

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

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

Please report dollars in thousands.

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

TITLE OF PROPOSED CHANGE:

Restoration of Furlough Revenue

SUMMARY OF PROPOSED CHANGE:

The Franchise Tax Board is requesting an exemption from the 2010/11 furlough program and 158 PYs and \$14.7 million in overtime and temporary help resources to: (1) restore our ability to generate baseline projected General Fund revenue for the state of California in 2010/11 by increasing enterprise revenue production hours that were lost due to the furlough, and (2) provide resources so that we can recapture lost revenue resulting from the 2009/10 furlough program with the use of overtime and temporary help resources.

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

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

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

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

DATE PROJECT # FSR OR SPR

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

YES NO

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

DEPARTMENT OF FINANCE ANALYST USE (ADDITIONAL REVIEW)

CAPITAL OUTLAY ITCU FSCU OSAE CALSTARS OCIO

DATE SUBMITTED TO THE LEGISLATURE:

PPBA:

BCP # 10	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
PROGRAM	October 13, 2009	Restoration of Furlough Revenue						
Tax Programs	All Tax Programs	COMPONENT						
Total Salaries & Wages <u>a/</u>			.0	158.0	.0	\$ 0	\$ 12,624,000	\$ 0
Salary Savings			.0	.0	.0	\$ 0	\$ 0	\$ 0
Net Total Salaries and Wages			.0	158.0	.0	\$ 0	\$ 12,624,000	\$ 0
Staff Benefits <u>b/</u>						\$ 0	\$ 1,387,000	\$ 0
Total Personal Services						\$ 0	\$ 14,011,000	\$ 0
Operating Expenses and Equipment								
General Expenses /1						\$ 0	\$ 328,000	\$ 0
Printing /2						0	17,000	0
Communications /3						0	152,000	0
Postage						0	0	0
Travel-In-State						0	0	0
Travel Out-of-State						0	0	0
Training						0	0	0
Facilities Operations /4						0	68,000	0
Utilities						0	0	0
Cons & Prof Svs - Interdept'l						0	0	0
Cons & Prof Svs - External						0	0	0
Consolidated Data Center						0	0	0
California Health and Human Services Agency Data Center			()	()	()
Stephen P. Teale Data Center			()	()	()
Data Processing /5						0	138,000	49,000
Equipment						0	0	0
Other Items of Exp (Specify Below)						0	0	0
Total Operating Expense & Equipment						\$ 0	\$ 703,000	\$ 49,000

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

b/ Detail provided on following pages.

/1 General expense @ \$879 per position. Minor equipment @ \$1168 per new position. Plus twelve 30-button phones @ \$300 ea.

/2 Printing costs @ \$106 per position.

/3 Communication costs @ \$962 per position.

/4 One time facilities costs.

/5 Software and hardware for PCs @ \$1691 per standard desktop, \$2,646 per general notebook, and \$2,776 per audit notebook. \$184 on-going cost for PCs.

