

STATE OF CALIFORNIA

FRANCHISE TAX BOARD

QUARTERLY MEETING

WEDNESDAY, SEPTEMBER 5, 2012

FRANCHISE TAX BOARD

9646 BUTTERFIELD WAY

TOWN CENTER, GERALD GOLDBERG AUDITORIUM

SACRAMENTO, CALIFORNIA

1:30 P.M.

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REPORTED BY:

SANDRA VON

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APPEARANCES

FRANCHISE TAX BOARD:

Chiang

Deputy Controller Marcy Jo Mandel for Chair
Hon. Jerome E. Horton
Pedro Reyes for Member Ana J. Matosantos

FRANCHISE TAX BOARD STAFF:

Colleen Berwick
Lisa Garrison
Jeanne Harriman
Carl Joseph
Patrick Kusiak
Tommy Leung
Laureen Philipp
Selvi Stanislaus
Titus Toyama

---oOo---

1 SACRAMENTO, CALIFORNIA
2 WEDNESDAY, SEPTEMBER 5, 2012, 1:30 P.M.

3 ---oOo---

4 ACTING CHAIR MANDEL: This is the scheduled time for
5 the meeting of the Franchise Tax Board.

6 Would the secretary please the call the roll to
7 determine a quorum is present.

8 MS. BERWICK: Member Horton?

9 MR. HORTON: Here.

10 MS. BERWICK: Chief Deputy Pedro Reyes for Member
11 Matosantos?

12 MR. REYES: Present.

13 MS. BERWICK: Deputy Controller Marcy Jo Mandel for
14 Chair Chiang?

15 ACTING CHAIR MANDEL: Present.

16 At least two members or their designated
17 representatives being present, there is a quorum, and the
18 Franchise Tax Board is now in session.

19 The public has the right to comment on each agenda
20 item. If there are members of the public wishing to speak
21 on an item, please come forward when the item is called,
and
22 you'll have three minutes to address the Board.

23 First item, Members, is approval of the minutes. We
24 have the minutes of the June 7, 2012, meeting for
approval.

25 Are there any questions or clarifications?

1 MR. HORTON: Move adoption of the minutes.

2 MR. REYES: Second.

3 ACTING CHAIR MANDEL: It's been moved and seconded.

4 No objection. The minutes are approved.

5 MS. BERWICK: Thank you.

6 ACTING CHAIR MANDEL: The second item we have is the
7 Enterprise Planning to Drive FTB Performance.

8 Lisa Garrison, who is our CFO of Finance, is here, and
also

9 Titus Toyama, who is our Planning, Performance and Project
10 Oversight Director is going to present.

11 And we need the screen; right? It's a PowerPoint,
so

12 we are going to go over there.

13 MS. GARRISON: Thank you, Madam Chair.

14 I'm Lisa Garrison, the chief of FTB's Financial and
15 Executive Services Division, and I'm here today to talk
16 about enterprise planning and about how it's driving FTB's
17 performance to achieve the goals outlined in our Strategic
18 Plan and to meet the needs of the citizens of California.

19 With me is Titus Toyama, the director of the FTB's
20 Planning, Performance and Project Oversight Bureau.

21 We appreciate your leadership and the recent
adoption

22 of FTB's Strategic Plan for 2012-2016. The following
23 document emphasizes your commitment to world-class tax

with 24 administration, to exemplary customer service, combined
25 operational efficiency, delivered by engaged employees.

4

1 As you are no doubt aware, many organizations lose
2 their way when it comes to the execution of their
strategic 3 plans. Operational items crowd out the time that is
4 normally set aside for strategic development.

5 FTB is highly regarded for its operational and
project 6 excellence. We are now adding the dimension of enterprise
7 planning as a means of strategic execution as another
factor 8 to our level of excellence. Today's presentation is to
show 9 you how FTB's planning at the enterprise level is hoping
to 10 drive the department to achieve its strategic goals and
11 performance objectives.

