

**FRANCHISE TAX BOARD
Mail Operations Safety
FY 2002/03**

Attachment I

Alternative 1 - Construction of New Hardwall Around Perimeter of FTB's Receiving Section		Total Cost for 02/03	Total On-going Annual Cost
4	Construction Contract	\$ 2,574,350	
1	Move Contractor	\$ 1,800	
1	Furnishings	\$ 15,000	
2	Voice & LAN	\$ 2,000	
4	Architect & Engineer Other Costs	\$ 1,027,500	
4	Security	\$ 25,358	
Detection & Monitoring Equipment			
5	~ Detection Portal	\$ 240,000	
5	~ Filter Sampling Workstation	\$ 15,000	
5	~ 20 Bio Threat Alert Proficiency Test	\$ 500	
5	x Sampling	\$ 500	
5	x Lab analysis	\$ 7,500	
5	n	\$ 52,000	
5	~ Handheld Ionscan for Workstations	\$ 52,000	
5	~ Ion Track Instrument	\$ 88,000	
5	~ Vapor Tracer	\$ 56,000	
5	~ Ionscan Centurion Monitors	\$ 46,000	
5	~ Chemical Agent Detection System	\$ 56,000	
Subtotal		\$ 4,259,508	\$ -
Itemized Costs to Implement Strategies to Mitigate Risks to FTB Staff		Total Cost for 02/03	Total On-going Annual Cost
Centers for Disease Control (CDC) Recommendations[1]:			
Engineering Controls			
1	~ 6 Industrial HEPA-filtered vacuum for cleaning machinery. House Keeping Controls (two-year warranty included) Annually 260 bags, 24 micro filter, 24 HEPA cartridge.	\$ 6,600	\$ 6,600
1	~ Maintenance HEPA filters in HVAC systems.	\$ 36,700	\$ 36,700
Administrative Controls			
4	~ 4 Additional Guards	\$ 78,200	\$ 78,200
4	~ Badge Replacements (identify Receiving staff)- no additional		
4	~ CHP presence during filing season	\$ 36,500	\$ 36,500
Personal Protective Equipment			
1	~ Gloves	\$ 100,900	\$ 100,900
1	~ Coveralls	\$ 210,200	\$ 210,200
1	~ Shoe Covers	\$ 27,300	\$ 27,300
1	~ Surgeon Caps	\$ 3,000	\$ 3,000
1	~ Masks – general – N-95 type filter; machinery – P-type filter; reassign staff unable to wear masks.	\$ 215,800	\$ 215,800
1	~ Bacteria Gel	\$ 4,800	\$ 4,800
Total Costs of CDC Recommendations		\$ 720,000	\$ 720,000
USPS Staff Recommendations			
1	~ Supplement cost of flu shots for all staff through December 2001. Department will pay the first \$10 of the \$15 flu shot, cost to employee \$5.	\$ 5,000	\$ 5,000
1	~ Random testing of USPS facilities, ongoing basis – Determine feasibility for FTB random self tests.	\$ 10,000	\$ 10,000
Total of USPS Recommendations		\$ 15,000	\$ 15,000
FTB Staff Recommendations			
1	~ Portable hand washing stations during peak season.	\$ 12,600	\$ 12,600
1	~ Purchase 28,000 bags/disposable clothing for employees in event of suspected contamination.	\$ 600	\$ 600
3	~ Employ or train additional staff with Hazardous Material training to assist with suspected contamination.	\$ 4,000	\$ 4,000
Total FTB Staff Recommendations		\$ 17,200	\$ 17,200
Mitigate Risks Subtotal		\$ 752,200	\$ 752,200
Total		\$ 5,011,708	\$ 752,200

#	Fiscal Detail Category	Cost
1	General Expenses	\$ 650,300
2	Communications	\$ 2,000
3	Training	\$ 4,000
4	Cons & Prof Svs - Interdept'l	\$ 3,741,908
5	Equipment	\$ 613,500
Total		\$ 5,011,708

[Recommendations for Protecting Workers from Exposure to Bacillus anthracis in Work Sites Where Mail is Handled or Processed"; dated 10/31/01.](#)

