



STATE OF CALIFORNIA  
**FRANCHISE TAX BOARD**  
PO Box 115  
Rancho Cordova, CA 95741-0115  
Telephone (916) 845-4543  
Fax (916) 845-3191

KATHLEEN CONNELL  
Chair

JOHN CHIANG  
Member

B. TIMOTHY GAGE  
Member

## MEMORANDUM

To: George Valverde  
Deputy Secretary  
State and Consumer Services Agency

September 19, 2002

From: Gerald H. Goldberg

Subject: 20 Percent Budget Reductions for FY 2003/04

Attached for your review and approval are the department's proposals to achieve a 20 percent budget reduction for FY 2003/04. This information was developed in response to Budget Letter 02-21. We are also providing a listing of the proposals that could be implemented in the current year and the associated savings.

FTB's approved budget for FY 2002/03 is \$447 million (\$401 million General Fund). After adjusting for one-time costs, a twenty percent reduction to our ongoing General Fund budget is equal to \$76 million. To identify savings of this magnitude, we looked comprehensively at all functions and programs administered by the department rather than focus on specific budget allotments. Following this approach, and based on the policy guidelines in BL 02-21, we have identified budget reduction proposals that fall into four general categories:

- **Program and Administrative Changes (\$8.3 million).** The proposals in this category involve significant changes in Tax Programs, including: suspension of the child and dependent care tax credit, acceleration of mandatory e-file for tax practitioners, and significant reductions in tax forms distribution.
- **Reduction in Discretionary Revenue Producing Activities (\$56.9 million).** The list includes reductions in FTB's audit, collections, filing enforcement, and non-resident withholding processing. The department is well aware of the adverse impacts on revenue which potentially could be over \$950 million. These compliance programs represent the majority of the department's "discretionary functions" when compared to the more core business activities of return processing, cashiering, and taxpayer service areas. Although these proposals negatively impact revenue, they had to be considered in order to achieve the total savings target of this budget exercise.
- **Elimination of Non-Revenue Programs (\$7.8 million).** This includes elimination of FTB's administration of the Homeowners and Renters Assistance Program and Political Reform Audit Program. While these are long-standing programs administered by the FTB, they are outside of the department's core revenue functions and, therefore, are included on our listing in accordance with the guidelines of BL 02-21.

- **Customer Service Programs (\$3.3 million).** The reductions listed in this category directly impact our taxpayer service programs and policy-related services that we provide to the Legislature and Administration. We have included a 20 percent reduction in “Education and Assistance Activities,” which covers our statewide call center, district office counter assistance, correspondence, and related activities within FTB. The placement of these items at the bottom of the list reflects the importance the department assigns to customer service and is consistent with the direction of the FTB itself. The department already faces a FY 2002/03 budget reduction of \$1.2 million and 26 PYs in the area of customer service. Any further reductions would have significant adverse impacts on this mission-critical function, which ultimately increases costs in other areas and impacts tax compliance.

For the current year, we have been directed by the Department of Finance to develop proposals that result in a five percent budget reduction. The target amount for FTB is \$19 million. To realize these savings, FTB would have to forego filling the new revenue-producing positions that were established this fiscal year. The specific budget augmentations and associated revenue are detailed in Attachment II. This is the only feasible option that avoids layoffs, which cannot be accomplished in a timely manner.

Please also be aware that FTB is required to implement new legislation to increase revenues – residential real estate withholding and suspension of the teachers tax credit -- but no funding was appropriated to cover the additional workload. We are preparing a deficiency request and are hopeful the necessary funding will be provided. Otherwise, the additional costs may require a redirection of funding from audits and collections, which puts at risk our capacity to maintain the baseline as well as produce the new revenue included in the budget.

**If you concur with our proposal, please sign the attached worksheets and forward this information to the Department of Finance.** Please be aware that the proposals would require approval by the Board itself. If you have any questions, please contact Titus S. Toyama, FTB Chief Financial Officer, at 845-4106.

