

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

*Please report dollars in thousands.*

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

BCP # 11	PRIORITY NO	ORG CODE 1730	DEPARTMENT Franchise Tax Board
PROGRAM Tax Programs	ELEMENT All Tax Programs	COMPONENT	

**TITLE OF PROPOSED CHANGE:**

Accounts Receivable Growth

**SUMMARY OF PROPOSED CHANGE:**

The Franchise Tax Board (FTB) is requesting funding of \$8.2 million and 111 positions (105.3 PYs) to address the rising accounts receivable (A/R) inventory balance. Providing additional resources will allow FTB to maximize our collection efforts and reduce our receivable debt balance. This proposal is estimated to generate revenue of \$52.5 million for FY 2010/11 and \$111 million in FY 2011/12.

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:	DATE	REVIEWED BY:	DATE
<b>Pending Board Approval</b>			
FTB PROGRAM APPROVAL:	DATE	AGENCY SECRETARY:	DATE
DEPARTMENT DIRECTOR:	DATE	AGENCY SECRETARY:	DATE

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

FOR 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 # 11	DATE	Title of Proposed Change:	Personnel Years			CY	BY	BY + 1
			CY	BY	BY + 1			
PROGRAM	11/17/2009	Accounts Receivable Growth						
Tax Programs	ELEMENT	COMPONENT						
	All Tax Programs							
<b>Total Salaries &amp; Wages a/</b>			.0	111.0	111.0	\$ 0	\$ 5,358,000	\$ 5,358,000
Salary Savings			.0	-5.7	-5.7	\$ 0	-\$ 267,000	-\$ 267,000
<b>Net Total Salaries and Wages</b>			.0	105.3	105.3	\$ 0	\$ 5,091,000	\$ 5,091,000
Staff Benefits b/						\$ 0	\$ 2,212,000	\$ 2,212,000
<b>Total Personal Services</b>						\$ 0	\$ 7,303,000	\$ 7,303,000
<b>Operating Expenses and Equipment</b>								
General Expenses /1						\$ 0	\$ 258,000	\$ 98,000
Printing /2						0	192,000	192,000
Communications /3						0	145,000	145,000
Postage /4						0	20,000	20,000
Travel-In-State						0	0	0
Travel Out-of-State						0	0	0
Training						0	0	0
Facilities Operations /5						0	77,000	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 /6						0	235,000	80,000
Equipment						0	0	0
Other Items of Exp (Specify Below)						0	0	0
<b>Total Operating Expense &amp; Equipment</b>						\$ 0	\$ 927,000	\$ 535,000

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

b/ Detail provided on following pages.

/1 General Expense @ \$879 per position. Plus minor equipment @ \$1168 per new position. Also includes misc minor equipment (display phones, aircards, etc)

/2 Printing Costs @ \$106 per position, plus additional notices.

/3 Communication Costs @ \$962 per position, plus cell & aircard service.

/4 Postage Costs for additional mailings.

/5 Facilities Costs to build out new workstations.

/6 Software and Hardware for PCs - 64 @ \$1691 and 47 @ \$2646 per PC, \$184 and \$209 on-going cost for PCs . Also includes Instant Microsoft Communicator software.

**TOTAL OPERATING EXPENSES AND EQUIPMENT**

<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
\$ 0	\$ 927,000	\$ 535,000

SPECIAL ITEMS OF EXPENSE d/

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

**PROGRAM ADMINISTRATION**  
**Distributed Admin**

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

**TOTAL STATE OPERATIONS EXPENDITURES**

\$ 0	\$ 8,230,000	\$ 7,838,000
------	--------------	--------------

**Source of Funds**

**Appropriation No.**

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements	1730		501		0995
<b>Totals</b>					

\$ 0	\$ 8,230,000	\$ 7,838,000
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0
\$ 0	\$ 8,230,000	\$ 7,838,000