12 Our starting point is FTB's 2012-2016 Strategic
Plan. 13 We did share this with you in December of 2011. The plan
14 calls for us to be an organization that performs at the
15 highest level in serving the taxpayers and citizens of
16 California.

17 The essence of our mission and vision is achieved
when 18 taxpayers file timely, accurately, and pay the proper
19 amount. As illustrated before you, our goals provide the

20 support to achieving this mission.

of

21 We have set our sights to achieve the highest level
22 taxpayer-centric service and enhancement of e-services we
23 provide to help taxpayers fulfill their tax obligations.

the

24 We are investing in a strong organization through
25 development of employees and leaders, who are challenging

5

1 and empowering them to reach their full potential and
2 achieve the highest-level results.

continually

3 We are promoting operational efficiency by
4 improving our infrastructure to provide excellent products
5 and services in the most cost-effective manner.

through

6 And, finally, we support voluntary compliance
7 a reasonable program and effective enforcement that
8 ensures
9 that all taxpayers meet their obligations.

enterprise

9 With those goals in mind, our next step in
10 planning has been to establish outcome measures to ensure
11 that we are achieving our strategic objective in our
12 day-to-day activities. From a strategic standpoint, these
13 measures help us answer the following questions:

are

14 Are we increasing the proportion of taxpayers who
15 filing timely, accurately, and paying the proper amount?

16 Are we providing the products, information, and

17 services to taxpayers: what they want, when they want
this,

18 and in the form that they want this?

19 Are we effectively applying our limited resources to
20 the tax gap by increasing the ratio of the dollars
collected

21 to dollars that should be collected?

22 Are we processing taxpayer returns, account
23 transactions, and correspondence timely?

24 Are we reducing the costs and applying our resources
25 in the most cost-effective way to enhance our services and

6

1 operations?

2 And how strong is our organization today and how
3 prepared are we to address the future?

4 Behind each of these outcome measures is a series of
5 performance indicators that are measurable. These outcome
6 measures and performance indicators are specific and,
7 therefore, we know exactly what will need to be done to
8 achieve our objective. Taken together, these measures
9 inform us if we are addressing the State's priorities to
10 serve customers and to achieve revenue and be efficient.

11 Attaining the highest level of service and meeting
12 these outcome measures does not happen overnight.
13 Therefore, our next step in this enterprise plan is to
14 identify and initiate specific strategic initiatives or
15 projects which we feel will positively improve our outcome

16 measures and help our employees move the organization
17 forward toward reaching our strategic goal.

18 These strategic initiatives are an investment to
19 enhance capacity in the future while at the same time
20 striving to be cost effective and efficient today. I

wanted

21 to emphasize some projects because we believe that change
22 happens one project at a time.

23 Four strategic initiative projects that we are
24 currently working on are, of course, the Enterprise Data

to

25 Revenue project, EDR. This will help us increase

7

1 effectiveness and enforcement of tax law. Our enhancement
2 effectively impacts services, which is making it easier
3 taxpayers to self-comply, to self-service.

for

4 Our leadership development program which is building
5 current and future leaders and decision makers who will
6 contribute to a strong organization.

7 And our FTB Future Worker effort which is developing

a

8 cohesive vision and basically is for equipping employees
9 with tools and information to do their jobs in the most
10 cost-effective manner. This project lays the groundwork

in

11 helping to ensure our day-to-day operational objectives

are

12 balanced with longer-term, future planning initiatives.

13 The outcome measures and strategic initiatives are
14 just two examples of how FTB uses enterprise planning to
15 drive performance. But then how do we bring that all
16 together in developing cohesive, understandable, and
17 manageable programs that employees can embrace?

18 Well, Titus is now going to talk about the
enterprise
19 business plan which was developed to aggregate our various
20 planning efforts into just one enterprise perspective.