**FRANCHISE TAX BOARD
Fiscal Year 2002/03**

Finance Letter - Placeholder

FL No.: 4

California Child Support Automation System (CCSAS) Date: February 11, 2002

This Finance Letter is being submitted as a “placeholder”. The Franchise Tax Board is anticipating a need for additional funding and position authority for fiscal year 2002/03 in order to begin the development and implementation phase of the California Child Support Automation System Project (CCSAS). The CCSAS Project has completed the Solicitation for Conceptual Proposal with final bids due February 28, 2002. Based on the current project schedule, the earliest that preliminary resource needs information will be available will be May 17, 2002. The following are the key milestone dates in the current project schedule:

2/28/02	Bid proposals due.
3/27/02	Cost opening.
3/28/02 – 5/17/02	Bid evaluation, cost reasonableness evaluation, final scoring, and bid selection.
5/18/02 – 9/18/02	Contract negotiations.
10/18/02	Submit request for Federal funding.
12/31/02	Contract award.

The CCSAS Project is utilizing the Alternative Procurement Process in Business Partner (BP) selection. Under this process, BP’s are not paid until specified and agreed to deliverables are met. The CCSAS Project anticipates deliverables will be provided within the first six months of the contract (2002/03 FY). Additionally, the selected BP will identify staffing needs for the Project (FTB-CCSAS), Program (Department of Child Support Services), and county to participate and work with their staff in the development and implementation of their solution.

The additional funding and position authority will be addressed in the Finance Letter to replace this “placeholder”.

STATE OF CALIFORNIA
 FINANCE LETTER - COVER SHEET
 FOR FISCAL YEAR 2002/03
 DF-46 (REV 03/00)

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

FL #	PRIORITY NO	ORG CODE	DEPARTMENT
4		1730	Franchise Tax Board
PROGRAM	ELEMENT	COMPONENT	
45 Child Supp	00 Child Supp Automation		

TITLE OF PROPOSED CHANGE:

California Child Support Automation System (CCSAS)

SUMMARY OF PROPOSED CHANGE:

This Finance Letter is being submitted as a "placeholder" for anticipated need of additional funding and position authority in FY 02/03 to begin the development and implementation phase of the statewide CCSAS Project. The amount of funding and position authority needed will not be determined until final negotiations are made with the Business Partner.

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

PREPARED BY:	DATE	REVIEWED BY:	DATE:
Pending Board Approval			
DEPARTMENTAL DIRECTOR:	DATE:	AGENCY FINANCIAL OFFICER:	DATE:

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

YES NO

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

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

DATE _____ PROJECT # _____ FSR OR SPR

**DOF ANALYST USE
 (ADDITIONAL REVIEW)**

CAPITAL OUTLAY TIRU FSCU OSAE CALSTARS

FL # 2	DATE 2/11/2002	Title of Proposed Change:	
		Mail Operations Safety	
PROGRAM	ELEMENT	COMPONENT	
Tax Programs	All Tax Programs		
		<u>Personnel Years</u>	
		<u>CY</u>	<u>BY</u>
			<u>Current Year</u>
Total Salaries & Wages a/		.0	.0
Salary Savings		.0	.0
Net Total Salaries and Wages		.0	.0
Staff Benefits b/			\$ 0
Total Personal Services			\$ 0
 Operating Expenses and Equipment			
General Expenses 1/			\$ 0
Printing			0
Communications 1/			0
Postage			0
Travel-In-State			0
Travel Out-of-State			0
Training 1/			0
Facilities Operations			0
Utilities			0
Cons & Prof Svs - Interdept'l 1/			0
Cons & Prof Svs - External			0
Consolidated Data Center			0
California Health and Human Services Agency Data Center			()
Stephen P. Teale Data Center			()
Data Processing			0
Equipment 1/			0
Other Items of Exp (Specify Below)			0
<hr/>			
Total Operating Expense & Equipment			\$ 0

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

b/ Detail provided on following pages.

/1 General Expense for Branch @ \$549, and for Depart'l \$340 per position. Plus minor equipment. Modular furniture, chairs, etc. @ \$9010 per position. PCs @\$1600 per position.

/3 Departmental \$1195 per position.

/7 Standard cost of training is \$364 per perm position.

/10 Equipment

1/ See Attachment I

Budget Year

\$ 0

\$ 0

\$ 0

\$ 0

\$ 0

\$ 650,000

0

2,000

0

0

0

4,000

0

0

3,742,000

0

0

()

()

0

614,000

0

\$ 5,012,000

TOTAL OPERATING EXPENSES AND EQUIPMENT

\$ 0

SPECIAL ITEMS OF EXPENSE d/

\$ 0

PROGRAM ADMINISTRATION
Distributed Admin

\$ 0
\$ 0

TOTAL STATE OPERATIONS EXPENDITURES

\$ 0

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund	
General Fund	<u>1730</u>		<u>001</u>		<u>0001</u>	\$ 0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
Reimbursements	<u>1730</u>		<u>501</u>		<u>0995</u>	0
Totals						<u>\$ 0</u>

LOCAL ASSISTANCE

\$(0)

Source of Funds

Appropriation No.

