\$ 2,632	\$ 3,201	\$ 0	\$ 35,000	\$ 35,000
Tax Program Tech I, Ftb	PERM	0.0	9.0	9.0	\$ 2,465	\$ 2,998	\$ 0	\$ 295,000	\$ 295,000
Key Data Operator - Rg B	PERM	0.0	3.5	3.5	\$ 2,289	\$ 2,780	\$ 0	\$ 106,000	\$ 106,000
Seasonal Clerk	TEMP	0.0	2.0	2.0	\$ 1,325	\$ 1,514	\$ 0	\$ 34,000	\$ 34,000
<b>Total Filing Division</b>		<b>.0</b>	<b>52.5</b>	<b>52.5</b>			<b>\$ 0</b>	<b>\$ 2,179,000</b>	<b>\$ 2,179,000</b>
Adjust for Part Year Positions		.0	.0	0.0					
Net Positions/ PYs before salary savings		.0	52.5	52.5					

**Technology Services Division**

Sr Programmer Analyst Spec	PERM	0.0	3.0	3.0	\$ 5,206	\$ 6,327	\$ 0	\$ 208,000	\$ 208,000
Staff Info Sys Analyst Spec	PERM	0.0	10.0	10.0	\$ 4,732	\$ 5,754	\$ 0	\$ 629,000	\$ 629,000
Staff Prog Analyst Spec	PERM	0.0	3.0	3.0	\$ 4,732	\$ 5,754	\$ 0	\$ 189,000	\$ 189,000
Staff Operations Specialist/Ftb	PERM	0.0	4.0	4.0	\$ 4,516	\$ 5,489	\$ 0	\$ 240,000	\$ 240,000
Assoc Operations Spec/Ftb	PERM	0.0	1.0	1.0	\$ 4,111	\$ 4,997	\$ 0	\$ 55,000	\$ 55,000
Asst Info Systems Analyst - Rg B	PERM	0.0	2.0	2.0	\$ 2,994	\$ 3,465	\$ 0	\$ 78,000	\$ 78,000
<b>Total Technology Services Division</b>		<b>.0</b>	<b>23.0</b>	<b>23.0</b>			<b>\$ 0</b>	<b>\$ 1,399,000</b>	<b>\$ 1,399,000</b>
Adjust for Part Year Positions		.0	.0	0.0					
Net Positions/ PYs before salary savings		.0	23.0	23.0					

**Total Salaries and Wages**

Positions	.0	262.5	262.5	<u>\$ 0</u>	<u>\$ 13,421,000</u>	<u>\$ 13,421,000</u>
Part Yr Adj	.0	.0	.0			
P.Y.s	.0	262.5	262.5			

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2007/08**

**Staff Benefits**

	2006/07	2007/08	2008/09
OASDI /1	\$ 0	\$ 791,000	\$ 791,000
Dental /2	0	139,000	\$ 139,000
Health /3	0	1,681,000	\$ 1,681,000
Retirement /4	0	2,022,000	\$ 2,022,000
Vision /5	0	27,000	\$ 27,000
Medicare /6	0	183,000	\$ 183,000
Worker's Comp /7	0	102,000	\$ 102,000
Industrial Disability /8	0	8,000	\$ 8,000
Non Industrial Disability /9	0	38,000	\$ 38,000
Unemployment Insurance /10	0	7,000	\$ 7,000
	<u>\$ 0</u>	<u>\$ 4,998,000</u>	<u>\$ 4,998,000</u>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$570 per net personnel year.
- 3/ For permanent, \$6848 per net personnel year.
- 4/ For permanent, 15.94% of net salary.
- 5/ For permanent, \$114 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.07% of net salary for permanent.
- 9/ 0.29% of net salary for permanent.
- 10/ 10.22% of net salary for temporary help.

**FRANCHISE TAX BOARD**  
**Fiscal Year 2007/08**

**Budget Change Proposal**

**BCP No.: 1**

**Tax Gap Enforcement Initiatives**

**Date: August 17, 2006**

**A. Nature of Request**

The Franchise Tax Board is requesting funding of \$24.9 million and a total of 262.5 positions (249.4 PYS) for FY 2007/08 to continue with existing Tax Gap activities and to develop new initiatives that would further help close that gap. This proposal will result in an estimated \$85 million in FY 2007/08 growing to \$108 million annually in FY 2009/10.

This proposal includes several initiatives that are intended to attack the problem in a comprehensive manner. Therefore this proposal should be viewed as a corporate approach rather than several separate and disconnected proposals. For a summary of positions, costs, and revenue related to the initiatives covered in this BCP, please refer to Attachments 1 and 2.

The various initiatives can be grouped into two major categories. The first group consists of those initiatives that were approved during the FY 2005/06 budget process. These 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 positions associated with those initiatives were originally established on a 2-year limited term basis. To continue these efforts, the Department is requesting \$12.2 million and 180.5 positions in FY 2007/08. These continuing initiatives are expected to generate approximately \$64.7 million in FY 2007/08 increasing to \$68.5 million in FY 2009/10 and beyond. These continuing initiatives include:

1. Detection of Preparers Filing Fraudulent Returns
2. Additional Information Sources to Identify Non-filers
3. Underground Economy Criminal Investigations
4. Audit Staff Augmentation
5. Collection Staff Augmentation
6. Discovery Audit Activities

The second group of initiatives included in this BCP consists of new initiatives that 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.*" In late 2005 and early 2006 FTB convened tax experts and stakeholders including business, taxpayer and professional groups, as well as Legislative staff to help identify and develop a comprehensive approach to address California's estimated \$6.5 billion tax gap.

Consistent with that plan, FTB has identified seven new initiatives. To support these new initiatives, we are requesting an augmentation of \$12.7 million and 82 positions in FY 2007/08. With this funding, we expect to generate revenue of \$20 million in FY 2007/08 and increasing to \$40 million in FY 2009/10. These new initiatives, while

providing revenue in the short term, will also 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 2009/10 and beyond. These new proposals will:

1. Focus on Independent Contractors
2. Expand the Corporate Non-Filer Program
3. Address Out-of-State Tax Avoidance
4. Expand Investigation Workloads
5. Conduct Stakeholder Research, Outreach and Publicity
6. Implement an Informant Pilot
7. Improve Methods of Detecting Under-Reporters

## **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.

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.

This proposal builds on the victories of past enforcement efforts. It is noteworthy that the limited term positions approved through the FY 2005/06 Tax Gap BCP have successfully produced revenue and have started to affect taxpayer behavior as described in that BCP. Our revenue gains in FY 2005/06 are on target with the original BCP revenue estimates (Attachment 1.) The success of the prior Tax Gap efforts provides the rationale for FTB to seek on-going, annual funding for making these positions permanent.

Each of the new initiatives below is aimed at known noncompliance problems that make up large segments of the overall tax gap. These positions would be used to develop and implement seven new initiatives designed to reduce the tax gap as follows:

### **1. Focus on Independent Contractors**

(8 positions, \$681,000 in costs, \$1.5 million in revenue in FY 2007/08 increasing to \$5.9 million in FY 2009/10)

FTB estimates that approximately \$3.5 billion of the State's gross tax gap are attributable to sole proprietors who do not fully report income or who deduct more than allowable expenses. This initiative focuses on noncompliance of sole proprietors, specifically independent contractors, by addressing this issue from three perspectives:

- Education and Outreach
- Increased Audits of Noncompliance
- Voluntary Withholding Pilot Program

### Education and Outreach

FTB is confident we can positively influence Independent Contractors by concentrating Education and Outreach efforts toward those payees who work in business sectors that have been identified through recent studies.

- FTB will facilitate group seminars to assist independent contractors and payers to determine filing requirements, estimated payment requirements, and other related tax issues. These seminars will be a collaborative effort with other state agencies, such as the Contractors State Licensing Board and EDD.
- FTB will enhance on-line publications and compliance tools to include informational material, estimated income calculators, and estimated payment requirements.

### Increased Audits of Noncompliance

Stepped up auditing of independent contractors will reinforce the messages conveyed through education and outreach. Hypothetically, if a taxpayer contracts with an independent contractor, a taxpayer should deduct the payment as an expense. In turn, the independent contractor should report this payment as income. FTB auditors will compare these amounts to reveal discrepancies, leading to the issuance of a compliance letter. It is estimated that the revenue generated from assessments made using this methodology will cover the audit cost even if the lowest levels of revenue are pursued.

### Voluntary Withholding Pilot Program

Withholding on payments made to independent contractors is a strategy likely to produce significant revenue and compliance gains. However, FTB's 2005 Independent Contractor Withholding Study estimated that the economic impact of a mandatory withholding program to businesses could range as high as \$670 million. Thus, a voluntary withholding pilot program would avoid business burden while proving the value of withholding for the independent contractor population. Under current law, FTB has the authority to administer a voluntary withholding program specifically for Independent Contractors.

The pilot program we are proposing is designed to offer a withholding option to businesses, providing them with the benefit to track costs. Subsequent to the completion of the pilot, we plan to solicit information from participants – including the actual costs and benefits of the pilot. This information will then be used to predict the viability of a future program.

## **2. Expand the Corporate Non-Filer Program**

(15 positions, \$1.9 million in costs, \$4.8 million in revenue in FY 2007/08 increasing to \$11.8 million in FY 2009/10)

Expansion of FTB's business entity non-filer program will leverage current functionality provided by our expandable Integrated Non-Filer Compliance (INC) System. FTB currently focuses on individual and corporate taxpayers by obtaining information from IRS, EDD, and BOE sources. Funding provided through this BCP will be used to expand filing enforcement to other entity types (such as General Partnerships, Limited Partnerships, and Limited Liability Companies). In addition, funding will help FTB use data sources such as Federal 1099 and 1098 and California Schedule K-1 records from

Forms 100 and 565, to identify more business nonfilers (this information is currently available only for individual filers, not business entities.)

Expansion of the business entity nonfiler program is proposed in three phases over three years, leading to the identification of approximately 10,000 additional non-filers and new revenues estimated at \$11.8 million annually (by FY 2009/10.)

<b>Fiscal Year</b>	<b>Action</b>	<b>Additional Non-Filers</b>	<b>Revenue</b>
2007/08	Expand the Corporation Filing Enforcement (CFE) process to identify more business entity non-filers by using Federal Forms 1099 & 1098.	4,000	\$4.8m
2008/09	Add information to the CFE process (K-1 data) to identify more non-filers, and increase compliance and revenue.	1,900	\$3.8m
2009/10	Expand the CFE process to include General Partnerships, Limited Partnerships and Limited Liability Corporations (LLCs).	4,000	\$3.2m
Cumulative Total		9,900	\$11.8m

To ensure success with this measure, FTB requires the assistance of an outside vendor. Although FTB has skilled data architects to maintain the current level and complexity of data used for tax enforcement purposes, we do not possess sufficient experience to integrate and use the significantly more complex data architecture envisioned in this BCP. Thus, we request \$600,000 to cover estimated operating costs that will be incurred for vendor payments. It is prudent to obtain the skill, experience and expertise of an outside vendor to review and validate our integration plans.

The Department has identified a data evaluation and integration process for new data sources. This process:

- Accepts new sources of data;
- Evaluates the data source for quality and content;
- Extracts the data into a common format;
- Cleanses and associates the data to proper individual or business entity;
- Estimates the number of non-filers and/or under-reporters that could be identified through the data source.

Currently the ability to use the above-described process is limited to four staff members, and while each is skilled at a particular aspect of the process, none are conversant with all aspects of the process.

If approved, this BCP would fund the outside vendor costs necessary to train existing staff (10 to 12 specialists) within FTB to be skilled in all aspects of evaluating and using new data sources. This will allow FTB to evaluate new data sources efficiently and to evaluate multiple data sources simultaneously. As has been demonstrated through

several prior BCPs approved for FTB, new data sources are an integral component of efforts that help generate ongoing revenue streams for the department's nonfiler, audit and collection programs.

### **3. Address Out-of-State Tax Avoidance**

(23 positions, \$2.2 million in costs, \$10.4 million revenue in FY 2007/08 increasing to \$16.8 in FY 2008/09 and thereafter)

This initiative will focus on out-of-state taxpayers who intentionally avoid California income taxes through a series of transactions referred to as tax schemes. Additionally, this effort will enable FTB to identify and pursue those individuals who promote tax schemes. FTB will also assess appropriate penalties against these taxpayers and promoters. Finally, this measure will provide expanded education and outreach programs for tax practitioners and others who deal with out-of-state taxpayers. For example, information on withholding requirements for income earned in California will be a prominent part of the education and outreach package.