21 MR. TOYAMA: Thank you, Lisa, Madam Chair and Board
22 Members.

23 Somewhat framed by Lisa, the real initiative
challenge
24 is that at the same time we are trying to accomplish our
25 strategic goals, how do we also achieve our annual

8

1 production goals while managing the resources allocated to
2 us? That is, how do we ensure that the efforts and focus
on
3 annual goals and budget and operational efforts do not in
4 any way crowd out our thinking about future strategic
5 priorities and vice versa. And the way that we chose to
6 cope with this complicated task is what we call the
7 Enterprise Business Plan.

8 Now, FTB has always managed its Strategic Plan at
the
9 enterprise level, while the business plans at the division
10 and sub-organizational level have been more operational,

matter 11 that is, work produced, vacancies filled, things that
12 at that level. But there has also been a gap. You know,
13 how do we also manage the operational at the enterprise
14 level so we never lose sight of our mission? And this is
a 15 foundational mission that we hope we have covered through
16 our enterprise business planning process.

17 And so after much discussion and much thinking in
18 redeveloping framework that we think are the six key areas
and 19 that need to be actively managed at the enterprise level
20 that drive FTB's performance in the short term and the
long 21 term, and these are shown in the slide.

22 First, we care about our strategic initiatives and
our 23 outcome measures as explained by Lisa.

24 We also are concerned about governance, in
particular, 25 enhancing administrative governance within those costs so

9
1 that the right decisions are made by the right people at
the 2 right level at the right time.

3 Of course, we're concerned about our risks, those
4 factors or those events that could potentially stand in
our 5 way of achieving our objectives.

audits

6 We have annual operational goals, for example,

for

7 completed, all the collective things that form the basis

8 our budget.

all

9 And, finally, the budget itself, and vacancies and

10 the directives that we have to comply with as part of the

11 state agency.

are

12 So you'll notice, too, that these six areas really

13 not that new. We have always had to deal with them,

14 especially those within the administrative area.

Or

15 But I think what's really new, though, is how, by

16 seeing these on the same page, we're able to see their

17 interrelationships, their dependencies. For example, how

18 would a budget cut affect our annual operational goals?

19 how do our annual audit targets affect the longer-term

20 outcome of improving compliance?

able

21 And so by seeing these things in the bigger picture,

22 by hopefully connecting the dots, I think we are better

make

23 to first see across the multiple connections that make for

24 managing a large organization successfully and also to

25 the right decisions with everything on the table, so that

10

1 the choices we do make address both our immediate and our

2 long-term goals.

3 And so the next slide is, you know, why bother? Why
4 is this important for us to spend time on? And I think it
5 really comes down to three things.

6 First, by having this Enterprise Business Plan, it
7 provides for a planning process to ensure that we achieve
8 our operational and our strategic goals. Frankly, and the
9 bottom line is, that is giving us all the things that we
10 need to do and all the processes that we need to actively
11 manage so that we can meet our objectives and ensure that
12 our strategic initiatives, as Lisa explained, are never
13 crowded out by today's operational priorities.

14 The second thing, which is the subject of this
15 presentation, really does drive our performance. The
16 on this plan are all of the things that we believe are
17 necessary to achieve the results that we want. So if we
18 these things on the plan successfully, we will increase
19 performance and reach our goals that are very central to
20 vision and our mission.