	Org	-	Ref	-	Fund	
General Fund	<u>1730</u>		<u>001</u>		<u>0001</u>	\$ 0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
	_____		_____		_____	0
Reimbursements	_____		_____		_____	0
Totals						<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.

Budget Year

\$ 5,012,000

\$ 0

\$ 0

\$ 0

\$ 5,012,000

\$ 5,012,000

0

0

0

0

0

0

0

\$ 5,012,000

\$(0)

\$ 0

0

0

0

0

0

\$ 0

		<u>Current Year</u>	<u>Budget Year</u>
TOTAL OPERATING EXPENSES AND EQUIPMENT		\$ 0	\$ 704,000
SPECIAL ITEMS OF EXPENSE d/		\$ 0	\$ 0
PROGRAM ADMINISTRATION		\$ 0	\$ 0
Distributed Admin		\$ 0	\$ 0
TOTAL STATE OPERATIONS EXPENDITURES		<u>\$ 0</u>	<u>\$ 704,000</u>
<u>Source of Funds</u>	<u>Appropriation No.</u>		
	Org - Ref - Fund		
General Fund	Tax 1730 001 0001	\$ 0	\$ 684,000
General Fund	HRA 1730 001 0001	0	20,000
General Fund		0	0
		0	0
		0	0
		0	0
Reimbursements	1730 501 0995	0	0
Totals		<u>\$ 0</u>	<u>\$ 704,000</u>
LOCAL ASSISTANCE		\$(0)	\$(0)
<u>Source of Funds</u>	<u>Appropriation No.</u>		
	Org - Ref - Fund		
General Fund	1730 001 0001	\$ 0	\$ 0
General Fund		0	0
General Fund		0	0
		0	0
		0	0
Reimbursements		0	0
Totals		<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.

**FRANCHISE TAX BOARD
Fiscal Year 2002/03**

Finance Letter

FL No.: 2

Mail Operations Safety

Date: February 11, 2002

A. NATURE OF REQUEST

This Finance Letter requests resources for FY 02/03 in the amount of \$5,012,000 to take appropriate measures that would safeguard staff against biohazard threats in the department's mail room operations. These resources will be used to enclose and isolate the mail operation processing area within FTB's Phase I building and the mail operation warehouse in FTB's Phase II building. The funds would also allow FTB to provide staff mitigating tools for the prevention, detection and monitoring of biohazard threats.

B. BACKGROUND/HISTORY

The Franchise Tax Board (FTB) requests additional funding that would empower FTB to take measures to safeguard staff against biohazard threats, yet enable FTB to continue its business without disruptions that would delay processing activities and ultimately affect the revenue stream into the general fund. To accomplish this FTB must isolate its mail operation processing areas completely, including air ventilation systems; thereby ensuring that state employee safety standards, as recommended by the Centers for Disease Control and Prevention (CDC), are met.

FTB is implementing several controls in the current year to isolate mail and freight in the mail operation areas. FTB submitted a deficiency request on December 20, 2001 for funding these measures. These controls were taken to ensure worker safety and minimize exposure to potential threats. However, these controls do not isolate the majority of FTB workers from possible risks of exposure to infectious spores through the ventilation system.

Currently, FTB does not have a centralized mail receipt point, however the Receiving Section processes the majority of the mail and the Business Services Section handles all freight deliveries, bulk mail, and special handling mail. These sections are currently residing in FTB's Central Office Phase I and II buildings along with the majority of FTB staff. Any suspicious items received in mail operation areas have the potential of creating a situation where all program activities within Phase I and II would be shut down. In an attempt to balance the need to protect staff with the need to keep the business of State government functioning, FTB conducted a study of engineering controls in mail-handling/processing sites including the IRS, Post Office, EDD, SCO and other departments. For years, ***these departments have utilized isolated mail operation areas*** as recommended by CDC, the US Postal Service, and Industrial Hygienist and Biohazard Consultants.