The following tax schemes will be targeted with this initiative:

#### Sham Corporations

Numerous taxpayers have illegally utilized out-of-state entities primarily for tax avoidance purposes. These out-of-state entities are formed to avoid California franchise tax by:

- Disguising themselves as out-of-state corporations when they are truly operating within California,
- Shifting profits from California entities to out-of-state entities within the same corporate structure,
- Eliminating taxation of capital gain through complex real estate transactions with out-of-state corporations.

#### Nonresidents Filing Erroneous Returns

In addition to out-of-state entities, individual taxpayers avoid California taxes by structuring transactions in order to file as a nonresident when they are, in fact, a California resident. Historically, FTB's focus has been on the high net worth individuals who erroneously claim to be nonresidents. Funding this BCP will expand the focus to individuals with modest or mid-level income and who file as nonresidents. FTB will streamline examination techniques to accurately identify these schemes and will provide targeted individuals with the opportunity to comply with tax laws before pursuing enforcement action.

#### Address Noncompliance in the Entertainment Industry

Some out-of-state entertainers, athletes, and artists who perform services in California do not consistently follow withholding laws. In part, not all entertainment venues fully understand and apply the State's withholding laws. Compliance is further complicated because FTB has been unable to consistently identify when services are performed in California.

Recent FTB research efforts geared towards the entertainment industry has included proactive contacts with various venues to notify them of withholding requirements. This BCP will provide funding needed to expand this effort and more vigorously concentrate on enforcement of the entertainment industry, including performance venues and entertainers themselves.

#### Promoter Penalties

Promoter marketing and advertising for tax schemes has become more prominent with claims of reducing the California tax burdens on taxpayers by incorporating and "establishing" a business outside of California, or "relocating" California residents to other states. In combination with the enforcement activities on business entities and individuals, FTB staff will identify promoters who are found advertising these out-of-state tax schemes, and will assess abusive tax avoidance transaction penalties where appropriate.

#### **4. Expand Investigation Workloads**

(13 positions, \$1.8 million in costs, \$13 million annual revenue beginning in FY 2009/10)

This initiative increases Investigations staff to pursue expansion of both the "Failure to File" and "False Return" workloads. Based on historical modeling and future projections, Investigations staff has identified the potential to open approximately 148 additional cases resulting in the following benefits:

- Out of the 148 anticipated cases opened, Investigations projects 81% (120 cases) will result in some form of arrest and prosecution. Of those 120 cases, roughly 16% will be successfully convicted in trial and 84% will enter into plea agreements. On average, cases prosecuted result in four years probation/jail time for each subject charged.
- Working these cases will influence voluntary compliance by increasing public awareness (76% of cases prosecuted received media coverage.)
- This workload will identify more than \$93 million in unreported income and will result in increased revenue assessments by an estimated \$13 million annually.

*Note: Assessments are based on a sample of 143 FY 2003/04 and FY 2004/05 cases.*

Investigation cases often fall outside normal tax collection or audit CBR funding criteria. However, these cases typically address the most egregious violations of the California Revenue and Taxation Code. This proposal attacks segments of the tax gap in a comprehensive manner by increasing enforcement of existing statutes, by undertaking new deterrent measures and by creating public awareness of the consequences of tax-related cheating.

This proposal generates revenue for the State and increases the tax base in the long term through increased voluntary taxpayer compliance. The costs associated with investigations and prosecutions are recouped on successful prosecutions based on an order by the court. FTB anticipates that the long-term deterrent effect of investigations exceeds the immediate revenue benefits that can be quantified to date.

## **5. Stakeholder Research, Outreach and Publicity**

(4 positions, \$4.5 million in costs, benefits are not quantified)

This initiative encompasses two foundational strategies that hold significant opportunity to measure and influence changes in voluntary taxpayer compliance. FTB proposes to enhance research capabilities and to acquire resources for mass-market publicity intended to increase the effectiveness of all other FTB efforts to narrow the tax gap.

Specifically, approval of funding for this measure will allow FTB to:

- Encourage future self-compliance by taxpayers who currently shirk their full tax obligation
- Discourage taxpayers who may consider non-compliance
- Increase confidence in the tax administration system

### Research

Taxpayers' willingness to voluntarily comply with tax laws increases when there is confidence in the tax administration agency. Using staff and consultant services, FTB intends to conduct stakeholder research to determine those strategies and actions that most influence taxpayer confidence. Based on the resulting findings, FTB will make program improvements leading to increased voluntary compliance. FTB will build research capabilities that will allow us to evaluate the effectiveness of our tax gap strategies and thus maximize the effective use of all our tax gap resources.

### Education, Outreach, and Publicity

Voluntary compliance lags when the public believes that most people cheat and get away with it. Thus, government must communicate that tax cheats are caught and held accountable. Our internal research indicates that taxpayers' willingness to voluntarily comply with tax laws increases when they perceive that the tax agency is procedurally fair and treats them with respect, and when social norms support tax paying. However, the current level of FTB communication regarding cheating is insufficient to cause a significant change in taxpayer behavior.

Currently FTB educates the public through free media news publicity stories. FTB also engages in many outreach programs that promote accurate self-reporting and tax payments, and works to increase self-reporting by publicizing criminal tax convictions, various audit programs, and collection actions. Increasing voluntary self-reporting is preferred to enforcement because the methods are less intrusive and more cost effective.

Promoting tax compliance through enforcement threats generally only motivates those taxpayers, who feel at risk of being audited. For most people who understand that the FTB cannot audit everyone, we need to motivate them to comply on their own. Much like Mothers Against Drunk Driving changed society's view of drinking and driving, we need to communicate the benefits of paying ones taxes such as increased government services and a lower per capita tax burden. The objective is to replace the perception that tax cheating is a victimless crime to the conclusion that tax cheating hurts everybody. When this begins to occur, we will see an upswing in compliance.

In 2004, the FTB partnered with the Board of Equalization to promote a general tax amnesty program. The Legislature funded a \$2.3 million marketing budget for a mass-market campaign that used the power, reach, and influence of radio, television, and print advertising. The positive, "California Counts on You," media campaign contributed to the highly successful amnesty program that collected a record-breaking \$4.5 billion in FY 2004/05. The publicity campaign was an integral part of the overall set of strategies FTB used to attract taxpayers to participate in amnesty. Without an awareness of the amnesty programs' availability and its short-time existence, the results would have been much lower.

FTB efforts in prior years show that education and outreach are effective. In addition, research findings from a recent social marketing test campaign in Bakersfield showed an increase in state income tax awareness of 14 percent. The campaign included consumer research before and after a media campaign was conducted. The purpose was to gauge individuals knowledge and attitudes toward compliance versus "fudging" on taxes. Approval of funding requested in this BCP will expand this pilot to a statewide campaign over the next three years. Results are expected to reflect the pilot: an increase in awareness leading to increased honesty in tax filing and payments.

FTB recognizes that the proposed campaign may be considered "social marketing." It is noteworthy to observe that many California agencies have undertaken such campaigns that have successfully changed behaviors of targeted audiences. Examples include:

- The Office of Traffic Safety's "Click It or Ticket" campaign to increase seat belt use has lifted California's seat belt use to 90.4 percent, significantly higher than the national average of 80 percent. The result is fewer lives lost.
- Caltrans' "Slow for the Cone Zone" has informed motorist that careless driving in work zones has serious consequences beyond delays. The campaign has helped change drivers' behavior and reduced collisions in highway work zones.
- The Department of Boating and Waterways conducts a multimedia boating safety awareness campaign to raise boaters' awareness of safety concerns and to reduce boating accidents. The ads focus on the vessel operator: "If it's your boat, it's YOUR responsibility."

Another area currently left untapped is outreach to the ethnic media in California. Feedback from this group tells us that many immigrants are aware of federal tax reporting requirements but not familiar with state tax laws. For instance, the fast-growing Latino segment alone currently makes up 32 percent of California's population. With the added staffing of bilingual spokespeople that will be hired through funds approved for this BCP, FTB will increase messages to a large audience that is relatively new to California and has limited understanding of their state tax law requirements.

## **6. Implement an Informant Pilot**

(5 LT positions, \$251,000 in costs, \$455,000 in revenue in FY 2007/08 increasing to \$728,000 in FY 2009/10)

This initiative focuses on improving FTB's informant process. FTB requests funding to operate an informant pilot program, allowing FTB to be more responsive to informants and the information they provide.

This proposal includes:

- Centralizing an intake process for receiving tips from informants
- Screening those tips to be matched with the most effective resources
- Referring those tips to audit or investigations
- Monitoring information received to improve effectiveness.

Historically, informants have sent their information to any FTB address they have felt appropriate, as no guidelines were established of how to process, address, or prioritize referrals. Additionally, no tracking mechanism existed to identify multiple related tips or to determine whether another area of the Department was pursuing a tip. Each area of the Department has addressed the informant information differently as their workloads and CBRs have permitted.

In January 2006, a web page was established on the FTB public website informing taxpayers how to contact FTB to report individuals or businesses that were not in compliance with tax laws. In the short amount of time that this centralized receipt of information was available, over 600 tips have been received and only 2% (12) of the tips were duplicates.

As part of the actions needed to support this proposal, FTB Public Affairs staff will promote the informant pilot program and its benefits by speaking at presentations to tax professional organizations and by educating the public on how best to provide information.

## **7. Improve Methods of Detecting Under-Reporters**

(14 positions, \$1.4 million in costs, \$3.2 million in revenue in FY 2007/08 increasing to \$4.8 million in FY 2008/09 and thereafter)

This initiative focuses on a segment of taxpayers intentionally under reporting their net income through techniques to conceal revenue or overstate expenses. These taxpayers typically file tax returns claiming to be operating as sole proprietors or small corporations. This effort will utilize business statistics within business activities to identify trends and profits, which will then be compared to tax returns. Examinations will focus on those taxpayers perceived to be under reporting their tax liabilities.

The focus of this proposal is to have a newly established audit team consisting of 8 auditors, who will identify alternative methods to detect and audit sole proprietors and small corporations. This audit team will:

- Analyze business statistics by business activity to identify averages such as Average Sales or % of Costs of Goods Sold to Sales.
- Develop benchmark statistics by business activity,
- Enhance our existing selection process to detect and project underreporting,
- Examine selected tax returns in relation to the benchmarks

- Share the results of the examinations with the Board of Equalization and EDD where appropriate for development of audit issues and leveraging resources.

FTB currently has an automated selection process to identify under-reporters. To increase the efficiency and flexibility of our current selection capabilities, additional IT staff is needed to gather additional system requirements and develop and test new data calculations and formulas.

In addition to the audit team, attorney assistance will be needed. The attorneys are needed to: 1) review contracts dealing with the shifting of income and expenses; 2) review audit issues for independent contractors and sole proprietors, who as independent business people, may have a contentious history with taxes; and 3) to handle consequential protests and appeals down the line, as cases are challenged and disputes arise.

In addition to the 11 positions described above, this initiative includes a request for the position authority for 2 positions needed to carry out Revenue and Taxation Code Section 19167(d), which provides a tax preparer penalty for unregistered tax preparers within California. Although the California Tax Education Council (CTEC) administers this legislation, the enforcement of the penalty portion was delegated to the FTB. CTEC also funds the enforcement portion of this new program. However, the legislation did not provide the position authority in order for FTB to carry out the enforcement portion. FTB requires two positions to carry out the provisions of the legislation and the agreement with CTEC.

This initiative also focuses on the growing under-reporting enabled by tax preparers. FTB will continue to educate and encourage the proper reporting of taxes. The FTB will utilize a team of two staff to identify unregistered tax preparers and meet with them as necessary. Note that all costs of this program are reimbursed by the CTEC, and therefore, we have not requested General Fund funding for these two positions.

### **C. State Level Considerations**

These proposals are 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. Impact to the State and many of its departments could be substantial if these efforts are not continued and developed.

For purposes of publicizing the voluntary withholding program described in this BCP, FTB plans to work with EDD, as appropriate, to develop a joint industry communication campaign and to resolve any jurisdictional issues that may arise between FTB's administration responsibilities of the State's non-wage withholding programs and EDD's administration of wage withholding. Given that the proposed voluntary program closely follows FTB's current nonresident withholding program for independent contractors, FTB believes there are no significant jurisdictional issues. For purposes of publicizing the proposed voluntary withholding program, FTB also will contact other state agencies, such as the Contractors State Licensing Board, that interact with independent

contractors. Approval of this BCP will not cause these agencies to incur unfunded responsibilities.

FTB will coordinate with EDD, the Contractors State Licensing Board, and CTEC as they are all impacted by this BCP.

#### **D. Facility/Capital Outlay Considerations**

The program areas represented in this BCP do not currently have the workstations available to accommodate the additional staff. We are requesting funding for desks, computers, phones, etc. The facility funding requested in this BCP was derived using the actual average cost per position of the facilities costs and additional costs for space needed due to the augmentation of new staff for both continuing and new initiatives. Accordingly, we are requesting funding for rent, tenant improvements, modular furniture, moving costs, etc. in support these initiatives.