21 And, finally, and this will be the most important,
22 ensures that all employees are on board with FTB and what
23 as an organization and as State employees want to
24 accomplish. And from the standpoint of communication and
25 change management, this is really important, because this

ever

things

do

our

our

it

we

1 plan will provide for those conversations at all levels of
2 departments in terms of what everyone does and how would
3 they be contributing to the success of FTB and how they
4 would accomplish these aspects of the plan.

how

5 So now Lisa will talk by some closing comments on
6 the plan will help us keep our employees engaged and help
7 them see how their accomplishments fit into the success of
8 the department as a whole.

and

9 MS. GARRISON: Titus and I have talked about how FTB
10 uses planning to drive performance and how planning is
11 crucial to achieving our strategic goals and the mission
12 vision of taxpayers filing timely, accurately, and paying
13 the proper amounts. But, ultimately, our success is
14 achieved only if the Strategic Plan engages employees to
15 make it real and meaningful to themselves and to
16 incorporate it into their daily activities through personal planning.

a

why

17 So we'd like to thank you for your support of FTB's
18 strategic planning efforts. And we leave here today with
19 short, unscripted video from one of our employees about
20 our strategic goals and planning is important to them on a
21 personal level. I think it demonstrates the ownership and
22 committed efforts of our staff in supporting FTB and the
23 State of California to reach its objectives.

24 (A video is shown.)

25 MS. GARRISON: Thank you very much.

12

1 Any questions?

2 ACTING CHAIR MANDEL: Thank you, Lisa.

3 MS. GARRISON: Thank you.

4 ACTING CHAIR MANDEL: Lisa and Titus, thank you very
5 much.

6 Any questions?

7 MR. REYES: Thank you.

8 ACTING CHAIR MANDEL: Members, Item 3, Delinquent
9 Taxpayer Accountability Act. This is the Top 500, AB
1424.

10 And we have Lauren Philipp, who is the director of Field
11 and the Complex Account Resolution Team.

12 That's two things. She has two roles; right? And
she
13 is going to present the item.

14 MS. PHILLIP: Good afternoon, Madam Chair, Board
15 Members. I'm also the implementation lead for the
16 Delinquent Taxpayer Accountability Act, AB 1424.

17 The Delinquent Taxpayer Accountability Act was
enacted

18 when AB 1424 was signed into law in 2011. This
legislation

19 built on our existing Top 250 program, which was enacted
in

20 2007. We call each one of the lists that we publish a

the
1st,
21 cycle, and to date we are in our seventh cycle. So from
22 beginning of our first Top 250 list, through September
23 all of those cycles have generated a total of \$172 million
24 for the State of California.

25 The Delinquent Taxpayer Accountability Act, which

13

Franchise
1 applies to both the Board of Equalization and the
2 Tax Board, doubled the number of names on the list,
3 increased the frequency of publication, and added
4 significant enforcement tools to encourage compliance.
5 These include a requirement for California licensing
6 agencies for professional, occupational, and driver's
7 licenses, and prohibits state agencies from awarding
8 contracts to any taxpayer whose name appears on the list.

9 In addition, we were granted authority to enter into
10 reciprocal agreements for offsetting refunds and for
11 engaging in collection activities with the IRS and other
12 states. The reciprocal agreements apply to all collection
13 accounts, not those just on the Top 500 list.

1424
was
14 For FTB, the first days of implementation for AB
15 began in January, and it applied to our first list which
16 published in April of 2012. We increased the number of
17 names on our list from 250 to 500, published the names of
18 the officers of the business entities on the list, and

19 included the type and status of professional and
20 occupational licenses held by those on the list.

21 The provision directing state agencies to suspend
22 driver's, professional's, and occupational license and a
23 provision relating to denial of state contracts became
24 effective in July of 2012. Therefore, the first FTB list
25 that will be impacted by these provisions will be our

14

1 October 2012 list.

send

2 Establishing the list is a five-month process. We
3 initially start by doing a query to identify all those
4 taxpayers that meet the requirements of the law for
5 inclusion on that list. For each of these taxpayers we
6 them several letters providing them notice that they have
7 met those requirements and may be included on the list.
8 This also provides them another opportunity to comply and
9 prevent their name from appearing on the list.

to

May.

language

sent

suspension

10 For our October list, the letters were mailed in
11 These were the first to have the license suspension
12 on them. The revenue associated with the pre-letters that
13 were sent in May nearly doubled that of those that were
14 the previous November, before we had that license
15 language on the letters.