The study found that infectious spores can be aerosolized (made airborne) during the operation and maintenance of high-speed, mail-sorting machines, potentially exposing workers and possibly entering heating, ventilation, or air-conditioning (HVAC) systems.

Although FTB is in the process of implementing several controls in the mail operation areas to ensure worker safety and minimize exposure to potential threats, these controls only reduce the risk of contamination to those people actually handling the mail in the immediate area. Biohazard aerosolized spores could still enter the HVAC system and spread throughout the Central Office, creating a need to shut down both buildings.

To contain this danger, the CDC, Industrial Hygienist and Biohazard Consultants recommend the installation of HEPA filters in HVAC systems that are exposed to mail operation processes. In addition, containment of the mail operation areas would allow FTB to shut down the affected area and activate its Business Resumption Plan, therefore reducing disruption to FTB's business functions.

C. STATE LEVEL CONSIDERATIONS

FTB is responsible for sixty-four percent of state revenues and vital to the processing and collection of these revenues is the thirty million returns/payments/documents processed through the mail operation each year. One letter containing bio-hazardous materials received in the Receiving Section has the potential of shutting down all of FTB for days, weeks or months. A shut down of FTB, depending on the duration, could have significant negative impacts to the General Fund as well as the other state programs that conduct business with the FTB.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The recommended alternative will require modifications to the existing facility but does not require additional facilities. The modifications may require capital outlay expenditures.

E. JUSTIFICATION

The fact that FTB's mail operation processes over 30 million returns / payments / documents associated with sixty-four percent of California's General Fund revenues warrants special action from the state.

Any delay in deposits could have a significant impact on the state's cash flow and the state's ability to meet its ongoing liabilities. It would be difficult to estimate the full impact to the state of shutting down all of FTB, but a shut down in April of just the processing areas for one day could delay cash flow by \$476 million and create significant losses in interest earned on deposits. The possible loss of state revenue and the dangers to staff make it imperative that all measures to ensure the safety of staff and the daily operations of FTB be taken.

FTB requests these funds so that appropriate steps can be taken to contain biohazard spores. This requires that the HVAC system be fitted with HEPA filters to stop dangerous spores from being distributed throughout all of FTB. These funds would also assist FTB to prevent, detect, monitor and identify both biohazard and bomb threats.

In order to achieve this, FTB must enclose the mail operation area with solid walls and install a dedicated HVAC system. It also must relocate part of the mail operation to the central office phase II warehouse. (The phase II warehouse currently has a dedicated HVAC system). ***It is important to note that these proposed modifications will allow FTB to meet the standards that currently exist in other departments such as IRS, Post Office, EDD, and the SCO.***

The mission of FTB is to efficiently, effectively and fairly administer income tax and other programs entrusted to it and to collect revenues needed to serve the people of California. This Finance Letter is fully supportive of the FTB's Mission, Goals, and Objectives as outlined in FTB's Strategic Plan.

- ❖ *We are committed to building a strong organization.*
- ❖ *We deliver efficient and high-quality business results for the public*

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVE

Alternative 1: Provide \$5,012,000 (this includes \$752,000 of on-going costs) to isolate the mail operations within Phase I and Phase II.

This alternative provides a separate HVAC system with HEPA filters to mail operation areas and hard wall construction to isolate the mail operation area within Central Office Phase I. This will reduce exposure to the majority of central office staff. It will minimize delays in the states cash flow. It will not affect workflows, or require additional facilities or staff. The timeline indicates completion by March 2004. Due to the potential risk of threats, FTB will move forward to request an emergency certification to accelerate the schedule for completion by January 2003.

Alternative 2: Provide \$10,979,000 (this includes \$1,408,000 of on-going costs) to Relocate/Isolate Receiving Section in Phase II and Business Services at the Depot Business Park Facility.

This alternative would cause disruption to the flow of work between all mail processing areas and requires additional facilities and staff. FTB estimates that this alternative would result in a loss of two hours of production each day which would negatively impact interest revenues.

Alternative 3: Provide \$3,889,000 (this includes \$1,661,000 of on-going costs) to relocate mail operations off-site.

This alternative creates an *annual interest revenue loss of \$4,131,550*. Although feasible, it is not efficient or effective, as it would create at least a day delay in processing documents, returns, and payments. This delay would significantly impact

interest revenue. It would also create undeterminable losses in production areas due to the slowing of workflow throughout the department. This alternative would also require additional resources- truck driver, messenger and security staff, transportation (purchase trucks and vans), cages, batch trucks and pallets to maintain an adequate workflow. It is also in direct opposition of FTB's Phase III objective which is to locate all staff at one central location.