#### **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 the 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 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 \$24.9 million and 262.5 positions.**

This provides the optimum mix of tactical and foundational measures that produce new revenue in the short term while providing the best opportunity to significantly increase self-assessment revenue over the longer term.

**Alternative # 2: Approve foundational initiatives for \$12.7 million and 95 positions.**

Do not approve tactical initiatives. This approach recognizes the need for strategic, long-term solutions to a long term, chronic problem. However, it would defer immediate revenue that should be considered for funding the proposed initiatives.

**Alternative # 3: Approve continuing efforts plus new foundational initiatives only for \$20.6 and 223.5 positions.**

This close variant to Alternative #1 provides a better mix of measures than Alternative #2 or Alternative #4, but it results in a reduction of only 39 PYs.

**Alternative #4: Approve continuing efforts plus new tactical initiatives only for \$16.6 million and 219.5 positions.**

This approach fails to recognize the need for foundational investments required to effectively address the chronic nature of the tax gap. It does produce revenue, but this revenue is primarily enforcement-based and “marginal” in terms of the potential gains offered through foundational and more strategic solutions.

**H. Timetable**

Implement the resources within this proposal on July 1, 2007. FTB recognizes that augmenting staff as proposed in Alternative #1 likely will take several months, with most of the new positions to be filled by December 2007.

**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 2009/10 and beyond.

**Attachment 1**  
**Tax Gap Enforcement Initiatives (Continuing)**  
**FY 2007/08**  
*(Dollars in thousands)*

ALLOTMENTS	Initiative #1 Detection of Preparers Filing Fraudulent Returns		Initiative #2 Additional Information Sources to Identify Non Filers		Initiative #3 Underground Economy Criminal Investigations		Initiative #4 Audit Staff Augmentation		Initiative #5 Collection Staff Augmentation		Initiative #6 Discovery Audit Activities		BY 2007/08 Continuing Initiatives Total	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
<b>Personal Services</b>														
Total Salaries and Wages	36.5	1,494	17.0	700	19.0	1,034	33.0	1,859 1/	55.0 2/	2,280	20.0	1,167	180.5	\$8,534
Salary Savings	-1.6	-73	-0.9	-35	-1	-52	-1.6	-92	-2.8	-114	-1.1	-59	-9.0	-\$425
Net Salaries and Wages	34.9	1,421	16.1	665	18.0	982	31.4	1,767	52.2	2,166	18.9	1,108	171.5	\$8,109
Staff Benefits		594		285		380		673		927		417		\$3,276
<b>Net Total Personal Services</b>	<b>34.9</b>	<b>2,015</b>	<b>16.1</b>	<b>950</b>	<b>18.0</b>	<b>1,362</b>	<b>31.4</b>	<b>2,440</b>	<b>52.2</b>	<b>3,093</b>	<b>18.9</b>	<b>1,525</b>	<b>171.5</b>	<b>\$11,385</b>
<b>Operating Expense &amp; Equipment</b>														
General Expense 3/		23		11		15		25		57		13		\$144
Printing 4/		3		1		1		3		4		2		\$14
Communications 5/		38		18		20		35		59		21		\$191
Postage														\$0
Travel-In-State 6/						64								\$64
Travel-Out-of-State														\$0
Training														\$0
Facilities Operations 7/		14		7		58		25		22		8		\$134
Utilities														\$0
Cons & Prof Svs - External 8/						300								\$300
Data Processing 9/								1		1				\$2
Equipment														\$0
<b>Total OE &amp; E</b>		<b>78</b>		<b>37</b>		<b>458</b>		<b>89</b>		<b>143</b>		<b>44</b>		<b>\$849</b>
<b>Total Expenditures</b>	<b>34.9</b>	<b>2,093</b>	<b>16.1</b>	<b>987</b>	<b>18.0</b>	<b>1,820</b>	<b>31.4</b>	<b>2,529</b>	<b>52.2</b>	<b>3,236</b>	<b>18.9</b>	<b>1,569</b>	<b>171.5</b>	<b>12,234</b>
<b>FUNDING</b>														
General Fund (1730-001-0001)		2,093		987		1,820		2,529		3,236		1,569		12,234
<b>Total</b>		<b>2,093</b>		<b>987</b>		<b>1,820</b>		<b>2,529</b>		<b>3,236</b>		<b>1,569</b>		<b>\$12,234</b>
<b>ANTICIPATED 20007/08 REVENUE/BENEFITS</b>		<b>\$14,500</b>		<b>\$13,200</b>		<b>\$4,000</b>		<b>\$13,000</b>		<b>\$17,600</b>		<b>\$2,400</b>		<b>\$64,700</b>
<b>ANTICIPATED 2009/10 REVENUE/BENEFITS</b>		<b>\$14,500</b>		<b>\$17,000</b>		<b>\$4,000</b>		<b>\$13,000</b>		<b>\$17,600</b>		<b>\$2,400</b>		<b>\$68,500</b>

1/ Includes 2 new Legal positions.

2/ Includes 3 new overhead positions.

3/ Std Costs: All initiatives received GE @ \$638 per position. Initiative #4 - received Minor Equipment for the 2 new positions @ \$1,034, Initiative #4 & #5 received PCs @ \$1,140 for the 5 new positions, Initiative #5 - received Modular Furniture costs for the 3 new positions @ \$6,162 per position (2 addtl legal positions renovations are in facilities).

Non-Std Costs: Initiative #3 - received GE of \$4,000 for Investigators,

4/ Std Costs: All initiatives received Printing @ \$77 per position.

5/ Std Costs: All initiatives received Communications @ \$1,051 per position, Issue #5 - received additional Wiring @ \$480 per position (for 3 new positions), Initiative #4 - 2 positions received their wiring in Facilities.

6/ Non-Std Costs: Initiative #3 received Travel -In-State for 6 Auditors @ \$10,667 per Auditor.

7/ Std Costs: All initiatives received Facilities @ \$389 per position.

Initiative #3 - received Facilities of \$50,000 for West Covina, Initiative #4 - received Facilities for 2 new Legal positions @ \$6,000 per position for Modular Furniture & Wiring.

Initiative #5 - received Wiring for 3 new positions @ \$225 per position.

8/ Non-Std Costs: Initiative #3 - received Cons & Prof Servs @ \$300,000 for media costs.

9/ Std Costs: Initiative #4 & 5 - received Data Processing costs for 5 new positions @ \$458 per position.



**Attachment 1  
Tax Gap Enforcement Initiatives (New)  
FY 2007/08  
(Dollars in thousands)**

ALLOTMENTS	Initiative #1		Initiative #2		Initiative #3		Initiative #4		Initiative #5		Initiative #6		Initiative #7		BY 2007/08 New Initiatives		BY 2007/08 TAX GAP	
	Independent Contractors		Corporate Non-Filers		Out-of-State Tax Avoidance		Investigations		Stakeholder Research, Outreach & Publicity		Informant Pilot		Detect Under Reporters		Total		TOTAL	
	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount	PY's	Amount
<b>Personal Services</b>																		
Total Salaries and Wages	8.0	462	15.0	854	23.0	1,416	13.0	829	4.0	249	5.0	160	14.0	917	82.0	\$4,887	262.5	\$13,421
Salary Savings	-0.4	-23	-0.8	-44	-1.2	-69	-0.6	-41	-0.2	-12	-0.2	-6	-0.7	-45	-4.1	-\$240	-13.1	-\$665
Net Salaries and Wages	7.6	439	14.2	810	21.8	1,347	12.4	788	3.8	237	4.8	154	13.3	872	77.9	\$4,647	249.4	\$12,756
Staff Benefits		167		306		507		286		86		57		313		\$1,722		\$4,998
<b>Net Total Personal Services</b>	7.6	606	14.2	1,116	21.8	1,854	12.4	1,074	3.8	323	4.8	211	13.3	1,185	77.9	\$6,369	249.4	\$17,754
<b>Operating Expense &amp; Equipment</b>																		
General Expense 1/		53		135		108		79		36		27		76		\$514		\$658
Printing 2/		1		1		2		1						1		\$6		\$20
Communications 3/		12		23		35		14		6		8		21		\$119		\$310
Postage																\$0		\$0
Travel-In-State 4/						150		110						90		\$350		\$414
Travel-Out-of-State																\$0		\$0
Training 5/						2		20						2		\$24		\$24
Facilities Operations 6/		5		9		27		465		2		3		21		\$532		\$666
Utilities																\$0		\$0
Cons & Prof Svs - External 7/				600						4,146						\$4,746		\$5,046
Data Processing 8/		4		7		11		6		2		2		6		\$38		\$40
Equipment																\$0		\$0
<b>Total OE &amp; E</b>		75		775		335		695		4,192		40		217		\$6,329		\$7,178
<b>Total Expenditures</b>	7.6	681	14.2	1,891	21.8	2,189	12.4	1,769	3.8	4,515	4.8	251	13.3	1,402	77.9	12,698	249.4	24,932
<b>FUNDING</b>																		
General Fund (1730-001-0001)		681		1,891		2,189		1,769		4,515		251		1,233		12,529		24,763
Reimbursements (1730-501-0995)														169		169		169
<b>Total</b>		681		1,891		2,189		1,769		4,515		251		1,402		\$12,698		\$24,932
<b>ANTICIPATED 2007/08 REVENUE/BENEFITS</b>		\$1,500		\$4,800		\$10,400		None		Unable to measure revenue.		\$455		\$3,200		\$20,355		\$85,055
<b>ANTICIPATED 2009/10 REVENUE/BENEFITS</b>		\$5,900		\$11,800		\$16,800		\$13,000				\$728		\$4,800		\$40,028		\$108,528

1/ Std Costs: All initiatives received GE @ \$638 positions, Minor Equipment @ \$1,034 per position and PCs @ \$1,140 per position.  
 Non-Std Costs: Initiative #4 - 11 investigators received special equipment @ \$3,845 per investigator, The following initiatives received Modular Furniture @ \$6,162 per position, Initiative #1 - 5 pos., Initiative #2 - 15 pos., Initiative #3 - 7 pos., Initiative #5 - 4 pos., Initiative #6 - 2 pos., Initiative #7 - 6 pos. for a total of 39 positions (excludes Audit positions).

2/ Std Costs: All but two initiatives (73 positions total, excluding Initiatives #5 & #6, not enough positions to include) include Printing @ \$77 per position .

3/ Std Costs: All initiatives received Comm @ \$1,051 per position.  
 Non-Std Costs: All (69 total) but Initiative #4 received Wiring @ \$480 per position (Initiative #4 wiring included in tenant improvements).

4/ Non-Std Costs: Travel In-State - Initiative #3 - received Travel @ \$12,000 per Auditor (for 12 Auditors) & Travel @ \$3,000 per Attorney (for 2 Attys), Initiative #4 - received Travel of \$110,000 (for Investigators), Initiative #7 - received Travel of \$90,000 (for 7 Auditors & 2 Attys).

5/ Non-Std Costs: Initiative #3 - \$2,000 (training for 1 ISA), Initiative #4 - \$20,000 (training for investigators), Initiative #7 - \$2,000 (training for 1 ISA).

6/ Std Costs: All initiatives received Utilities @ \$389 per position,  
 Non-Std Costs: All (69 total) but Initiative #4 received moving costs @ \$225 for relocation of employees (Initiative #4 - 13 positions moving costs is included in tenant improvements).  
 Initiative #3 - received Temp Move costs of \$12,000 (for 2 Attys), Initiative #4 - received Rent costs of \$260,000 and Tenant Improvement costs of \$200,000, Initiative #7 - received Temp Move costs of \$12,000 (for 2 Attys).

7/ Non-Std Costs: Initiative #2 - received \$600,000 for Consulting, License Costs, Initiative #5 - received Contract Services costs of \$4,146,000.

8/ Std Costs: All initiatives received Data Processing @ \$458 per position.



**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2007/08  
DF-46 (REV 03/03)**

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

BCP # 2	PRIORITY NO	ORG CODE 1730	DEPARTMENT <b>Franchise Tax Board</b>
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

E-Commerce Portal Infrastructure (EPI)

**SUMMARY OF PROPOSED CHANGE:**

This proposal requests an augmentation of \$5,935,000 and 2 positions (1.9 PYs) to provide the Internet network infrastructure and tools (primarily switches, routers, and firewalls) to effectively manage and maintain the growth of FTB's e-commerce programs.