16 I'm pleased to report also that this includes some
17 taxpayers whose names have appeared multiple times on
prior
18 lists. As they received the letters informing them that
19 their licenses may be suspended, they promptly came
forward
20 and complied.

21 The next step is sending official letters. This is
a
22 certified letter that we mail to the Top 500 taxpayers
whose
23 names will appear on the list if they don't comply
promptly.
24 Historically, we have seen about 15 to 20 percent of those
25 taxpayers resolving their liabilities before the list is

15

1 published. Therefore, you will never see 500 names
2 appearing on our list.

3 They can comply by filing amended returns, missing
4 returns; entering into an installment agreement; providing
5 proof of permanent financial hardship; or submitting
payment
6 in full.

7 The next step is publication. For Franchise Tax
8 Board, we publish in April and October. At the time that
we
9 publish our list, we provide that to the licensing
agencies
10 in California so that they may identify those taxpayers
who

11 have licenses and send them a letter informing them that
if
12 they do not take care of the liability, then their license
13 may be suspended. The licensing agencies have 30 days
from
14 the time we send them the list until they notify their
15 license holders.

16 Approximately 20 percent of those who appear have
17 licenses. The most common type of licenses held were
issued
18 by the State Bar, the Real Estate Board, Medical Board,
19 Contractors State License Board, and Dental Examiners.

20 The licensee has 90 days to resolve their liability
21 with the Franchise Tax Board and provide that proof to the
22 licensing agency. If not, their license will be
suspended.

23 After the licensees resolve, the license agency has
24 five days to reinstate the license, and Franchise Tax
Board
25 has five days to remove that name from the list.

16

1 Future enhancements to those include the reciprocal
2 offset and reciprocal collection agreements. For
reciprocal
3 offset, we are working with the State of New York.

4 California taxpayers with debts owing to California
5 and a New York address owe approximately \$70 million to
the
6 State of California. New York is one of the leaders in
this

7 area. They are working with some neighboring states, and
8 they have volunteered to work with us on a pilot project.

9 The reciprocal collection agreement is really where
we
10 place our debts with a partnering agency state and they
11 place their debts with us. In this case, we have chosen
to
12 work with Illinois. They are actually the only state that
13 has matching legislative language that allows reciprocal
14 collection agreements.

15 California debtors with Illinois addresses owe
16 \$26 million in total. Not all of those would be placed
for
17 collection as some of these taxpayers may be in bankruptcy
18 or they may be in the process of working to resolve their
19 debt with California.

20 Before I leave, I do want to stress that we never
ever
21 want to list a name or suspend a license. Our goal is to
22 achieve compliance. Taxpayers receive a minimum of seven
23 notices prior to license suspension, and we would like to
24 work with them to resolve their liabilities before any
25 collection actions are initiated.

17

1 Each step of the way, our collectors are working
2 manually to perfect addresses, contact taxpayers
3 proactively, and work with them to resolve their liability
4 without publication and to avoid license suspension. On

5 each notice that we issue in the Top 500 process is a
6 dedicated 800 number for taxpayers to call us, and we will
7 work with them to resolve.

15th,

8 Our next list is due to be published on October
9 and we look forward to greater implementation.

10 May I answer any questions?

11 ACTING CHAIR MANDEL: Thank you.

12 Any questions? Okay.

13 Thank you very much.

14 Our next item is Item 4, Multistate Tax Compact. We
15 have Carl Joseph coming up for this.

16 MR. JOSEPH: Thank you.

17 ACTING CHAIR MANDEL: Ready when you are.

we

18 MR. JOSEPH: By way of background, for many years
19 California was a member of the Multistate Tax Compact and
20 interacted with the Multistate Tax Commission on various
21 conforming projects such as model regulations and
22 some of which are now in California law.

statutes,

23 We also participated in the National Nexus program
24 with respect to voluntary disclosures and received support
25 from the MTC on various litigation matters as well as

18

1 lobbying support on legislative matters at the federal
2 level.