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	CY	Amount		
		CY 2009/10	BY 2010/11	BY + 1 2011/12			BY	BY + 1	
Administrative Services Division									
Seasonal Clerk	TEMP	0.0	7.0	0.0	\$ 1,418	\$ 1,620	\$ 0	\$ 128,000	\$ 0
Student Assistant	TEMP	0.0	4.0	0.0	\$ 1,458	\$ 1,558	\$ 0	\$ 72,000	\$ 0
Personnel Specialist - Rg B	OT				\$ 2,993	\$ 3,640	\$ 0	\$ 205,000	\$ 0
Bus Services Officer I Spec	OT				\$ 3,658	\$ 4,446	\$ 0	\$ 35,000	\$ 0
Mailing Machines Operator I - Rg B	OT				\$ 2,468	\$ 2,998	\$ 0	\$ 35,000	\$ 0
Compliance Rep, Ftb - Rg B	OT				\$ 3,204	\$ 3,708	\$ 0	\$ 65,000	\$ 0
Assoc Info Systems Analyst	OT				\$ 4,619	\$ 5,897	\$ 0	\$ 70,000	\$ 0
Total Administrative Services Division		.0	11.0	.0			\$ 0	\$ 610,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	11.0	.0					
Audit Division									
Program Spec II	TEMP	0.0	6.0	0.0	\$ 5,573	\$ 7,113	\$ 0	\$ 457,000	\$ 0
Program Spec II	OT				\$ 5,573	\$ 7,113	\$ 0	\$ 1,253,000	\$ 0
Total Audit Division		.0	6.0	.0			\$ 0	\$ 1,710,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	6.0	.0					
Legal Division									
Legal Analyst	OT				\$ 3,841	\$ 4,670	\$ 0	\$ 37,000	\$ 0
Sr Legal Analyst	OT				\$ 4,619	\$ 5,616	\$ 0	\$ 23,000	\$ 0
Program Spec I	OT				\$ 5,076	\$ 6,476	\$ 0	\$ 13,000	\$ 0
Staff Serv Analyst Gen - Rg B	OT				\$ 3,050	\$ 3,708	\$ 0	\$ 19,000	\$ 0
Total Legal Division		.0	.0	.0			\$ 0	\$ 92,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	.0	.0					
Finance & Executive Services Division									
Student Assistant	TEMP	0.0	3.0	0.0	\$ 1,458	\$ 1,558	\$ 0	\$ 54,000	\$ 0
Acctg Officer Spec	OT				\$ 3,841	\$ 4,670	\$ 0	\$ 240,000	\$ 0
Total Finance & Executive Services Division		.0	3.0	.0			\$ 0	\$ 294,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	3.0	.0					
Accounts Receivable Management Division									
Student Assistant	TEMP	0.0	8.0	0.0	\$ 1,458	\$ 1,558	\$ 0	\$ 145,000	\$ 0
Seasonal Clerk	TEMP	0.0	8.0	0.0	\$ 1,418	\$ 1,620	\$ 0	\$ 146,000	\$ 0
Student Assistant	OT				\$ 1,458	\$ 1,558	\$ 0	\$ 113,000	\$ 0
Seasonal Clerk	OT				\$ 1,418	\$ 1,620	\$ 0	\$ 113,000	\$ 0
Tax Technician, Ftb - Rg B	OT				\$ 2,817	\$ 3,426	\$ 0	\$ 60,000	\$ 0
Compliance Rep, Ftb - Rg B	OT				\$ 3,204	\$ 3,708	\$ 0	\$ 806,000	\$ 0
Sr Compliance Rep.,Ftb	OT				\$ 4,619	\$ 5,616	\$ 0	\$ 232,000	\$ 0
Total Accounts Receivable Management Division		.0	16.0	.0			\$ 0	\$ 1,615,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	16.0	.0					
Filing Division									
Tax Program Tech I, Ftb	TEMP	0.0	12.0	0.0	\$ 2,638	\$ 3,209	\$ 0	\$ 421,000	\$ 0
Key Data Operator - Rg B	TEMP	0.0	11.0	0.0	\$ 2,450	\$ 2,975	\$ 0	\$ 358,000	\$ 0
Tax Technician, Ftb - Rg B	TEMP	0.0	18.0	0.0	\$ 2,817	\$ 3,426	\$ 0	\$ 674,000	\$ 0
Assoc Tax Auditor	TEMP	0.0	2.0	0.0	\$ 4,619	\$ 5,897	\$ 0	\$ 126,000	\$ 0
Staff Operations Specialist/Ftb	TEMP	0.0	1.0	0.0	\$ 4,833	\$ 5,874	\$ 0	\$ 64,000	\$ 0
Seasonal Clerk	TEMP	0.0	67.0	0.0	\$ 1,418	\$ 1,620	\$ 0	\$ 1,221,000	\$ 0
Tax Program Assistant - Rg B	TEMP	0.0	6.0	0.0	\$ 2,074	\$ 2,519	\$ 0	\$ 165,000	\$ 0
Staff Operations Specialist/Ftb	OT				\$ 4,833	\$ 5,874	\$ 0	\$ 42,000	\$ 0
Staff Info Sys Analyst Spec	OT				\$ 5,065	\$ 6,466	\$ 0	\$ 153,000	\$ 0
Tax Technician, Ftb - Rg B	OT				\$ 2,817	\$ 3,426	\$ 0	\$ 244,000	\$ 0
Tax Program Tech I, Ftb	OT				\$ 2,638	\$ 3,209	\$ 0	\$ 1,087,000	\$ 0
Tax Program Assistant - Rg B	OT				\$ 2,074	\$ 2,519	\$ 0	\$ 28,000	\$ 0
Assoc Tax Auditor	OT				\$ 4,619	\$ 5,897	\$ 0	\$ 39,000	\$ 0
Key Data Operator - Rg B	OT				\$ 2,450	\$ 2,975	\$ 0	\$ 562,000	\$ 0
Customer Service Specialist - Rg B	OT				\$ 3,050	\$ 3,708	\$ 0	\$ 272,000	\$ 0
Program Spec I	OT				\$ 5,076	\$ 6,476	\$ 0	\$ 43,000	\$ 0
Assoc Operations Spec/Ftb	OT				\$ 4,400	\$ 5,348	\$ 0	\$ 206,000	\$ 0
Total Filing Division		.0	117.0	.0			\$ 0	\$ 5,705,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	117.0	.0					