**LOCAL ASSISTANCE**

**Source of Funds**

**Appropriation No.**

	Org	-	Ref	-	Fund
General Fund	1730		001		0001
Reimbursements					
<b>Totals</b>					

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

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

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

Positions		Positions			Salary Range	CY	Amount		
		CY 2009/10	BY 2010/11	BY + 1 2011/12			BY	BY + 1	
<b>Administrative Services Division</b>									
Personnel Specialist - Rg B	PERM	0.0	3.0	3.0	\$ 2,993	\$ 3,640	\$ 0	\$ 119,000	\$ 119,000
Mailing Machines Operator II	PERM	0.0	1.0	1.0	\$ 2,649	\$ 3,216	\$ 0	\$ 35,000	\$ 35,000
Compliance Rep, Ftb - Rg B	PERM	0.0	1.0	1.0	\$ 3,204	\$ 3,708	\$ 0	\$ 41,000	\$ 41,000
Assoc Info Systems Analyst	PERM	0.0	1.0	1.0	\$ 4,619	\$ 5,897	\$ 0	\$ 63,000	\$ 63,000
Bus Services Officer I Spec	PERM	0.0	1.0	1.0	\$ 3,658	\$ 4,446	\$ 0	\$ 49,000	\$ 49,000
Total Administrative Services Division		.0	7.0	7.0			\$ 0	\$ 307,000	\$ 307,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	7.0	7.0					
<b>Finance &amp; Executive Services Division</b>									
Acctg Officer Spec	PERM	0.0	2.0	2.0	\$ 3,841	\$ 4,670	\$ 0	\$ 102,000	\$ 102,000
Assoc Business Mgmt Analyst	PERM	0.0	1.0	1.0	\$ 4,400	\$ 5,348	\$ 0	\$ 58,000	\$ 58,000
Total Finance & Executive Services Division		.0	3.0	3.0			\$ 0	\$ 160,000	\$ 160,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	3.0	3.0					
<b>Accounts Receivable Management Division</b>									
Administrator I	PERM	0.0	6.0	6.0	\$ 5,076	\$ 6,476	\$ 0	\$ 416,000	\$ 416,000
Administrator II	PERM	0.0	2.0	2.0	\$ 5,573	\$ 7,113	\$ 0	\$ 152,000	\$ 152,000
Sr Compliance Rep.,Ftb	PERM	0.0	25.0	25.0	\$ 4,619	\$ 5,616	\$ 0	\$ 1,535,000	\$ 1,535,000
Compliance Rep, Ftb - Rg B	PERM	0.0	58.0	58.0	\$ 3,204	\$ 3,708	\$ 0	\$ 2,405,000	\$ 2,405,000
Tax Program Tech I, Ftb	PERM	0.0	4.5	4.5	\$ 2,638	\$ 3,209	\$ 0	\$ 158,000	\$ 158,000
Total Accounts Receivable Management Division		.0	95.5	95.5			\$ 0	\$ 4,666,000	\$ 4,666,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	95.5	95.5					
<b>Filing Division</b>									
Key Data Operator - Rg B	PERM	0.0	0.5	0.5	\$ 2,450	\$ 2,975	\$ 0	\$ 16,000	\$ 16,000
Tax Program Assistant - Rg B	PERM	0.0	3.0	3.0	\$ 2,074	\$ 2,519	\$ 0	\$ 83,000	\$ 83,000
Total Filing Division		.0	3.5	3.5			\$ 0	\$ 99,000	\$ 99,000
Adjust for Part Year Positions		.0	.0	.0					
Net Positions/ PYs before salary savings		.0	3.5	3.5					
<b>Technology Services Division</b>									
Assoc Info Systems Analyst	PERM	0.0	2.0	2.0	\$ 4,619	\$ 5,897	\$ 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	.0					
Net Positions/ PYs before salary savings		.0	2.0	2.0					
<b>Total Salaries and Wages</b>									
	Positions	.0	111.0	111.0			\$ 0	\$ 5,358,000	\$ 5,358,000
	Part Yr Adj	.0	.0	.0					
	P.Y.s	.0	111.0	111.0					