3 However, our membership in the Multistate Tax

4 Commission was terminated when the Legislature passed
5 SB 1015, repealing the Multistate Tax Compact from
6 California law. Therefore, California is no longer
involved
7 with the Multistate Tax Commission. We are paying no dues
8 to them, nor are we attending their meetings at this
point.
9 However, when SB 1015 was passed, the Legislature did not
10 specify how California should interact with the Multistate
11 Tax Commission in the future.

12 Many non-Compact member states do interact with the
13 MTC, and the MTC's bylaws support that interaction. The
14 hand-out has in it three different levels of state
15 participation for non-Compact states.

16 You can act as a Sovereign member, which is the
17 Commission member which pays dues similar to a Compact
18 member, and those members can vote on all committees other
19 than the Executive Committee and votes of the full
20 commission, which are reserved for Compact members.

21 They pay no higher fees than lower-level members pay
22 for any of the agency's programs, and there are six states
23 that currently interact in that capacity.

24 A lower level of involvement is what's called by MTC
25 an Associate member. An Associate member pays no dues,
but

19

1 they don't get a vote in committees. However, they can

on

2 participate in subcommittees and certain leadership roles
3 subcommittees. These members are charged higher fees for
4 participation in programs than either Compact or Sovereign
5 members.

is

6 The lowest level of interaction with the Commission
7 what they term a Project member, and that's a subset of

the

8 Associate members where the state chooses only to interact
9 on specific projects, such as a nexus program or audit.

the

10 These members are charged fees for that specific project,
11 and they can only be involved in that project. Between
12 Associate members and the Project members, there are 22
13 states that work with the MTC in that capacity.

you

14 So, at this point, as I said, we don't interact with
15 the Multistate Tax Commission at all. And given all the
16 various options that are available, as well as, I'm sure

would

17 are aware, the controversial nature of any issue involving
18 the Compact or the Commission, at this point the staff

of

19 like to have additional time to analyze and consider all
20 the choices that are available.

the

21 And we recommend to the Board that you not vote on
22 particular level of MTC interaction today, if any, but,
23 rather, that the Board direct the staff to bring the

matter

24 back to the Board at a later date.

25 As I stated, our current posture is that we are not

20

be 1 participating. So leaving the matter open, we just won't
 2 participating with them until at some point in the future
we 3 when we actually get a chance to consider more fully how
 4 are going to interact and, hopefully, the controversy
around 5 the matter gets to be a little more calm.

6 ACTING CHAIR MANDEL: Okay.

7 MR. JOSEPH: Any questions?

8 ACTING CHAIR MANDEL: No.

to 9 It sounds like you are saying that it's appropriate
 10 bring it back at some point when things are a little more
 11 settled.

questions 12 MR. JOSEPH: Yes. There are some unanswered

would 13 for us as well in regards to how some of these levels
 14 work given California is unique -- we have the BOE and the
 15 FTB -- from looking at the bylaws how states interact, and
half 16 so we are not a hundred percent sure at this point how
 17 a state or one part of a state agency can interact. So we
to 18 do have some unanswered questions as well that we'd like
 19 be able to work on in the future.

20 ACTING CHAIR MANDEL: Okay. That sounds okay.

21 All right.

referred 22 And we did have a written comment that I just

23 to Legal.

24 MR. JOSEPH: Yes.

25 ACTING CHAIR MANDEL: Okay.

21

1 MR. JOSEPH: Yes. We will contact them to discuss
2 their issues.

3 ACTING CHAIR MANDEL: Okay. Thank you.

4 Thank you for the information. I know a lot of that
5 is on the MTC website, but it's good to put it out there
how

6 it kind of all works from their perspective.