Executive Officer

Attachments

cc: FTB Board Members  
Connie Squires, Department of Finance

**2003-04  
20-PERCENT REDUCTION PLAN INSTRUCTIONS**

**General Instructions:**

1. Complete Attachment II to identify the General Fund and selected non-General fund reductions by Agency Secretary or department that does not report to an Agency Secretary. Complete Attachment III to provide additional details for each proposed reduction, if further explanation is required.
2. Summary level plans (Attachment II) must be submitted to the Department of Finance (Finance) by each Agency as soon as possible, but no later than September 13, 2002.
3. Departments must be prepared to submit back-up documentation and details of the proposed reductions upon request by Finance, but deliver no later than October 1, 2002. While formal BCPs will not be required with the initial submission, they will be required for all reductions ultimately included in the Governor's Budget. Throughout the decision process, Finance will provide guidance to Agencies as to which ideas should be developed into formal BCPs, for which a due date will be established later in the process.
4. All reduction plans must be submitted by each Agency. For departments that do not report to an Agency Secretary, plans must be submitted to the appropriate Finance Program Budget Manager (PBM).
5. Submit one electronic and two paper copies of the plan to the appropriate Finance PBM.
6. **No** departments or programs with General Fund expenditures will be exempted, with the exception of mandatory expenditures, such as debt service payments (General Obligation and Lease Revenue), interest payments, and various non-departmental appropriations.
7. Reductions must total at least 20-percent of the 2002-03 expenditure amounts for each of SO and LA, independently, as reflected in AB 425 (June 29, 2002, version). The only adjustment available is for major one-time expenditures in 2002-03 (a detailed explanation of this type of expenditure must be submitted and approved by Finance).

**Specific instructions for Attachment II**

8. Reductions must be displayed in order of ascending relative priority (i.e., the first issue listed would be the lowest funding priority within the Agency, i.e., the least disruptive reduction). Do not duplicate priority numbers.
9. Under the "Org" column, put the 4-digit organization code.
10. Under the "Dept" column, put a short and meaningful title of the Department's name. For example, for Department of Parks and Recreation, put "DPR" or "Parks".
11. Under the "Description of Program Option" column, provide a short and descriptive title of the proposals. Include program title and proposed action, e.g., "Eliminate Program ABC", "Reduce Program DEF by 50 percent".
12. Under "SO/LA" column, put either "SO" for state operations or "LA" for local assistance.
13. Under "P98" column, place a "Y" if this issue is funded with Proposition 98 moneys.

**2003-04**  
**20-PERCENT REDUCTION PLAN INSTRUCTIONS**

14. Under "L/R" column, put "L" if the proposal requires a legislative change. Put "R" for proposals that require regulatory change. Leave blank if not applicable.

15. For the "Prog" column, please use the following coding:

- H: Housing
- T: Transportation
- R: Resources/Environment
- HL: Health
- HS: Human Services
- Y: Youth and Adult Correctional
- K12: K12
- HE: Higher Education
- LG: Local Government
- TR: Tax Relief
- CO: Capital Outlay/Infrastructure
- OTH: Other Expenditures (e.g., general government)

16. Under the "2002-03 Base (per AB 425)" column, identify the GF (or selected non-General Fund) amount in AB 425 (as amended on June 29, 2002). The base can be the amount for the program, function, project, etc. Use your best judgment as to which one makes the most sense for the reduction option.

17. Under the "2003-04 PYs" and "2003-04 Dollars" column, for each program option, identify the reduction in personnel years and the dollar amount (in thousands) for 2003-04 fiscal year.

18. Under the "Non-GF" column, for proposals that are non-General fund, put a "Y". Leave blank for General Fund proposals.

19. Under the "Program Impact" column, briefly (with three to five sentences) identify the following:

Impact of the reduction plan for the proposed reductions. Identify the groups who benefit from the service/program and any other likely opposition to its reduction/elimination.

One-time savings are not accepted unless they are accompanied with ongoing savings that begin after the one-time savings cease. Please clearly identify the one-time and accompanying on-going savings, if applicable.

If additional space is required, please use Attachment III. Upon request, be prepared to provide additional backup documents within a very short timeframe if necessary.