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

<b>Staff Benefits</b>	2009/10	2010/11	2011/12
OASDI /1	\$ 0	\$ 314,000	\$ 314,000
Dental /2	0	58,000	58,000
Health /3	0	873,000	873,000
Retirement /4	0	844,000	844,000
Vision /5	0	11,000	11,000
Medicare /6	0	73,000	73,000
Worker's Comp /7	0	36,000	36,000
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>	<b>\$ 0</b>	<b>\$ 2,212,000</b>	<b>\$ 2,212,000</b>

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

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

**Budget Change Proposal  
Accounts Receivable Growth**

**BCP No. 11  
DATE: November 17, 2009**

**A. NATURE OF REQUEST**

The Franchise Tax Board (FTB) is requesting funding of \$8.2 million and 111 positions (105.3 PYs) to address the rising accounts receivable (A/R) inventory balance. Providing additional resources will allow FTB to maximize our collection efforts and reduce our receivable debt balance. This proposal is estimated to generate revenue of \$52.5 million for FY 2010/11, and \$111 million in FY 2011/12.

During California's economic downturn, it is imperative to use all available collection resources to reduce accounts receivable thus enabling FTB to collect the fair-share of taxes due that in turn, will benefit the State of California (CA).

This BCP is dependent upon approval of BCP #10: Restoration of Furlough Revenue. The resource needs presented in this BCP may be greater if there is a FY 2010/11 furlough and BCP #10 is denied.

**B. BACKGROUND/HISTORY**

FTB's A/R inventory has steadily increased over the past three years. Personal Income Tax (PIT) has increased by approximately 25% from FY 2007/08 to present and Business Entities (BE) has increased 43%. The overall A/R balance as of August 2009 was \$8.1 billion, of which \$5.5 billion represents collectible inventory<sup>1</sup>. Many factors have contributed to this increase including:

- Inventory balances based on self assessed tax returns have gone up by 50% in the past 24 months. The uncertain economy is causing more taxpayers, who would have normally paid their balance in full, to enter into collections.
- In FY 2008/09, FTB issued 39% more filing enforcement actions compared to FY 2007/08.
- Less than 40% of incoming collection contact center calls are being answered due to inadequate staffing levels. This reduces FTB's ability to resolve cases earlier in the collection cycle: installment agreements are delayed and manual process workloads incur backlogs, which increases collection costs and demands on public service counters and involuntary collection staff.
- A debtor's ability and/or willingness to satisfy a tax delinquency over other necessities are diminished. As such, accounts are also more difficult to collect. Additionally, fewer assets are available for liens due to California's high rate of foreclosure.

---

<sup>1</sup> Collectible inventory does not include Installment agreements, withholding orders, outside collections and special programs such as bankruptcy program for debts owed by bankrupt taxpayers.

- Although FTB is on a self directed furlough program, overall, there is less staff time to work cases as a result of the three day furlough order.

FTB's tax collection activities involve collections against accounts receivable that are established by the department's self-assessment, audit, and filing enforcement activities. Both an automated billing system and collection staff administers collections. The automated system manages the collection processes by issuing billings, notices, levies, attachments of assets, and when further action is necessary it routes the accounts to collectors. Manual collection efforts are conducted by the department's collection staff to ensure that all taxpayers pay their fair share to the state's General Fund.

This request is one of several alternatives we are pursuing to address the ongoing balance and recent growth in the account receivables. In addition, we are looking at other strategies to help mitigate further increases to the accounts receivables. These strategies include the following:

1. Ensure staff works higher cost to benefit ratio workloads and less emphasis on indirect workloads such as educational or internal strategic efforts
2. Better Data & Enforcement Tools
  - a. Enterprise Data to Revenue
  - b. Federal Treasury Offset Program
  - c. Top 250 Debtor Listing Posted on Website
3. Enhanced Call Center Technology
  - a. Outbound auto messaging notification
  - b. Queue Management
4. Outsourcing
  - a. In state collections with vendor sooner
  - b. Out of state collections with vendor sooner
  - c. Out of state judgments

### **C. STATE LEVEL CONSIDERATIONS**

This proposal is a continuation of FTB's comprehensive effort to narrow the State's \$6.5 billion Tax Gap. FTB will continue to take action to close the Tax Gap and combat a variety of elements that contribute to the ever growing issue. The Collection program will effectively and fairly address all debtor types producing an overall compliance effect that protects the State revenue base.