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

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

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

DATE \_\_\_\_\_ APPROVAL PENDING PROJECT # FTB FSR 06-01 FSR  OR SPR   
IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? \_\_\_\_\_ N/A

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

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  OTROS  FSCU  OSAE  CALSTARS

DATE SUBMITTED TO THE LEGISLATURE: \_\_\_\_\_ PPBA: \_\_\_\_\_

BCP # 2	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
PROGRAM	8/8/06	E-Commerce Portal Infrastructure						
Tax Programs	ELEMENT	COMPONENT						
	Personal Income Tax							
<b>Total Salaries &amp; Wages a/</b>			.0	2.0	2.0	\$ 0	\$ 126,000	\$ 126,000
Salary Savings			.0	-1	-1	\$ 0	-\$ 6,000	-\$ 6,000
<b>Net Total Salaries and Wages</b>			.0	1.9	1.9	\$ 0	\$ 120,000	\$ 120,000
Staff Benefits b/						\$ 0	\$ 43,000	\$ 43,000
<b>Total Personal Services</b>						\$ 0	\$ 163,000	\$ 163,000

**Operating Expenses and Equipment**

General Expenses /1						\$ 0	\$ 6,000	\$ 1,000
Printing						0	0	0
Communications /2						0	1,053,000	870,000
Postage						0	0	0
Travel-In-State						0	0	0
Travel Out-of-State						0	0	0
Training /3						0	118,000	100,000
Facilities Operations /4						0	1,000	1,000
Utilities						0	0	0
Cons & Prof Svs - Interdept'l						0	0	0
Cons & Prof Svs - External /5						0	535,000	294,000
Consolidated Data Center						0	0	0
California Health and Human Services Agency Data Center						( )	( )	( )
Stephen P. Teale Data Center						( )	( )	( )
Data Processing /6						0	211,000	47,000
Equipment /7						0	3,848,000	460,000
Other Items of Exp (Specify Below)						0	0	0
<b>Total Operating Expense &amp; Equipment</b>						\$ 0	\$ 5,772,000	\$ 1,773,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$638 per position plus minor equipment @\$1,034 per position, and PCs @ \$1,140 per position.

/2 Communications @ \$1,051 per position, plus Internet Server Provider (ISP).

/3 Cost of IT Training classes.

/4 Facilities @ \$389 per position for utilities.

/5 Contract Services: \$177,000 for IV&V; \$17,000 for DGS; \$341,000 for IT Consultants.

/6 PC software, maintenance and licenses.

/7 IT Firewalls, Routers, Switches and Maintenance



**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount		
		CY	BY	BY + 1		CY	BY	BY + 1
<b>Administrative Services Division</b>								
Sys Software Spec I Tech	PERM	0.0	2.0	2.0	\$ 4,731 \$ 5,753	\$ 0	\$ 126,000	\$ 126,000
Total Technology Services Division		.0	2.0	2.0		\$ 0	\$ 126,000	\$ 126,000
Adjust for Part Year Positions		.0	.0					
Net Positions/ PYs before salary savings		.0	2.0	2.0				
<b>Total Salaries and Wages</b>								
	Positions	.0	2.0	2.0		\$ 0	\$ 126,000	\$ 126,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	2.0	2.0				

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2007/08**

Staff Benefits	2006/07	2007/08	2008/09
OASDI /1	\$ 0	\$ 7,000	\$ 7,000
Dental /2	0	1,000	1,000
Health /3	0	13,000	13,000
Retirement /4	0	19,000	19,000
Vision /5	0	0	0
Medicare /6	0	2,000	2,000
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
<b>Total Staff Benefits</b>	<b>\$ 0</b>	<b>\$ 43,000</b>	<b>\$ 43,000</b>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$570 per net personnel year.
- 3/ For permanent, \$6,848 per net personnel year.
- 4/ For permanent, 15.94% of net salary.
- 5/ For permanent, \$114 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.07% of net salary for permanent.
- 9/ 0.29% of net salary for permanent.
- 10/ 10.22% of net salary for temporary help.

**FRANCHISE TAX BOARD  
Fiscal Year 2007/08**

**Budget Change Proposal**

**BCP No. 2**

**E-Commerce Portal Infrastructure (EPI)**

**Date: August 8, 2006**

**A. Nature of Request**

The Franchise Tax Board (FTB) requests an augmentation of \$5.9 million and 2 positions (1.9 PYs) for FY 2007/08 to replace our current Internet infrastructure at FTB's Butterfield Way campus, plus create a redundant (or back-up) system at the Department of Technology Services (DTS). This proposal represents year one of a multi-year project in which total costs are projected to be \$14.2 million (refer to FTB FSR 06-01). This request will provide the Internet infrastructure and the necessary tools to effectively manage and maintain the growth of FTB's e-commerce programs. This design will also ensure that FTB's e-commerce applications, which are totally reliant on FTB's Internet infrastructure, remain available to the public and tax practitioners on the virtually uninterrupted basis they have come to expect.

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**B. Background/History**

FTB's key business strategy is to leverage the current momentum in growth of the public's use of e-commerce and to transfer more taxpayers to its e-commerce portal as the preferred method of interaction. FTB believes that, over the long term, providing reliable e-commerce that is available 24x7x365 empowers taxpayers and their representatives to take more control of their interaction with government. This empowerment leads to an increased sense of cooperation between FTB and its customers, promotes self-compliance with tax law, and increases FTB's ability to accomplish its primary mission of efficiently collecting the appropriate amount of tax.

Over the past decade, FTB has seen a significant increase in the public's use and acceptance of e-commerce through FTB's Internet portal, including those services focused on compliance. As the private sector and leading agencies in the public sector have learned, e-commerce is no longer a secondary, optional means of customer service. FTB's e-commerce portal is now a primary business channel for meeting public demand for convenient and relevant services.

Over the years, FTB has increasingly encouraged its strategic business partners, such as tax practitioners, software developers, and other governmental agencies to use and rely on FTB's Internet portal for exchanging and obtaining information. Internet unavailability and vulnerability put FTB's credibility at risk with its business partners that it has encouraged or required to conduct business with FTB via the Internet. Additionally, interruptions in Internet service put the credibility of FTB's business partners at risk with their customers. This has the potential of impacting the operations and business objectives of our strategic business partners. In order to encourage this type of e-commerce participation, the department must ensure that the portal is perceived as reliable as well as equipped to handle this level of e-commerce. To put this in context, approximately 98% of the 8.7 million e-filed tax returns that FTB expects

to receive in 2006 will come to FTB through business partners, such as Intuit and Jackson Hewitt. (The remaining 2% are e-filed directly by taxpayers.) This level of participation could be hindered if the department's business partners were not able to depend on this level of service.

### **C. State Level Considerations**

The Director of DTS has indicated that his agency does not have any issues with the proposed solution. This project will require that FTB rent rack space from DTS. FTB staff will install, configure, service and maintain the FTB Internet infrastructure equipment installed in that rented rack space as part of the FSR proposed solution. This project will have no other impact on the current operations of the DTS or any other external data centers.

### **D. Facilities**

The additional staff requested in this proposal can be accommodated within FTB's existing facilities, which will also accommodate growth in future years. The DTS location also has room to accommodate additional staff and growth in future years.

### **E. Justification**

FTB's mission is "to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost, efficiently, effectively, and fairly." This request supports that mission by ensuring that FTB's e-commerce applications, which are totally reliant on FTB's Internet infrastructure, remain available to the public and tax practitioners on the virtually uninterrupted basis they have come to expect. This request also ensures that FTB and the state can continue to rely on FTB's e-commerce applications to bring in an ever-increasing percentage of the state's general fund revenue. This request fully supports FTB's mission, objectives and goals as outlined in its Strategic Plan:

- Goal 1, Become Customer-Centered, by making it easier for customers to access and use products and services, empower taxpayers and others to resolve their issues through convenient self-service options.
- Goal 2, Promote Fair & Effective Tax Administration, by supporting e-commerce applications that increase the percentage of returns that are filed on time and error-free, helping to identify non-filers, and making filing returns as easy and fair as possible.
- Goal 4, Deliver Efficient and High-Quality Business Results, which capitalize on opportunities to improve efficiency through implementation of electronic processes and services.
- Goal 5, Protect Taxpayer Privacy and Ensure Security of Taxpayer information by implementing an Internet infrastructure, including enhanced Internet infrastructure security components, that is consistent with the Department's architectural standards for confidentiality of taxpayer information, using industry best practices for information security.

The EPI Proposed Solution (as discussed in the FSR) is based on separate physical locations, so that if one location is out of service, the other location remains operational to support FTB's e-commerce traffic. The FSR proposed solution effectively addresses security concerns and features separate network paths that can take over for each other in the event that one of the two paths fails. The Proposed Solution also features a design configuration that includes "redundant" devices that can back each other up in the event that one of them fails. In addition, the Proposed Solution is "scalable" – it can cost-effectively and easily accommodate the future growth of e-commerce at FTB. This type of architecture has been successfully implemented and proven in the private sector and is the industry standard in Internet infrastructure design.

E-commerce infrastructure reliability is key to supporting a 24X7X365 uptime. The EPI Project, by design, accomplishes this by incorporating network redundancy across components, devices, and two separate geographical sites. This methodology of redundancy promotes a self-healing environment that can prevent loss of revenue.

#### **F. Outcomes and Accountability**

This BCP is supported by a fully developed Feasibility Study Report, which provides detail of the project implementation plan. The FSR was developed by a project team made up of members from across the enterprise. The progress of the project is overseen by a Project Manager who works in conjunction with the department's Project Oversight and Guidance (POG) office to ensure all applicable guidelines and procedures are addressed. As the project moves through the various stages, POG ensures proper oversight is in place by initiating an Independent Verification & Validation (IV&V) or Independent Project Oversight Review (IPOR) where appropriate. At the same time, the Project Manager and staff of POG (project controller and project analyst) monitor monthly progress, monthly project expenditures and resource usage and ensure that proper internal and external reports are completed timely - such as development of the Post Implementation Evaluation Report (PIER). These reports, as well as the FSR itself, are the responsibility of the Department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both the CIO and the Chief Financial Officer (CFO).

#### **G. Analysis Of All Feasible Alternatives**

**Alternative #1** – Approve augmentation of \$5.9 million and 2 positions (1.9 PYs) for FY 2007/08 to develop and implement Internet infrastructure at two separate physical locations.

This alternative represents a project that spans more than three fiscal years, for a total project cost of \$14.2 million, and increases staff by 2 positions. This proposal provides for an FTB development effort that incorporates contracted technical assistance and that best satisfies our defined objectives and functional requirements. This proposal will provide FTB with a robust infrastructure to support e-commerce applications as they continue to grow. Recognizing the value and the necessity of a secure, stable, scalable, self-defending and self-healing network infrastructure are the strategic concepts that have guided the planning and design of the EPI project.

**Alternative #2 – Approve funding to develop and implement Internet infrastructure only at the FTB’s campus at a cost of \$4.3 million and 2 positions (1.9 PYs) for FY 2007/08. In this design alternative, all of the Internet infrastructure would be located on the FTB campus.**

This alternative represents a total project cost of \$10.6 million and would increase staff by 2.0 positions (1.9 PYs). Alternative #2 will provide FTB with a high level of security, fault-tolerance (dual or “backup” network paths and devices), and scalability (the ability to easily and cost-effectively accommodate e-commerce expansion).

However, unlike the Alternative #1 design, in the Alternative #2 design all of the Internet infrastructure would be located on the FTB campus. Because Alternative #2 lacks “site redundancy,” an outage on the FTB campus would bring down the entire FTB e-commerce presence.

**Alternative #3 – Maintain the current system. No additional funding required.**

If FTB does not replace its existing Internet infrastructure with the infrastructure proposed in either Alternative #1 or Alternative #2, it will continue to experience Internet infrastructure outages of unknown frequency and duration, during which FTB’s e-commerce applications will be unavailable to the public and FTB’s business partners.

FTB has already experienced a 23-hour outage over the course of 2 days in August 2005, during which e-commerce was completely unavailable. Failure to replace the existing system exposes FTB to the risk of more prolonged and catastrophic downtime, including the possibility of a lengthy outage during the peak Personal Income Tax filing season in April. Such an outage would negatively impact taxpayers, FTB’s business partners, and FTB’s credibility with its stakeholders.

Doing nothing also exposes FTB’s confidential taxpayer information to the continued risk of unauthorized access and unauthorized use due to an unsuccessfully repelled attack on FTB’s existing Internet infrastructure. Such a breach could be devastating for FTB’s credibility with its business partners, the public, with other public agencies, and with public officials and legislators.

**H. Timetable**

Secure project funding July 1, 2007, with project to be completed and the new system fully operational on November 2, 2009. See FSR for detailed timetable.

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## **I. Recommendation**

Alternative #1 is recommended.

As FTB's participation in e-commerce grows and business requirements change, FTB's network infrastructure must be able to support the e-commerce solutions on which the state of California, personal and business taxpayers, and FTB's business partners rely as the preferred method of interaction.