STATE OPERATIONS AND LOCAL ASSISTANCE  
2003-04 REDUCTIONS<sup>11</sup>  
(Dollars in Thousands)

Agency: State and Consumer Services Agency

Priority No.	Org	Dept	Description of Program Option (List Lowest Funding Priority First)	SO/ LA	Pgs	LR <sup>2</sup>	Prog	2002-03 Base (per AB 425)	2002-03 <sup>3</sup>		2003-04		Non-GF	Program Impact (Provide concise description. Fill out Attachment III, if necessary.)	
									Pys	Dollars	Pys	Dollars			
Program and Administrative Changes:															
001	1730	FTB	Accelerate Mandatory E-file for Tax Practitioners	SO		L	OTH	NA				50.5	1,410	Mandate E-file for tax professionals who handle high volume of tax returns. This issue was approved in 2002-03 Governor's Budget but restored during committee hearings.	
002	1730	FTB	Suspend Child and Dependent Care Credit	SO/LA		L	OTH	100%			64.4	3,605	Suspend the child and dependent care credit. \$167 million in credit claimed during fiscal year 2001-02. Legislation required.		
003	1730	FTB	Reduce Printing & Postage & Eliminate Tax Forms Distribution.	SO			OTH	20%			0.0	3,283	Reduce printing and postage costs related to the printing and direct mailing of tax booklets to taxpayers.		
Reductions for Revenue Producing Activities:															
004	1730	FTB	Reduce Legal Support	SO			OTH	20%	5.7	800	4.3	435	Eliminate Tax Policy Conference, do not work appeals of under \$1,000, and eliminate regulation projects. Revenue loss for appeal workload estimated at \$1 million.		
005	1730	FTB	Reduce Investigations	SO			OTH	20%			8.8	661	Reduce probation monitoring, tax fraud, and evasion investigations. Revenue loss of \$9 million. CBR of \$1.4 to 1.		
006	1730	FTB	Reduce Audit	SO			OTH	30%	44.6	4,545	422.0	25,520	Reduce Audit activities. Revenue impact of \$232.1 million with a CBR of 9 to 1.		
007	1730	FTB	Reduce Tax Collections - Child Support	SO			OTH	20%			30.0	1,514	Reduce child support collection activities. Potential loss of \$33.4 million in child support collections. CBR of 10 to 1.		
009	1730	FTB	Reduce Filing Enforcement	SO			OTH	30%			60.3	3,551	Reduce filing enforcement activities that identify individuals and business entities that are required to file tax returns. Revenue impact of \$44 million with a CBR of 12 to 1.		
008	1730	FTB	Reduce Tax Collections - Manual and Automated	SO			OTH	30%	159.6	13,221	456.0	22,688	Reduce Collection activities. Revenue impact of \$454.7 million with a CBR of 20 to 1.		
010	1730	FTB	Eliminate Non-Resident Withholding Processing	SO			OTH	100%			46.0	2,531	Eliminate the program that withholds a portion of the gross sales of real property sold in California by non residents. Revenue impact of \$200 million with a CBR of \$79 to 1.		
Elimination of Non-Revenue Programs															
011	1730	FTB	Eliminate HRA Program	SO/LA		L	TR	100%			63.5	6,440	Eliminate FTB's administration of the program that partially repays property taxes or rent paid by eligible senior citizens, disabled, and blind individuals. \$233 million in Local Assistance is provided to eligible claimants. Legislation required. An alternative proposal is to combine HRA with PIT processing, the potential savings of this proposal is unknown at this time.		
012	1730	FTB	Eliminate PRA Program	SO		L	OTH	100%			18.8	1,350	Eliminate FTB's administration of the PRA audit program, which determines the accuracy and completeness of political statement reports. Legislation required.		
Reductions in Customer Service Activities:															
013	1730	FTB	Reduce Outreach Services	SO			OTH	20%			4.6	451	Reduce Outreach activities as follows: Small Business and Community Outreach, California Tax Policy Conference, and contracts.		
014	1730	FTB	Reduce Education and Assistance Activities	SO			OTH	20%	0.0	400	48.7	2,214	Reduce taxpayer assistance and education services.		
015	1730	FTB	Reduce PIT Sample (key data every other year)	SO			OTH	50%			20.4	600	Reduce forecasting services by processing PIT Sample once every two years. This information is used by DOE and LAO for revenue projections.		
										<b>Totals</b>					
										<b>209.9</b>		<b>\$18,966,1296.3</b>		<b>\$76,253,11828</b>	

<sup>11</sup> See Instructions (Attachment I)

<sup>2</sup> L = Legislation required  
R = Regulation change required

<sup>3</sup> The 02-03 costs are listed are the revenue augmentations received by FTB per the 02-03 Budget Act.  
JBL.FM2003-04.Reduction.BL.xls

Approval:

Agency Secretary / Department Director

Date:

August 7, 2002