G. TIMETABLE

July 1, 2002	Appropriation
Aug 31, 2002	Preliminary Plans
Dec 31, 2002	Working Drawings
Feb 28, 2003	Bid Process
Feb 28, 2003	Construction
Mar 15, 2004	Completion

H. RECOMMENDATION

Alternative 1 is recommended. This alternative allows FTB to meet its goals at the least impact to staff, facilities and state revenues.

**FRANCHISE TAX BOARD
Fiscal Year 2002/03**

Finance Letter

FL No. 1

Mandatory Electronic Filing for Tax Practitioners

Date: February 11, 2002

A. NATURE OF REQUEST

This finance letter is to request partial restoration of PYs and associated funding that was previously identified as part of the General Fund reductions. Fiscal Year 2002/03 BCP #13, specifically the Mandatory Electronic Filing for Tax Practitioners component (#8), reflects an incorrect savings of 80 PYs and \$2.2 million. The correct reduction should have been 50 PYs and \$1,375,000. Therefore, this Finance Letter requests the restoration of 30 PYs and \$825,000 to bring the cost savings stated in BCP #13 to the correct levels.

B. BACKGROUND

Due to severe fiscal crisis, the department submitted FY 2002/03 BCP #13 proposing a specific plan to reduce General Fund expenditures. That plan included a proposal to require tax practitioners to e-file when they prepare more than 100 individual income tax returns. The savings associated with this proposal were calculated using the 1998 performance audit model and assumed the Franchise Tax Board (FTB) manually keyed all the returns affected. This assumption was faulty because many returns are not manually keyed, they are processed using scanning/imaging technology. This technology is much less costly than the traditional method of keying a return. When calculating the savings associated with an increase in e-file, the department must compare the cost of e-file to the cost of processing a return using the scanning/imaging technology. The revised savings are correctly calculated to be 50 PYs and \$1,375,000.

In order to ensure that the state realizes the full potential of this new legislation, the education and enforcement issues must be considered. The department intends to submit a FY 2003/04 BCP to address the following costs:

- System changes to ensure that the penalty detailed in the legislation is assessed correctly.
- Funding to provide education, marketing, and technical guidance to practitioners regarding the new mandate.

C. STATE LEVEL CONSIDERATIONS

The mission of the FTB is to efficiently, effectively and fairly administer income tax and other programs entrusted to it and to collect revenues needed to serve the people of California. This Finance Letter is fully supportive of the FTB's Mission, Goals, and Objectives as outlined in FTB's Strategic Plan.

D. FACILITY/CAPITAL OUTLAY CONSIDERATIONS

The facilities funding requested in this Finance Letter represents the estimated costs of providing the necessary facilities for the program staff. By funding this portion of the request, it ensures that the department's budget for incremental state owned and non-state owned rents, building upkeep (including alterations, janitorial and special repairs), utilities, and security can accommodate the additional positions requested.

E. JUSTIFICATION

This Finance Letter adjusts the savings originally identified in BCP #13. The savings realized from an additional 2.5 million e-filed returns is estimated to be 50 PYs and \$1.35 million, not the 80 PYs and \$2.2 million identified in the BCP.

These savings are expected to increase as participation in the mandatory e-file program grows. We estimate that volumes could grow from the 2.5 million initial increase in e-file volume to 4 million in just a few years.

This request supports the department's strategic goal of:

- *Delivering efficient and high-quality business results for the public* – This request would restore 30 PYs necessary for the processing of PIT returns in a timely manner without delays that may cause the department to pay interest on refunds.

F. ANALYSIS OF ALL FEASIBLE ALTERNATIVES

Alternative #1 – Restore 30 PYs and \$825,000 to acknowledge the correct savings in FY 2002/03 associated with the legislation regarding the Mandatory E-file for Tax Practitioners.

This alternative will correct the estimated savings originally reported in BCP #13. By restoring the savings, it ensures that FTB has sufficient resources to process returns in the FY 2002/03 filing season.

Alternative #2 – Do not restore 30 PYs and \$825,000.

This alternative would under-staff the processing workloads. This could force the department to lose General Fund interest revenues on deposits and pay undetermined interest amounts on refunds due to a lack in timely processing of returns.