This alternative will provide geographical fault-tolerance (two separate Internet infrastructure locations that back each other up in the event that one location fails), dual network paths (two separate network paths that back each other up in the event that one fails) and scalability (the ability to easily and cost-effectively accommodate the future growth of FTB e-commerce) and best meets the objectives outlined in the FSR.

**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2007/08  
DF-46 (REV 03/03)**

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

BCP # 3	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

Centralized Reverse Proxy Services (CRePS) Project

**SUMMARY OF PROPOSED CHANGE:**

This proposal requests authority to redirect FY 2007/08 savings realized from e-file (\$298,000 projected) to fund a reverse proxy appliance that will add another layer of security to FTB's Internet servers by adding a single point of control over who can access servers. This project will resolve several security gaps as well as further position FTB for a statewide web portal, which is consistent with California's IT Strategic Plan.

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

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

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

DATE \_\_\_\_\_ PENDING APPROVAL PROJECT # FTB FSR 05-07 FSR  OR SPR   
IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? \_\_\_\_\_ N/A

YES  
 NO

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

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  OTROS  FSCU  OSAE  CALSTARS

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:





	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>	<u>\$ 0</u>	<u>\$ 298,000</u>	<u>\$ 0</u>
<b>SPECIAL ITEMS OF EXPENSE d/</b>			
_____	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
_____			
<b>PROGRAM ADMINISTRATION</b>	\$ 0	\$ 0	\$ 0
<b>Distributed Admin</b>	\$ 0	\$ 0	\$ 0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

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

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

**FRANCHISE TAX BOARD  
Fiscal Year 2007/08**

**Budget Change Proposal**

**BCP No. 3**

**Centralized Reverse Proxy Services (CRePS)**

**Date: August 8, 2006**

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**A. Nature of Request**

The Franchise Tax Board (FTB) requests authority to redirect FY 2007/08 tax return processing savings realized from projected volume increases in e-filed returns (\$298,000 projected) to fund a reverse proxy appliance. The CRePS project will improve the current e-commerce infrastructure by enhancing security through strengthening and hardening of Web server access and further reducing the possibilities of unauthorized access. As the proposed EPI project moves forward to build out the e-commerce infrastructure, to eliminate single points of failure and install redundancy, the reverse proxy design will carry over to this infrastructure. The funding request will be offset by a corresponding reduction of \$298,000 for the e-file savings, resulting in a net BCP funding request of zero.

**B. Background/History**

The primary function of the Franchise Tax Board (FTB) is to administer the California Revenue and Taxation Code, which includes receiving and processing of tax returns required from individuals and business entities. Receiving and processing of tax data is a core component of the overall program to provide compliance information, resolve accounts to determine tax liability, identify delinquent filers and otherwise examine returns to ensure compliance with the tax laws of the State. Processing includes the receipt, data capture, error detection and correction of returns and other documents and payments.

In FTB's publication *Filing 2010: The Future of State Income Tax Filing*, first published in 1996 and updated in 2000, FTB described an electronic tax filing and information-processing environment significantly different from the traditional paper-processing environment. To stay on track with the plan outlined in the *Filing 2010* document, FTB will continue to expand its electronic filing, payment and customer service systems. In FTB's the *E-government Blueprint* published in September 2000, Goal 1 is to "Deliver E-Government Services to our Customers and their Agents." Objective 4 further defines meeting this objective by "offering online service options for customer transactions."

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FTB is continually looking for ways to enhance its security practices to ensure that FTB has "state of the art" and "best practice" e-commerce security. In order for FTB to improve its e-commerce security, FTB needs to strengthen and harden access and communication to its web servers, accessible from the Internet.

**C. State Level Considerations**

This project will have no impact on the current operations of any other state departments.

**D. Facilities**

This project does not require additional facility needs.

**E. Justification**

FTB's strategic vision is to provide a high level of quality customer service, and provide convenient filing options to California's taxpayers. FTB has offered individual taxpayers a choice of e-filing for the past ten years and recently added e-filing option for business entities. This request fully supports FTB's mission, objectives and goals as outlined in its Strategic Plan:

- Goal 5: Protect Taxpayer Privacy and Ensure Security of Taxpayer Information.

The Department continues to experience a significant increase in public usage and acceptance of online, electronic services (e-services) offered through its Internet websites. E-Service (E-Commerce) is now relied on for the collection and distribution of tax information. FTB's websites are a primary business channel for satisfying public and internal demand for relevant services.

Securing FTB's e-services is a high priority. A secure electronic environment is needed to protect FTB's computer infrastructure and its underlying servers from malicious intent and fraudulent activity. It is a challenge for some e-services to comply with FTB's security requirements as outlined in the Information Security Manual and discussed in FTB FSR 05-07.

Key Project Objectives:

- 1) Implement a solution that will create a more secure web environment for FTB.
  - Deny Internet users direct access to any web-based server and access the web servers on behalf of the Internet users.
  - Reduce user access from multiple points to a single user-access point from the Internet.
  - Centrally log user access into FTB's websites and identify activities that may be malicious or fraudulent.
  - Resolve or mitigate key security gaps identified in independent security assessments.
- 2) Deliver faster content download of its web content.
  - Implement web content acceleration for static sites that exceeds FTB's baseline measurements.

**F. Outcomes and Accountability**

This BCP is supported by a fully developed Feasibility Study Report, which provides detail of the project implementation plan. The FSR was developed by a project team made up of members from across the enterprise. The progress of the project is overseen by a Project Manager who works in conjunction with the department's Project Oversight and Guidance (POG) office to ensure all applicable guidelines and procedures are addressed. As the project moves through the various stages, POG ensures proper oversight is in place by initiating an Independent Verification & Validation (IV&V) or Independent Project Oversight Review (IPOR) where appropriate. At the same time, the Project Manager and staff of POG (project controller and project analyst) monitor monthly progress, monthly project expenditures and resource usage and ensure that proper internal and external reports are completed timely - such as development of the Post Implementation Evaluation Report (PIER). These reports, as well as the FSR itself, are the responsibility of the Department's Chief Information Officer or delegate. The fiscal oversight of the project is the responsibility of both the CIO and the Chief Financial Officer (CFO).

## **G. Analysis Of All Feasible Alternatives**

### **Alternative #1 – Approve redirect of FY 2007/08 e-file savings (approximately \$298,000 projected) to fund the implementation of a reverse proxy network appliance, which will become part of FTB's network infrastructure.**

This alternative proposes to redirect FY 2007/08 tax return processing savings, realized from projected volume increases in e-filed returns, to fund hardware, software, contract services and training costs. All staff costs will be funded by internal redirection. The funding request will be offset by a corresponding reduction of \$298,000 for the e-file savings, resulting in a net BCP funding request of zero.

### **Alternative #2 – Approve augmentation of \$298,000 to implement a reverse proxy network appliance solution.**

This alternative proposes an augmentation of funding for a reverse proxy network appliance, which will become part of FTB's network infrastructure. It will act as a middleman between users and the web applications they access. This reverse proxy will protect web servers from direct Internet access and enhance performance.

### **Alternative #3 – This alternative allows FTB to leverage an authentication product currently in-house at a cost of \$259,000 for additional hardware, consulting services and training to procure and maintain additional servers.**

Utilizing the product currently available in-house will defer costs, however, the product is more technically complex and requires more resources to maintain. Additionally, the product is at the end of its support lifecycle. Furthermore, this product requires FTB to procure and maintain additional servers, and minimally meets the functional requirements.

Deleted: **Advantages of using an in-house product:**  
<#>Could utilize software that FTB has procured.  
<#>No need to procure additional hardware for testing purposes.  
**Disadvantages of using an in-house product:**  
<#>Increased complexity.  
<#>Software in-house is near end of support lifecycle.  
<#>Additional resources to maintain.  
<#>Would need to procure and maintain additional servers.  
<#>Meets the functional requirements minimally and cumberosely.  
Can you summarize this and put in some brief verbiage?

**H. Timetable**

Purchase and installation of the new equipment will occur by December 2008.

**I. Recommendation**

Alternative #1 is recommended.

This alternative best satisfies FTB's objectives and requirements for a reverse proxy security device. This solution will provide a low risk opportunity for the department to provide a reverse proxy solution while continuing its beneficial partnership with the tax community. It sends information on behalf of the Internet user to the web server. It will act as a middleman between users and the web applications they access. This reverse proxy will protect web servers from direct Internet access and enhance performance.

This alternative best meets security requirements with the least risk to FTB and requires the least amount of maintenance.

**STATE OF CALIFORNIA  
 BUDGET CHANGE PROPOSAL - COVER SHEET  
 FOR FISCAL YEAR 2007/08  
 DF-46 (REV 03/03)**

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

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

**TITLE OF PROPOSED CHANGE:**

Legal Support of Abusive Tax Shelter Workloads

**SUMMARY OF PROPOSED CHANGE:**

The Franchise Tax Board requests \$1.2 million and 10 new positions (9.5PYs) to address Abusive Tax Shelter workloads.

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
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PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVED BY:			
DEPARTMENT DIRECTOR:	DATE	AGENCY SIGNATURE:	DATE

**Pending Board Approval**

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

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

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

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

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  OTROS  FSCU  OSAE  CALSTARS

DATE SUBMITTED TO THE LEGISLATURE: PPBA:

BCP # 4	DATE 8/17/06	Title of Proposed Change: Legal Support of Abusive Tax Shelter Workloads					
PROGRAM	ELEMENT	COMPONENT					
Tax Programs	Personal Income Tax						
		Personnel Years					
		CY	BY	BY + 1	CY	BY	BY + 1
<b>Total Salaries &amp; Wages a/</b>		.0	10.0	10.0	\$ 0	\$ 855,000	\$ 855,000
Salary Savings		.0	-5	-5	\$ 0	-\$ 43,000	-\$ 43,000
<b>Net Total Salaries and Wages</b>		.0	9.5	9.5	\$ 0	\$ 812,000	\$ 812,000
Staff Benefits b/					\$ 0	\$ 271,000	\$ 271,000
<b>Total Personal Services</b>					\$ 0	\$ 1,083,000	\$ 1,083,000

**Operating Expenses and Equipment**

General Expenses /1		\$ 0	\$ 44,000	\$ 10,000
Printing /2		0	1,000	1,000
Communications /3		0	12,000	11,000
Postage		0	0	0
Travel-In-State /4		0	16,000	16,000
Travel Out-of-State		0	0	0
Training		0	0	0
Facilities Operations /5		0	52,000	4,000
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 /6		0	5,000	0
Equipment		0	0	0
Other Items of Exp (Specify Below)		0	0	0
<b>Total Operating Expense &amp; Equipment</b>		\$ 0	\$ 130,000	\$ 42,000

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

b/ Detail provided on following pages.

/1 General Expense \$638 per position. Bar dues @ \$495 for each attorney; \$6162 modular furniture for 2 analyst positions.

Plus minor equipment @ \$1034 per position. PCs @\$1140 per position.

/2 \$77 per position.

/3 \$1051 per position. \$480 for wiring per each analyst position.

/4 Travel @ \$2,000 per attorney position.

/5 \$389 per position. \$6,000 for each attorney position's temporary accomodations until capital outlay process can be resolved.

Moving costs for 2 analyst positions @ \$225 each position.

/6 Software for PCs@\$458 per PC.



**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount		
		CY	BY	BY + 1		CY	BY	BY + 1
<b>Legal Division</b>								
Tax Counsel III Spec	PERM	0.0	8.0	8.0	\$ 6,902 \$ 8,517	\$ 0	\$ 740,000	\$ 740,000
Sr Legal Analyst	PERM	0.0	2.0	2.0	\$ 4,316 \$ 5,247	\$ 0	\$ 115,000	\$ 115,000
Total Legal Division		.0	10.0	10.0		\$ 0	\$ 855,000	\$ 855,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	10.0	10.0				
<b>Total Salaries and Wages</b>	Positions	.0	10.0	10.0		\$ 0	\$ 855,000	\$ 855,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	10.0	10.0				

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2007/08**

Staff Benefits	2006/07	2007/08	2008/09
OASDI /1	\$ 0	\$ 50,000	\$ 50,000
Dental /2	0	5,000	\$ 5,000
Health /3	0	65,000	\$ 65,000
Retirement /4	0	129,000	\$ 129,000
Vision /5	0	1,000	\$ 1,000
Medicare /6	0	12,000	\$ 12,000
Worker's Comp /7	0	6,000	\$ 6,000
Industrial Disability /8	0	1,000	\$ 1,000
Non Industrial Disability /9	0	2,000	\$ 2,000
Unemployment Insurance /10	0	0	\$ 0
<b>Total Staff Benefits</b>	\$ 0	\$ 271,000	\$ 271,000

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$570 per net personnel year.
- 3/ For permanent, \$6,848 per net personnel year.
- 4/ For permanent, 15.94% of net salary.
- 5/ For permanent, \$114 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.07% of net salary for permanent.
- 9/ 0.29% of net salary for permanent.
- 10/ 10.22% of net salary for temporary help.