Technology Services Division

Staff Info Sys Analyst Spec	TEMP	0.0	3.0	0.0	\$ 5,065	\$ 6,466	\$ 0	\$ 208,000	\$ 0
Student Assistant	TEMP	0.0	1.0	0.0	\$ 1,458	\$ 1,558	\$ 0	\$ 18,000	\$ 0
Sys Software Spec II Tech	TEMP	0.0	1.0	0.0	\$ 5,561	\$ 7,097	\$ 0	\$ 76,000	\$ 0
Staff Info Sys Analyst Spec	OT				\$ 5,065	\$ 6,466	\$ 0	\$ 1,290,000	\$ 0
Staff Prog Analyst Spec	OT				\$ 5,065	\$ 6,466	\$ 0	\$ 1,006,000	\$ 0
Total Technology Services Division		.0	5.0	.0			\$ 0	\$ 2,598,000	\$ 0
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	5.0	.0					

Total Salaries and Wages

Positions	.0	158.0	.0	\$ 0	\$ 12,624,000	\$ 0
Part Yr Adj	.0	.0	.0			
P.Y.s	.0	158.0	.0			

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

Staff Benefits

	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 784,000	\$ 0
Dental /2	0	0	0
Health /3	0	0	0
Retirement /4	0	0	0
Vision /5	0	0	0
Medicare /6	0	183,000	0
Worker's Comp /7	0	30,000	0
Industrial Disability /8	0	1,000	0
Non Industrial Disability /9	0	2,000	0
Unemployment Insurance /10	0	387,000	0
Total Staff Benefits	\$ 0	\$ 1,387,000	\$ 0

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

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

Budget Change Proposal

BCP No. 10

Restoration of Furlough Revenue

DATE: October 13, 2009

A. NATURE OF REQUEST

The basis of this request is an assumption that the 2009/10 three-day furlough program will be continued into 2010/11 and that employees will have until July 1, 2013 to use their accrued furlough hours. This budget request was prepared at the direction of Department of Finance, with that understanding.

The Franchise Tax Board is requesting an exemption from the 2010/11 furlough program and 158 PYs and \$14.7 million in overtime and temporary help resources to: (1) restore our ability to generate baseline projected General Fund revenue for the state of California in 2010/11 by increasing enterprise revenue production hours that would be lost due to the furlough, and (2) provide resources so that we can recapture lost revenue resulting from the 2009/10 furlough program with the use of overtime and temporary help resources.

We estimate that \$1.56 billion in baseline General Fund revenues are at significant risk as a direct result of the continuation of a three-day furlough from 2009/10 into 2010/11.¹ Since the furlough policy will save approximately \$107 million in FTB salary savings over the two year period, it is clear that on net the furlough policy will have a drastically negative impact to the General Fund. As a result, we are requesting that FTB staff be placed on un-furloughed status for FY 2010/11. In addition, we request 158 PYs and \$14.7 million in overtime and temporary help resources to address backlogs and slowdowns created by the 2009/10 furlough directive.

This proposal will generate approximately \$860 million in General Fund revenue, \$810 million that would otherwise be lost, and \$50 million that would otherwise be delayed due to the 2010/11 furlough program. (Approximately \$360 million of that lost revenue would be captured in 2010/11.)

Additionally, with the use of overtime and temporary help resources, this proposal will result in the recovery of \$50 million in revenues lost due to 2009/10 furloughs.

B. BACKGROUND/HISTORY

As a result of the negative revenue impact from the three-day furlough program that began in 2009/10 and will continue in 2010/11, FTB has prepared a budget proposal to reinstate lost revenue production hours and provide overtime and temporary help

¹ The estimated total three-day furlough loss is approximately \$2 billion, but FTB has reduced this loss amount by implementing significant, but temporary, mitigation efforts by redirecting our resources to our most critical workloads.

resources to department staff in order to recover approximately \$860 million in baseline General Fund revenues that would otherwise be foregone as a direct result of the 2009/10 and 2010/11 furlough program.

Impact to Revenue of 2009/10 & 2010/11 Furlough Program:

On December 19, 2008, the governor signed Executive Order S-16-08 that required all state agencies to administer a two-day furlough program beginning February 1, 2009 that would continue through June 30, 2010. Subsequently, a second Executive Order (S-13-09) was issued which extended the two-day furlough program and added a third furlough day effective July 1, 2009 through June 30, 2010. As a result of the 2009/10 three-day furlough program, we estimate losses in General Fund revenue of approximately \$652 million.

Based on conversations with the Department of Finance, we anticipate that another furlough program will be put in place that extends the three-day furlough to the 2010/11 fiscal year. The combined impact of these executive orders is far reaching and includes significant reductions in revenue production hours. The sum total of the impact to revenue production is estimated at \$1.56 billion in lost revenue.