G. TIMETABLE

The Mandatory E-filing for Tax Practitioners Program is anticipated to be effective for tax returns required to be filed on or before April 15, 2003. Therefore, we request a restoration of the PYs and funding on July 1, 2002.

H. RECOMMENDATION

Alternative 1 is recommended to restore 30 PYs and \$825,000 that were incorrectly identified as savings due to implementation of the Mandatory E-filing for Tax Practitioners Program.

**FRANCHISE TAX BOARD
Fiscal Year 2002/03**

Finance Letter

FL No.: 3

Postage Rate Increase

Date: February 11, 2002

A. Nature of Request

The Franchise Tax Board (FTB) requests additional funding for a postage rate increase in the amount of \$704,000. This request is being submitted as the result of the proposal by the U.S. Postal Service to increase the cost for mail service. The proposed rate increase will be effective July 1, 2002.

B. Background/History

The Franchise Tax Board's primary functions are to process income tax returns for individuals, corporations and other entities; to perform audit of tax returns to encourage compliance and to collect current and past due income tax. The department also performs collection functions for several non-tax programs, such as child support, DMV, and court-ordered debt. It also administers the Homeowners and Renters Assistance (HRA) and the Political Reform Audit programs.

In the course of administering these programs, the department sends more than 25 million pieces of mail annually, primarily to taxpayers. These mailings include income tax forms and booklets, Form 1099s and income tax refund notices, audit and collection notices, HRA booklets as well as non-tax debt collection notices. Our central office mailroom expects to process over 13.5 million pieces of mail in FY 2001/02. In addition, we send approximately 5 million booklets for personal income tax, corporations and partnerships; 850,000 booklets for the Homeowners Renters Assistance Program and 4.8 million 1099 and tax refund notices.

In January, the U.S. Postal Service announced that it is proposing postal rate increases to be effective July 1, 2002. The proposed increases have an overall average increase of 8.7 percent and will vary substantially depending on the class of mail. For the type of mail sent by this department, the increase will cost approximately two to three cents more per piece depending on whether the mail is sent using first class service or by standard (bulk) mail. The proposed increases will have a significant impact to the department's OE&E budget for postage because of the department's high mail volume.

The FTB's OE&E budget for postage is \$8.2 million for FY 2002/03. Based on an analysis of projected increased costs of the diverse products we mail, we are requesting an augmentation of \$704,000. In arriving at this amount, we have taken into consideration a variety of factors that would affect the costs including the class of mail, (i.e., first class, bulk mail, postcards) and how the mail is sent (i.e., basic letter or presorted).

E. State Level Considerations

This proposal addresses the department's efficiency objective by providing funding to maintain existing programs at the current levels without impairing the department's revenue producing activities.

D. Justifications

Our department's strategic goals include becoming customer-centered, promoting fair and effective tax administration and delivering efficient business results. Achieving these goals requires contact with our customers (taxpayers), which is most frequently accomplished via the mailing of correspondence, statements or forms. Even though we continually seek efficient ways to reduce postage costs, we must also comply with mandated workloads. For instance, this year the 1099 mailing volume increased by over 400,000 and the Taxpayer Bill of Rights imposed a new requirement to provide annual written notices to all taxpayers who have a delinquent balance due.

The FTB's OE&E budget has been significantly reduced via FY 2002/03 BCP #13 in response to the State's budget shortfall. The overall decrease in this department's OE&E budget will not allow us to absorb the increase in the postage rate as proposed by the U.S. Postal Service. We are reassessing our needs in order to cope with the decrease in the OE&E budget so as not to jeopardize our ability to generate and collect revenue. However, if the additional funding is not available to accommodate the rate increase, we may be forced to redirect from areas that could impact our revenue producing abilities.

E. Analysis Of All Feasible Alternatives

Alternative 1 – Augmentation of \$704,000 for Postal rate increase.

Under this alternative, the department's budget would be augmented to fund the additional increase in postage costs. This would eliminate the need to redirect funds from currently authorized activities to fund this operating expense increase.

Alternative 2 – Do not provide additional funding for Postal rate increase.

Under this alternative, the department must fund the increase from existing resources. Due to the State's budget shortfall, the department has depleted its OE&E discretionary funds and will not be able to absorb the rate increases without impacting revenue producing activities.

F. Time Table

Increase postage operating expense budget effective July 1, 2002.

G. Recommendation

Alternative 1 is recommended, as it will enable us to maintain our programs at existing levels without redirecting from other areas.