BCP # 6	DATE 08/17/06	Title of Proposed Change: Restore Customer Service Level		
PROGRAM	ELEMENT	COMPONENT		
Tax Program	Personal Income Tax			
<u>Personnel Years</u>				
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	
<b>Total Salaries &amp; Wages a/</b>	.0	93.5	93.5	\$ 0 \$ 3,707,000 \$ 3,707,000
Salary Savings	.0	-4.7	-4.7	\$ 0 -\$ 185,000 -\$ 185,000
<b>Net Total Salaries and Wages</b>	.0	88.8	88.8	\$ 0 \$ 3,522,000 \$ 3,522,000
Staff Benefits b/				\$ 0 \$ 1,534,000 \$ 1,534,000
<b>Total Personal Services</b>				\$ 0 \$ 5,056,000 \$ 5,056,000

**Operating Expenses and Equipment**

General Expenses /1				\$ 0 \$ 262,000 \$ 60,000
Printing /2				0 7,000 7,000
Communications /3				0 164,000 164,000
Postage				0 0 0
Travel-In-State				0 0 0
Travel Out-of-State				0 0 0
Training				0 0 0
Facilities Operations /4				0 556,000 36,000
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 43,000 3,000
Equipment				0 0 0
Other Items of Exp (Specify Below)				0 0 0
<b>Total Operating Expense &amp; Equipment</b>				\$ 0 \$ 1,032,000 \$ 270,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$638 per position. Plus minor equipment @ \$1034 per position. 93 PCs @ \$1140 per position.

/2 Departmental \$77 per position.

/3 Departmental \$1051 per position and \$66,000 for Megacom costs.

/4 Departmental \$389 per position and \$520,000 for relocation of staff currently occupying needed area.

/5 Software for PCs @ \$458 per PC.

		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>		\$ 0	\$ 1,032,000	\$ 270,000
<b>SPECIAL ITEMS OF EXPENSE d/</b>		\$ 0	\$ 0	\$ 0
<b>PROGRAM ADMINISTRATION</b>		\$ 0	\$ 0	\$ 0
<b>Distributed Admin</b>		\$ 0	\$ 0	\$ 0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>		<u>\$ 0</u>	<u>\$ 6,088,000</u>	<u>\$ 5,326,000</u>
<b><u>Source of Funds</u></b>	<b><u>Appropriation No.</u></b>			
	Org - Ref - Fund			
General Fund Tax	<u>1730      001      0001</u>	\$ 0	\$ 6,088,000	\$ 5,326,000
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
Reimbursements	_____	0	0	0
<b>Totals</b>	_____	<u>\$ 0</u>	<u>\$ 6,088,000</u>	<u>\$ 5,326,000</u>
<b>LOCAL ASSISTANCE</b>		\$( 0)	\$( 0)	\$( 0)
<b><u>Source of Funds</u></b>	<b><u>Appropriation No.</u></b>			
	Org - Ref - Fund			
General Fund Tax	<u>1730      001      0001</u>	\$ 0	\$ 0	\$ 0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
	_____	0	0	0
Reimbursements	_____	0	0	0
<b>Totals</b>	_____	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount			
		CY	BY	BY + 1		CY	BY	BY + 1	
<b>Administrative Services Division</b>									
Assoc Personnel Analyst	PERM	0.0	2.0	2.0	\$ 4,111	\$ 4,997	\$ 0	\$ 109,000	\$ 109,000
Assoc Business Mgmt Analyst	PERM	0.0	1.0	1.0	\$ 4,111	\$ 4,997	\$ 0	\$ 55,000	\$ 55,000
Seasonal Clerk	TEMP	0.0	0.5	0.5	\$ 1,325	\$ 1,514	\$ 0	\$ 9,000	\$ 9,000
Total Administrative Services Division		.0	3.5	3.5			\$ 0	\$ 173,000	\$ 173,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	3.5	3.5					
<b>Finance &amp; Executive Services Division</b>									
Assoc Accounting Analyst	PERM	0.0	1.0	1.0	\$ 4,316	\$ 5,247	\$ 0	\$ 57,000	\$ 57,000
Assoc Operations Spec/Ftb	PERM	0.0	1.0	1.0	\$ 4,111	\$ 4,997	\$ 0	\$ 55,000	\$ 55,000
Total Finance & Executive Services Division		.0	2.0	2.0			\$ 0	\$ 112,000	\$ 112,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	2.0	2.0					
<b>Filing Division</b>									
Administrator I	PERM	0.0	2.0	2.0	\$ 4,743	\$ 5,763	\$ 0	\$ 126,000	\$ 126,000
Customer Service Sup	PERM	0.0	3.0	3.0	\$ 4,319	\$ 5,211	\$ 0	\$ 172,000	\$ 172,000
Tax Auditor - Rg B	PERM	0.0	8.0	8.0	\$ 3,589	\$ 4,363	\$ 0	\$ 382,000	\$ 382,000
Customer Service Specialist - Rg B	PERM	0.0	25.0	25.0	\$ 2,850	\$ 3,465	\$ 0	\$ 947,000	\$ 947,000
Tax Technician, Ftb - Rg B	PERM	0.0	48.0	48.0	\$ 2,632	\$ 3,201	\$ 0	\$ 1,680,000	\$ 1,680,000
Total Filing Division		.0	86.0	86.0			\$ 0	\$ 3,307,000	\$ 3,307,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	86.0	86.0					
<b>Technology Services Division</b>									
Assoc Info Systems Analyst	PERM	0.0	2.0	2.0	\$ 4,316	\$ 5,247	\$ 0	\$ 115,000	\$ 115,000
Total Technology Services Division		.0	2.0	2.0			\$ 0	\$ 115,000	\$ 115,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	2.0	2.0					
<b>Total Salaries and Wages</b>	Positions	.0	93.5	93.5			\$ 0	\$ 3,707,000	\$ 3,707,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	93.5	93.5					

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2007/08**

**Staff Benefits**

	2006/07	2007/08	2008/09
OASDI /1	\$ 0	\$ 218,000	\$ 218,000
Dental /2	0	51,000	51,000
Health /3	0	604,000	604,000
Retirement /4	0	560,000	560,000
Vision /5	0	9,000	9,000
Medicare /6	0	52,000	52,000
Worker's Comp /7	0	28,000	28,000
Industrial Disability /8	0	2,000	2,000
Non Industrial Disability /9	0	9,000	9,000
Unemployment Insurance /10	0	1,000	1,000
<b>Total Staff Benefits</b>	<b>\$ 0</b>	<b>\$ 1,534,000</b>	<b>\$ 1,534,000</b>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$570 per net personnel year.
- 3/ For permanent, \$6,848 per net personnel year.
- 4/ For permanent, 15.94% of net salary.
- 5/ For permanent, \$114 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.07% of net salary for permanent.
- 9/ 0.29% of net salary for permanent.
- 10/ 10.22% of net salary for temporary help.

**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2007/08  
DF-46 (REV 03/03)**

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

BCP # 6	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 10 Tax Programs	ELEMENT 10 Personal Income Tax	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

Restore Customer Service Level

**SUMMARY OF PROPOSED CHANGE:**

This proposal is requesting funding of \$6.1 million and 93.5 positions (88.8 PYs) to restore staffing levels in Franchise Tax Board's Contact Centers and related supporting workloads. This funding supports FTB in achieving higher rates of voluntary compliance.

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

**Pending Board Approval**

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

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

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

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

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  OTROS  FSCU  OSAE  CALSTARS

DATE SUBMITTED TO THE LEGISLATURE: PPBA:

**FRANCHISE TAX BOARD  
Fiscal Year 2007/08**

**Budget Change Proposal**

**BCP No. 6**

**Restore Customer Service Level**

**Date: August 17, 2006**

**A. Nature of Request**

This proposal requests funding of \$6.1 million and 93.5 positions (88.8 PYs) to restore staffing levels in our Contact Centers and related supporting workloads.

**B. Background/History**

FTB is committed to provide quality and timely customer service. The Department's performance goal is to answer 95% of taxpayer and tax practitioner calls. Of the calls answered, FTB strives to answer 80% of them within two minutes. In FY 2005/06, an average of 69% of incoming calls were answered; the remaining 31% of the calls were either deflected (the caller received a busy signal) or abandoned (the caller hung up.) Of the calls answered, FTB responded to 37% within two minutes, while the remaining 63% were not answered within FTB's performance goal. There were periods during the fiscal year when the access and service levels were much worse; it was common to answer only 25% of all incoming calls and respond to as few as 2% of the calls within two minutes.

Call volumes greatly increase during the filing season due to the additional contacts from taxpayers filing their tax returns. Although call volumes increase during this time, notices are issued throughout the year; this causes the demand for service in our Contact Centers to remain constant, and fully staffed throughout the year.

Several budget reductions in past years have significantly impacted our Contact Centers staffing levels. The Contact Centers have lost a total of 80 positions as a result of these budget cuts and we are unable to achieve our targeted performance goals without additional staffing to address the following workloads:

- Taxpayer and Tax Practitioner Contact Center Services
- Training and Recruitment
- Audit Support

In addition to the areas discussed above, we are requesting 7.5 Overhead positions to support this proposal in our Administrative Services Division, our Financial and Executive Services Division, and the Technology Services Division. (Please refer to Attachment 1 for Workload Indicators)

### Taxpayer and Tax Practitioner Contact Center Services - 63.5 Positions

In FY 2005/06, FTB produced over 8.5 million notices that requested payment or a tax return. The Contact Centers are responsible for responding to more than 60% of the taxpayer inquiries associated with these notices. Since the notices request immediate payment and the filing of a tax return, delays in responding frustrate taxpayers and tax practitioners and ultimately impact revenue.

In addition to responding to the various notices issued by FTB, the Contact Centers also provide assistance with general information on tax laws, filing requirements, return preparation, forms requests, account resolution, refund status, and estimated tax payments to both taxpayers and tax practitioners.

While we have made strides through automation of taxpayer information, past budgetary cuts have eliminated the resources we require to address complex taxpayer account issues within our customer service performance targets. Therefore, we are requesting 63.5 positions to address this workload appropriately (see Attachment 1).

### Training and Recruitment Services - 14 Positions

Contact Center's staff is well trained and in high demand throughout the Department and other state agencies; therefore, the Contact Center experiences a high turnover rate of 25%. As staff promotes into other areas of the Department or leave FTB for other opportunities, training is needed for new hires to maintain the current staffing levels necessary to respond to taxpayer and tax practitioner contacts. An intense eight-week Contact Center new hire training is supplemented by on-the-job training provided by Contact Center supervisors and leads.

The current staffing level permits only two new hire classes each year. This limitation adversely impacts our customer service goals by:

- Causing the Contact Center positions to remain vacant until a class can be scheduled, and
- Reducing the staff available to respond to taxpayer and tax practitioner requests until new staff is trained.

To help mitigate Contact Center turnover and to support year round training, we are requesting one full time recruiter, one Supervisor, and 12 new trainers and related support positions to conduct two additional training classes each year (Attachment 1.)

### Audit Support Services - 8.5 Positions

In order to respond to taxpayers timely and accurately on complex accounts, auditors are needed to support the Contact Center staff. There are usually only two to four auditors available to help agents with audit issues. Often demand from the Contact Center is such that the auditors are unable to respond to the volume of contacts in a reasonable timeframe. This can cause a delay of 24 – 72 hours in responding back to taxpayers and tax practitioners.

In addition to supporting the Contact Centers in account analysis, auditors also:

- Conduct new law training for the Contact Centers and the tax practitioner community
- Update our internal resources to reflect current law and procedures for the Contact Centers' staff
- Authorize refunds and credits over \$10,000 resulting from transactions within the Contact Centers
- Review and track current legislation
- Update and maintain a combined multi-agency California Tax Service Center website

### **C. State Level Consideration**

This attempt to restore customer service levels will allow FTB to provide the taxpayers and tax practitioners of California to be consistent with the Governor's vision of improving the responsiveness of all state taxing entities. FTB's Strategic Goal #1 states, "Make government services more accessible to citizens and state clients." Due to insufficient Contact Center resources, taxpayers experience high levels of frustration, receive less than adequate level of service, and feel that FTB is non-responsive to their concerns. The most common customer complaints are:

- Long wait times (30-40 minutes),
- Unable to contact an agent after calling repeatedly for more than a week,
- The caller is disconnected if the call volume is at maximum capacity,
- The taxpayer is unable to comply timely thus additional penalties and interest applies to their account.