### **D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS**

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

**E. JUSTIFICATION**

The FTB mission is “to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness. ” This proposal fully supports FTB’s *Strategic Plan Goal # 2*, “Increase Fairness and Compliance with the Tax Law.”

This proposal is directed at addressing non-compliant taxpayers. FTB is continuing to take action to close the Tax Gap resulting in more equitable taxation for those taxpayers who voluntarily comply with the state tax laws. Approximately 10 percent of California’s \$6.5 billion income Tax Gap consists of reported but unpaid taxes. This proposal would further the department’s efforts to narrow the Tax Gap by increasing enforcement measures that enhance the state’s ability to collect outstanding debts that potentially could reduce the department’s accounts receivable.

FTB utilizes best business practices to determine the most efficient and effective way to address various workloads that will maximize the cost-benefit ratio for every dollar spent. Resources are continuously re-evaluated for possible redirection to reach, and exceed, the Departments revenue goals. The table below represents the revenue potential and resources needed to address the increase in FTB’s A/R:

**Table 1 – Proactive Workload Growth**

<b>Workload Growth</b>	Projected Increase in Volume	Resolution Rate	Projected Additional Resolutions	Hours per Case	Hours Needed	Revenue Per Case	2011/12 Revenue Potential
<b>Proactive Collections</b>	132,618	21.0%	27,850	5.21	145,097	\$4,200	<u>\$111,000,000</u>
<b>Additional PY Need</b>	<b>83direct/28 Indirect</b>						
	@1749 hours per PY						

Note: Projected revenue for FY 2010/11 has been adjusted to reflect hiring delays and training

The direct revenue represented in the table above is at a cost benefit ratio of \$6.4:1 initially, increasing to more than \$14:1.

**F. OUTCOMES AND ACCOUNTABILITY**

The Accounts Receivable Management Division Chief is responsible for the overall management of the department’s collection program. While program and budget staff is 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- Approve funding of \$8.2 million for 111 Permanent Positions**

This alternative proposes funding and resources to meet the increase in FTB's A/R collection inventory. By increasing our resources, FTB will be able to maintain and improve the collection services and collect the projected amount of \$52.5 million for FY2010/11 and \$111 million for FY2011/12. The revenue collected benefits the state General Fund.

### **ALTERNATIVE #2- Approve funding of \$8.2 million for 111 Limited Term Positions**

This alternative mirrors alternative one with the exception of funding limited term positions rather than permanent. The benefit to this alternative would be that the two-year time frame would allow FTB to assess the continued need for collectors should inventory levels sharply decline. However, the nature of the root causes of the increased Accounts Receivable suggest that these factors will continue for several years. Additionally, history has shown that hiring staff on a temporary two-year term is difficult, and many that do get hired will look for a permanent position as soon as they are able. This alternative proposes funding and resources to meet the increase in FTB's A/R collection inventory. By increasing our resources, FTB will be able to maintain and improve the collection services and collect the projected amount of \$52.5 million for FY2010/11 and \$111 million for FY2011/12. The revenue collected benefits the state General Fund.

### **ALTERNATIVE #3- Approve funding of \$4.1 million for 56 Permanent Positions**

This alternative would provide funding for half of the needed permanent positions to address the increase in inventory volume. This alternative would generate \$26.25 million for FY2010/10 and \$55.5 million for FY2011/12.

## **H. TIMETABLE**

Funding to be provided on July 1, 2010.

## **I. RECOMMENDATION**

Alternative # 1 is recommended. This alternative will best address the increase in A/R inventory levels and increase in workloads. Permanently funding resources to support this effort to collect taxes appropriately due to the State of California is imperative during this economic downturn and nascent recovery. The more resources available to collect California's fair-share of tax revenue, the greater the benefit to the State of California.