Furlough Savings:

We recognize the difficult position that the state is under to create near-term savings. The savings created by furloughing FTB employees is approximately \$18 million in General Fund savings per furlough day, per year. At a furlough of three days per month for the 2009/10 and 2010/11 fiscal years, the General Fund savings from furloughs at FTB is approximately \$107 million. Yet, in the context of significant lost revenue production hours and the negative impact on revenue generation, the furlough program is a net loss for the state General Fund.

Revenue Loss Mitigation Strategies:

FTB has taken several steps to mitigate the impact of the lost production hours on revenue, including:

- Increase direct hours and reduce hours per case.
- Redirect staff where possible to direct revenue production within divisions (examples: move staff from recruitment and collection contractor support, and implemented reduced taxpayer service hours).
- Reduce, eliminate and/or delay strategic efforts -- including some tax gap initiatives.
- Limit use of vacation and furlough days due to operational considerations where feasible (examples are filing season deposit of money; legislative session; 24/7 support).
- Encourage building of higher vacation balances.

Yet even implementing the mitigation strategies outlined above, there is still significant impact to our ability to deliver services and collect revenue because of furloughs. We are

no longer able to do the following production activities as we have focused and redirected our efforts to the highest revenue producing workloads:

- Significantly reduced education and outreach activities, including providing forms and other educational materials in print or on our website.
- Reduced or eliminated staff training.
- Reduced hours of our call centers.
- Delayed certain mail functions – external and internal.
- Creation of backlogs in return processing functions.
- Reduced or delayed opening of new audits and extended time of audits in other cases.
- Reduced or delayed filing enforcement efforts.
- Delayed contact with certain collection accounts.
- Reduced participation in departmental activities such as VITA, Food Drives, and the School Partnership program.
- Eliminate full IT application support 24X7.
- Partial reduction in or suspension of Tax Gap compliance programs.
- Defer new regulation projects.
- Delay in services provided to our employees on personnel matters.
- Delays or reductions in services provided to external and oversight stakeholders.

Overtime and Temporary Help:

We propose to use 158 PYs and \$14.7 million in overtime and temporary help resources to address audit, collections, and filing backlogs that are the result of the 2009/10 furlough program.

C. STATE LEVEL CONSIDERATIONS

With these additional resources, FTB will continue to take actions to increase revenue for the General Fund. This augmentation will generate approximately \$860 million in additional General Fund revenue for the period 2010/11 through 2012/13 as a result of exemption of FTB staff from the furlough program and \$50 million in General Fund revenue generated due to the use of overtime and temporary help resources.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The Filing Division does not currently have sufficient space for the additional staff requested in this proposal. As such, we are requesting minimal funding for facilities costs to provide accommodations.

E. JUSTIFICATION

Without these additional resources, approximately \$1.56 billion in baseline General Fund revenues will continue to be at risk.

F. OUTCOMES AND ACCOUNTABILITY

The Governance Council is assigned the responsibility of monitoring the use of resources associated with this proposal. The Governance Council, comprised of the Executive Officer, Assistant Executive Officer, Chief Counsel, and Division Chiefs, administers a formalized framework that ensures effective decision making for resource and budget planning on risks and issues that cross over program and administrative lines.

G. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1: Exempt FTB staff from the 2010/11 furlough and provide 158 PYs and \$14.7 million in overtime and temporary help resources. We estimate that these actions will generate approximately \$860 million in General Fund revenue that would have otherwise been foregone due to the 2010/11 furlough program as well as recovering \$50 million in revenues lost due to 2009/10 furlough.

Alternative #2: Provide \$20.4 million in overtime and temporary help resources and 546 PYs. These resources would allow us to recover the salary saving positions we lost in an earlier vacancy sweep to avoid layoffs and to being hiring and training staff upon the enactment of the 2010/11 budget to reclaim a portion of losses attributable to having staff remain on furlough for 2010/11. We estimate that approximately \$50 million in General Fund revenue will be generated due to the use of overtime and temporary help resources. Additional revenues potentially in the range of \$10 million would be generated as a result of filling revenue producing vacancies that would have otherwise been left unfilled in order to fulfill salary savings requirements endangered by the sweeping of the 289 vacancies as a part of the Executive Order. While this would generate some near-term revenue, the increase in revenue production would be minor compared to the lost revenue due to the 2009/10 and 2010/11 furlough program.

Alternative #3: Do not provide any additional resources.

H. TIMETABLE

Funding to be provided on July 1, 2010.

I. RECOMMENDATION

Alternative 1 is recommended.