When taxpayers cannot get the information to file their returns timely and accurately, the level of voluntary compliance will drop. Taxpayer and tax practitioner complaints and the negative feedback received by FTB's Executive Office causes Contact Centers, Taxpayer Advocate Office, and Public Affairs Bureau to generate labor-intensive responses.

### **D. Facility/Capital Outlay Considerations**

The program areas represented in this BCP do not currently have workstations available to accommodate the additional staff and require additional funding for this purpose.

### **E. Justification**

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

**Strategic Goal #1: *Become Customer-Centered***

- Increase access and services to the Contact Center to meet the needs of customers.
- Respond to FTB’s customers in multiple languages.

**Strategic Goal #2: *Promote Fair and Effective Tax Administration***

- Provide audit support and training to the Contact Center in order to assist customers with accurate and timely information.

**Strategic Goal #3: *Build a Strong Organization***

- Recruit and retain highly skilled staff to lesson the “burn out” factor on staff.

**Strategic Goal #4: *Deliver Efficient Business Results***

- Responding to customers timely will lesson the call wait time, therefore reducing the toll-free charges to the state of California.

In order to successfully address the strategic goals listed above, FTB must increase the current level of customer service to those levels experienced prior to budget reductions.

**F. Outcomes and Accountability**

The Franchise Tax Board, itself, has directed staff to provide excellent customer service to our customers. With that direction, FTB established a Customer Service Action Committee (CSAC), which is chaired by the Accounts Receivable and Filing Division Chiefs and whose membership includes department wide staff that lead program areas that directly impact customer service levels. The action committee establishes standards for appropriate levels of service and consider options on how best to meet those performance levels. This proposal reflects the current performance standard of answering 95% of all calls, and 80% of those calls within two minutes. The implementation and on-going progress of this proposal will be monitored by the CSAC who will regularly report to Executive Management the challenges and successes of customer service performance, especially during peak seasons. While the action committee is also tasked with monitoring the use of resources associated with this proposal, the ultimate responsibility still remains with the department’s Chief Financial Officer.

**G. Analysis of All Feasible Alternatives**

**Alternative # 1 – Provide additional funding of \$6.1 million and 88.8 PYs to restore the targeted customer service level of answering 95% of calls and responding to 80% of the calls within two minutes.**

Augmenting the Contact Centers with the above funding request will restore the Department’s performance goal of answering 95% of the calls and responding to 80% of the calls within two minutes. This alternative represents best services industry wide practices and supports FTB in achieving higher rates of voluntary compliance.

**Alternative # 2 – Provide additional funding of \$4.2 million and 59.3 PYs in order to allow FTB to answer 85% of the calls and respond to 80% of the calls within two minutes.**

Although this alternative allows FTB to answer 85% of the calls and respond to 80% of the calls within two minutes, it does not support the Department's targeted performance goal. It also impacts taxpayers calling the Contact Centers requesting general information and account data in order to voluntarily comply with their tax-filing obligation. Although not quantifiable, this alternative impacts FTB's ability to collect all the tax revenue available and does not support voluntary compliance.

**Alternative # 3 – Provide funding of \$2.3 million and 29.9 PYs to allow FTB to answer 75% of the calls and respond to 80% of the calls within two minutes.**

This alternative allows FTB to answer 75% of the calls and respond to 80% of the calls within 120 seconds. This alternative is not in support of the Department's targeted performance goal. It also impacts taxpayers calling the Contact Centers requesting general information and account data in order to voluntarily comply with their tax-filing obligation. Although not quantifiable, this alternative impacts FTB's ability to collect all the tax revenue available and does not support voluntary compliance.

**Alternative # 4 – Provide no additional funding.**

This alternative impacts taxpayers trying to reach the Contact Centers for general tax assistance and support in order to self-comply. This will ultimately result in taxpayers not self-complying, therefore widening the tax gap and consequently losing tax revenue for the state of California.

Additionally, unsatisfied customers will continue to call Taxpayer Advocate Bureau and their government representatives. Furthermore, this alternative impedes FTB's ability to meet its Strategic Goal #1 of Becoming Customer-Centered, and prevents FTB from addressing the increasing public demand for quality products and services.

**H. Timetable**

Funding to be provided on July 1, 2007.

**I. Recommendation**

Alternative # 1 is recommended. This alternative allows FTB to restore its targeted performance goal of answering 95% of calls and responding to 80% within two minutes. The augmentation also allows FTB to assist in the collection of the proper amount of tax revenue and will assist in reducing the tax gap through improved voluntary compliance. Furthermore this alternative supports FTB's Strategic Goal # 1 of Becoming Customer-Centered and Strategic Goal # 3 of Promoting Fair and Effective Tax Administration.

**Attachment 1  
Restore Customer Service Level  
FY 2007/08**

**Taxpayer and Tax Practitioner Contact Center Volumes and Hours FY 2005/06**

<b>Workload</b>	<b>Call Demand</b>	<b>Live Agent Answered</b>	<b>Voice Recording Answered</b>	<b>Taxpayer Hung Up</b>	<b>Calls Lost</b>
<b>Taxpayer Services</b>	3,519,515	1,403,682	1,380,531	195,673	539,629
<b>Tax Practitioner Services</b>	331,307	218,367	N/A	12,242	100,698
<b>Total</b>	3,850,822	1,622,049	1,380,531	207,915	640,327

**Taxpayer and Tax Practitioner Contact Center Need**

<b>Workload</b>	<b>Current Workload Demand</b>		<b>Current Workload Capacity</b>		<b>Staff Shortfall at Desired Performance Goal</b>	
	<b>Hours</b>	<b>Positions</b>	<b>Hours</b>	<b>Positions</b>	<b>Hours</b>	<b>Positions</b>
Taxpayer Services	317,698	184	234,998	136	82,700	48
Tax Practitioner Services	19,420	11.3	13,470	7.8	5,940	3.44
Leads and Supervisors, Administrators	127,650	74	106,950	62	20,700	12
<b>Total</b>	464,768	269.3	355,418	205.8	109,340	<b>63.4</b>

**Training and Recruitment Service Need**

<b>Workload</b>	<b>Current Workload Demand</b>		<b>Current Workload Capacity</b>		<b>Staff Shortfall at Desired Performance Level</b>	
	<b>Hours</b>	<b>Positions</b>	<b>Hours</b>	<b>Positions</b>	<b>Hours</b>	<b>Positions</b>
Training and preparation	27,452	15.9	6,240	3.6	21,212	12.3
Recruitment	1,725	1.0	0	0	1,725	1.0
Training and Recruitment Supervisor	1,725	1.0	0	0	1,725	1.0
<b>Total</b>	30,902	17.9	6,240	3.6	24,662	<b>14.3</b>

**Attachment 1  
Restore Customer Service Level  
FY 2007/08**

**Audit Support Service Need**

Workload	Current Workload Demand		Current Workload Capacity		Staff Shortfall at Desired Performance Level	
	Hours	Positions	Hours	Positions	Hours	Positions
Audit Support for Contact Centers	9,538	5.5	6,063	3.5	3,475	2.0
New Law Training	3,056	1.8	1,069	.6	1,986	1.2
Internal Information updates	8,327	4.8	4,828	2.8	3,499	2.0
Miscellaneous Audit Review & Special Projects	2,961	1.7	1,661	1	1,300	.75
California Tax Service Center Website	3,968	2.3	0	0	3,968	2.3
<b>Total</b>	<b>27,850</b>	<b>16.1</b>	<b>13,621</b>	<b>7.9</b>	<b>14,228</b>	<b>8.5</b>

**Overhead Support Need**

Division	Position Type	Positions
Administrative Services	Associate Personnel Analyst	2.0
	Associate Business Management Analyst	1.0
	Seasonal Clerk	0.5
Finance and Executive Services	Associate Accounting Analyst	1.0
	Associate Operations Specialist	1.0
Technology Services	Associate Information System Analyst	2.0
<b>Total Overhead Need</b>		<b>7.5</b>

**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL - COVER SHEET  
FOR FISCAL YEAR 2007/08  
DF-46 (REV 03/03)**

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

BCP # 7	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM 20 HRA Program	ELEMENT 20 HRA Program	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

HRA Customer Service Level

**SUMMARY OF PROPOSED CHANGE:**

This proposal requests funding of \$788,000 and 15 positions (11.4 perm PYs and 3 Temp PYs) to restore the Franchise Tax Board's prescribed performance goal of answering 95% of the Homeowners and Renters Assistance Program calls received, and of those calls, respond to 80% of them within two minutes. This request will also provide support to the HRA Program's volunteer services, improve HRA processing timeframes, and provide the position authority to support the Legal Department's HRA workload.

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

PREPARED BY:	DATE	REVIEWED BY:	DATE
PROGRAM APPROVED BY:			
DEPARTMENT DIRECTOR:	DATE	SECRETARY:	DATE

**Pending Board Approval**

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

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

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

YES  
 NO

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

**DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)**

CAPITAL OUTLAY  OTROS  FSCU  OSAE  CALSTARS

DATE SUBMITTED TO THE LEGISLATURE

PPBA:

BCP # 7	DATE 08/11/06	Title of Proposed Change:			CY	BY	BY + 1
		HRA Customer Service Level					
PROGRAM	ELEMENT	COMPONENT					
HRA Program	HRA Program						
<u>Personnel Years</u>							
		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>Total Salaries &amp; Wages a/</b>		.0	15.0	15.0	\$ 0	\$ 422,000	\$ 422,000
Salary Savings		.0	-6	-6	\$ 0	-\$ 19,000	-\$ 19,000
<b>Net Total Salaries and Wages</b>		.0	14.4	14.4	\$ 0	\$ 403,000	\$ 403,000
Staff Benefits b/					\$ 0	\$ 181,000	\$ 181,000
<b>Total Personal Services</b>					\$ 0	\$ 584,000	\$ 584,000

**Operating Expenses and Equipment**

General Expenses /1		\$ 0	\$ 38,000	\$ 10,000
Printing /2		0	1,000	1,000
Communications /3		0	20,000	20,000
Postage		0	0	0
Travel-In-State		0	0	0
Travel Out-of-State		0	0	0
Training		0	0	0
Facilities Operations /4		0	140,000	6,000
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	5,000	0
Equipment		0	0	0
Other Items of Exp (Specify Below)		0	0	0
<b>Total Operating Expense &amp; Equipment</b>		\$ 0	\$ 204,000	\$ 37,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$638 per position. Plus minor equipment @ \$1034 per position. 12 PCs @ \$1140 per position.

/2 Departmental \$77 per position.

/3 Departmental \$1051 per position and Megacom costs \$4,000.

/4 Departmental \$389 per position and \$134,000 for additional relocation costs.

/5 Software for PCs @ \$458 per PC.

			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>TOTAL OPERATING EXPENSES AND EQUIPMENT</b>			\$ 0	\$ 204,000	\$ 37,000
<b>SPECIAL ITEMS OF EXPENSE d/</b>			\$ 0	\$ 0	\$ 0
<b>PROGRAM ADMINISTRATION</b>			\$ 0	\$ 0	\$ 0
<b>Distributed Admin</b>			\$ 0	\$ 0	\$ 0
<b>TOTAL STATE OPERATIONS EXPENDITURES</b>			<u>\$ 0</u>	<u>\$ 788,000</u>	<u>\$ 621,000</u>
<b><u>Source of Funds</u></b>		<b><u>Appropriation No.</u></b>			
	Org	- Ref - Fund			
General Fund - HRA	<u>1730</u>	<u>001 0001</u>	\$ 0	\$ 788,000	\$ 621,000
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
<b>Totals</b>			<u>\$ 0</u>	<u>\$ 788,000</u>	<u>\$ 621,000</u>
<b>LOCAL ASSISTANCE</b>			\$( 0)	\$( 0)	\$( 0)
<b><u>Source of Funds</u></b>		<b><u>Appropriation No.</u></b>			
	Org	- Ref - Fund			
General Fund - HRA	<u>1730</u>	<u>001 0001</u>	\$ 0	\$ 0	\$ 0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
<b>Totals</b>			<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	Amount		
		CY 2006/07	BY 2007/08	BY + 1 2008/09		CY	BY	BY + 1
<b>Administrative Services Division</b>								
Seasonal Clerk	TEMP	0.0	0.5	0.5	\$ 1,325 \$ 1,514	\$ 0	\$ 9,000	\$ 9,000
Total Administrative Services Division		.0	.5	.5		\$ 0	\$ 9,000	\$ 9,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	.5	.5				
<b>Legal Division</b>								
Tax Counsel III Spec	PERM	0.0	2.0	2.0	\$ 6,902 \$ 8,517	\$ 0	\$ 0	\$ 0
Total Legal Division		.0	2.0	2.0		\$ 0	\$ 0	\$ 0
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	2.0	2.0				
<b>Filing Division</b>								
Education & Outreach Spec	PERM	0.0	1.0	1.0	\$ 4,111 \$ 4,997	\$ 0	\$ 55,000	\$ 55,000
Tax Technician, Ftb - Rg B	PERM	0.0	9.0	9.0	\$ 2,632 \$ 3,201	\$ 0	\$ 315,000	\$ 315,000
Seasonal Clerk	TEMP	0.0	2.5	2.5	\$ 1,325 \$ 1,514	\$ 0	\$ 43,000	\$ 43,000
Total Filing Division		.0	12.5	12.5		\$ 0	\$ 413,000	\$ 413,000
Adjust for Part Year Positions		.0	.0	.0				
Net Positions/ PYs before salary savings		.0	12.5	12.5				
<b>Total Salaries and Wages</b>	Positions	.0	15.0	15.0		\$ 0	\$ 422,000	\$ 422,000
	Part Yr Adj	.0	.0	.0				
	P.Y.s	.0	15.0	15.0				

**Schedule of Staff Benefits Costs  
FOR FISCAL YEAR 2007/08**

Staff Benefits	2006/07	2007/08	2008/09
OASDI /1	\$ 0	\$ 25,000	\$ 25,000
Dental /2	0	6,000	6,000
Health /3	0	78,000	78,000
Retirement /4	0	56,000	56,000
Vision /5	0	1,000	1,000
Medicare /6	0	6,000	6,000
Worker's Comp /7	0	3,000	3,000
Industrial Disability /8	0	0	0
Non Industrial Disability /9	0	1,000	1,000
Unemployment Insurance /10	0	5,000	5,000
<b>Total Staff Benefits</b>	<b>\$ 0</b>	<b>\$ 181,000</b>	<b>\$ 181,000</b>

- 1/ For permanent and overtime, 6.2% of net salary.
- 2/ For permanent, \$570 per net personnel year.
- 3/ For permanent, \$6,848 per net personnel year.
- 4/ For permanent, 15.94% of net salary.
- 5/ For permanent, \$114 per net personnel year.
- 6/ 1.45% of net salary for permanent.
- 7/ 0.8% of net salary for permanent.
- 8/ 0.07% of net salary for permanent.
- 9/ 0.29% of net salary for permanent.
- 10/ 10.22% of net salary for temporary help.

**FRANCHISE TAX BOARD**  
**Fiscal Year 2007/08**

**Budget Change Proposal**

**BCP No. 7**

**HRA Customer Service Level**

**Date: August 11, 2006**

**A. Nature of Request**

This proposal requests funding of \$788,000 and 15 positions (11.4 perm PYs and 3 temp PYs) to restore the Franchise Tax Board's (FTB) prescribed performance goal of answering 95% of the Homeowner and Renter Assistance Program (HRA) calls received, and of those calls, respond to 80% of them within two minutes. This request will also provide support to the HRA Program's volunteer services, improve HRA processing timeframes, and provide the position authority to support the Legal Department's HRA workload.

**B. Background/History**

The HRA program (administered by the FTB) was originally enacted in 1967 to provide property tax relief to lower income California senior citizens. The program has since been expanded to include homeowners and renters as well as the blind and disabled. This program provides reimbursements to offset property taxes that homeowners pay directly on their personal residences, and renters pay indirectly through their rental payments. Recipients must meet specific household income limitations as well as age or disability requirements. Claims are filed each year beginning on July 1.

Filing assistance is available through a statewide Volunteer Income Tax Assistance (VITA) program overseen by the FTB. The State Controllers Office issues the warrants after FTB confirms the validity of the claim.

The areas within FTB requesting resources for FY 2007/08 are as follows:

- Taxpayer Services Center Section (TSCS) – (9 Positions)
- Professional Resources & Education Section (PRES) – (1 Position)
- Information Validation Section (IVS) – (2.5 Temp Help Positions)
- Legal Department (Authority for 2 Positions)
- Administrative Services Division (Overhead) – (.5 Temp Help Position)

**Taxpayer Services Center Section (TSCS) – (9 Positions)**

TSCS provides toll-free phone assistance to claimants primarily for form preparation and refund status. The FTB's approved performance goal is to answer 95% of all calls and respond to 80% of those calls within two minutes. It is not uncommon during the peak

claim season to realize unacceptable service levels, such as answering only 50% of the calls we receive, and realizing a service level of 15% of the calls answered within two minutes.

Three primary issues impact the call volume in TSCS:

- Number of claimants seeking assistance,
- Delays in the budget being signed, and
- Delays in the processing of claims.

Unlike other workloads within the TSCS, the HRA Program experiences a high number of repeat callers. The peak season is mid-June through the end of October. Attachment 1 reflects the call demand for FY 2005/06, the volume of calls not answered, and the resource need within TSCS to restore the established performance goal of answering 95% of the calls and responding to 80% of those calls within two minutes.

### **Professional Resources & Education Section (PRES) – (1 Position)**

The Professional Resources & Education Section (PRES), within the Filing Services Bureau, administers the HRA Volunteer Program (part of VITA) on a statewide level. Five team members organize, train, and provide support to over 1,000 HRA volunteers at 600 HRA sites. The volunteer's role is to complete the homeowner or renter assistance claim form free of charge. As stated, the volunteer program is the only source for help, free of charge, to the claimants for "error-free" claim preparation. PRES also provides toll-free phone assistance to the statewide volunteers primarily for account information and claim preparation assistance.

The number of claimants seeking help with claim preparation is increasing each year. All counties in California are in need of more VITA sites and volunteers in order to keep up with the demand; in fact, 27% of California counties are completely unrepresented. Lack of funding, resources, and FTB support has caused established VITA sites to restrict services and decrease availability to claimants.

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The effect of under-funded VITA assistance for claim preparation is that many elderly, blind or disabled claimants will be forced to complete the forms themselves. The margin of error is higher on self-prepared claims, ultimately delaying the claim payment and resulting in a higher number of phone calls to TSCS.

Attachment 1 identifies that an additional position is needed within PRES to:

- Analyze where additional volunteers and claim preparation assistance is needed most,
- Recruit, support and maintain the program sponsors and volunteers needed to open assistance sites throughout the state.

## **Information Validation Section (IVS) – (2.5 Temp Help PYs)**

The desired processing timeframe is 90% of current year claims within 30 days. Approximately 47% of HRA claims are flagged for manual processing due to various reasons, including duplicate claims and incomplete information. Claims that are held for manual resolution can cause a delay in resolution up to nine months.

HRA claim volumes are increasing and we cannot continue to meet our performance target (90% processed within 30 days) without additional resources. This level of performance keeps the volume of calls and the Advocate Office contacts to a minimum. Not funding the HRA workload process to our targeted performance level has an exponentially adverse impact on the call center and the Advocates Office. Attachment 1 illustrates the resource need in IVS.

## **Legal Department – (Authority for 2 Positions)**

The Legal Department is required by the Board of Equalization (BOE) to prepare Legal Briefs for HRA Appeals and present them, as necessary, at hearings. The Legal Department is presently authorized less than one-half of a PY for this workload. The HRA Appeals workload, which stems from the HRA claims, annually exceeds the Legal Department's HRA position and spending authority. HRA program funding from other divisions has historically absorbed this shortfall of approximately 1.5 PYs (see Attachment 1.) We are requesting authority for two additional positions within the Legal Department. Since the funding for this workload has been historically covered within current budgeted levels for this program, additional funding is not being requested.

### **C. State Level Consideration**

By increasing staffing levels on the phones and by reducing processing times, FTB will improve claimant satisfaction with quicker refunds and shorter call wait times. This also meets FTB's Strategy five, "give customers increased access to information and services while maintaining the highest levels of privacy and security". The additional PYs will assist the department in meeting its requirements to the Board of Equalization by having adequate staff to provide legal briefs when necessary.

### **D. Facility/Capital Outlay Considerations**

The program areas represented in this BCP do not currently have the workstations available to accommodate the additional staff. We are requesting funding for desks, computers, phones, etc. The facility funding requested in this BCP was derived using the actual average cost per position of the facilities costs.

### **E. Justification**

This request addresses FTB's first Strategic Goal: "Become Customer-Centered." In part, this can be accomplished by making it easier for customers to access and use products and services.

#### **F. Outcomes and Accountability**

The Franchise Tax Board has established a HRA task force that reports directly to the Filing Services Bureau Director and whose membership includes key staff from all processing areas that interact directly with HRA claims and claimants. The Filing Services Bureau Director is charged with the responsibility of the overall management of the HRA Program across organizational lines. This task force monitors processing of HRA claims, customer service levels, on-going VITA issues, budgetary matters, and all other activities and issues associated with this program. The implementation and on-going progress of this proposal will be monitored by the HRA Task Force who will regularly report to the Filing Services Bureau Director and Executive Management (as necessary) regarding the challenges and successes of claims processing and customer service performance, especially during peak seasons. While this task force is also assigned the responsibility of monitoring the use of resources associated with this proposal, the ultimate responsibility still remains with the department's Chief Financial Officer.

#### **G. Analysis of All Feasible Alternatives**

##### **Alternative #1 – Provide additional funding to restore the level of service for the HRA Program at a cost of \$788,000 and 15 positions.**

This alternative will fully fund FTB to achieve the following:

- FTB's performance goal of answering 95% of HRA calls and responding to 80% of the calls within two minutes.
- Timely addressed Legal briefs without overspending.
- A reduction in processing time.
- Increased level of phone service to claimants.
- A reduction in calls received in TSCS, the Advocate's Office, and the Legislature.

##### **Alternative #2 – Redirect resources from the Taxpayer Contact Center to HRA phone calls and processing workloads.**

This alternative proposes to redirect resources from self-compliance (tax) phone calls to HRA phone calls. Redirecting call center resources that assist taxpayers in fulfilling their filing requirements and paying their taxes to the HRA phone calls, contradicts the FTB's mission of collecting the proper amount of tax revenue.

##### **Alternative #3 – Provide no additional funding.**

This alternative provides for no additional funding. This will result in

- Unsatisfied claimants,
- Increased calls to FTB's Taxpayer Advocate Bureau, and
- Increased contacts and complaints to Legislative representatives.

Furthermore, it impedes FTB's ability to meet its Strategic Goal #1 of becoming customer centered, and prevents FTB's processing organizations from meeting their established performance goals.

**H. Timetable**

Resources are needed July 1, 2007.

**I. Recommendation**

Alternative # 1 is recommended.

**Attachment 1  
HRA Customer Service Level  
FY 2007/08**

**TSCS, FY 2005/06 HRA Call Demand**

	<b>Total Call Demand</b>	<b>Live Agent Answered</b>	<b>Answered Calls</b>	<b>Taxpayer Hang Up</b>	<b>Lost Calls</b>
<b>TSCS</b>	724,409	304,318	176,041	24,951	219,099

**TSCS Resource Need – 9 Positions**

	<b>Estimated FY 2007/08 Workload Demand</b>		<b>Current Workload Capacity</b>		<b>Resource Need to Reach Performance Target</b>	
	Hours	PYs	Hours	PYs	Hours	PYs
<b>TSCS</b>	41,281	23.9	25,264	14.6	16,017	<b>9.3</b>

**PRES Workload Demand – 1 Position Needed**

<b>PRES/VITA Volunteers</b>			<b>Claimants Assisted</b>			<b>Calls received from HRA Volunteers</b>		
FY 2005/06	Projected Need Increase	% of Growth	FY 2005/06	FY 2007/08 Projected Increase	% of Growth	Call Demand	Calls Answered	Calls Missed
1,048	1,203	14.8%	83,736	102,111	21.9%	4,922	4,345	577

**IVS Resource Need – 2.5 Positions**

	<b>FY 2005/06</b>			<b>FY 2007/08</b>			<b>FY 2007/08 Need</b>		
	Volume	Hours	PYs	Volume	Hours	PYs	Volume Difference	Hours	PYs
<b>IVS</b>	269,443	29,111	16.3	314,957	32,984	18.6	45,514	3,873	<b>2.5</b>

**Legal Department Resource Need – Authority for 2 Positions**

<b>Fiscal Year</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06*</b>	<b>2007/08**</b>
Appeals Closed	308	641	602	584	408	449
New Appeals	558	626	843	324	421	463
Hours Spent	4309	6389	3928	3484	3364	3701
PY Spent/1725 hrs.	2.5	3.7	2.3	2.0	2.0	2.1
PY Funded	0.5	0.5	0.5	0.5	0.5	0.5
<b>PY Shortfall</b>	2.0	3.2	1.8	1.5	1.5	<b>1.6</b>

\*Extrapolated from 11 months of data.

\*\*Ten-percent increase

TSCS – Taxpayer Services Center Section  
 PRES – Professional Resources and Education Section  
 IVS – Information Validation Section