7 Okay. If there is nothing further on that, Members,
8 then we have Item 5, which is Regulation Matters. It's
9 Proposed Regulation 24465, Transfer of Property to
Insurer.

10 We have Tommy Leung from our Legal Department. He's
11 going to be here at the podium in front of us.

12 Ready for you whenever you're ready.

13 MR. LEUNG: Thank you, Madam Chair.

14 Good afternoon, Madam Chair and Members. This item,
15 the proposed regulation, is amending a small part of
Section

16 24465 of the Revenue and Taxation Code.

17 Section 24465 is an anti-abuse provision that
targets

wring

18 certain corporate transactions that would use their
19 closely-held insurers as sort of a washing machine to
20 out inherent gains in corporate assets. And a typical
21 transaction would be a corporation which has a low-basis
22 high-value asset which it wants to sell. If it sold it by
23 itself, it would incur a tax on that gain. So instead of
24 doing that, they transfer the asset in a tax-free
25 transaction to a closely-held insurer. And the insurer,

22

1 being subject in California and only to the gross premium
2 tax, would then sell the asset, and the taxable gain which
3 would have been taxable under the corporation tax law is
4 gone and there is no tax under the premium tax.

when

5 Section 24465 solves this problem by switching off
6 some of those tax-free provisions in the Tax Code. So
7 a corporation transfers an asset to the insurer, the tax
8 would be implemented right there and applied right there.

no

9 Like many rules, there is an exception, and this is
10 different. The exception here being that if the insurer
11 uses that asset in the active conduct of his trade or
12 business, then the taxable gain is not totally eliminated,
13 but it's deferred to some future date when the insurer no
14 longer uses that asset in that manner or the insurer
15 disposes of or otherwise sells the asset.

16 As a condition for this deferral mechanism, the

17 statute provides that in the years following the
18 transaction, that the taxpayer files with the Franchise
Tax Board an annual report and disclosure notice that
basically
19 serves as a tracking mechanism for the asset. This
proposed
20 regulation would implement that particular piece of the
21 legislation.
22

23 Staff has held two interested parties meetings, or
24 IPMs, on this proposed regulation. Following the first
IPM,
25 staff drafted language, and that language served as

23

second
1 discussion matter for the second IPM. Following the
2 IPM, staff took some comments from the public and adopted
3 most of them, and they are incorporated in the draft that
4 you see in front of you today.

5 At this point, staff wishes permission to proceed
6 forward with the formal regulatory process.

7 Thank you for your consideration of this matter.

8 If there are any questions, I'd be glad to address
9 them.

10 ACTING CHAIR MANDEL: Okay. Thank you.

11 Any questions from Members?

12 MR. REYES: Move to adopt staff's recommendation.

13 MR. HORTON: Second.

14 ACTING CHAIR MANDEL: It's been moved and seconded.

15 Any objection? No objection.

16 Any public comment? Nobody is running up.

17 That is the Board's order.

18 Thank you very much.

19 MR. LEUNG: Thank you.

20 ACTING CHAIR MANDEL: Okay. We are on Item 6,

21 Administrative Matters. We have three subitems for this.

22 Jeanne Harriman, who is the director of our Financial

23 Services Bureau, is going to be up here, so we'll let you

go

24 through them.

25 MS. HARRIMAN: Thank you. And good afternoon. My

24

1 name is Jeanne Harriman. Today I'll be providing

2 information and seeking approval for all four items under

3 Item 6 regarding Administrative Matters.

4 Under Item 6 a. are two Budget Change Proposals that

5 we are moving forward for additional personnel services

and

6 operating expenses for fiscal year 2013/14.

7 Both of these BCPs are consistent with the recent

8 guidelines for the budget for fiscal year 12/13.

9 Our first Budget Change Proposal relates to our

10 Enterprise Data to Revenue project, also referred to as

EDR.

11 At this point in time the EDR project is on target

and

12 is exceeding revenue projections over the life of the
13 project to date. We continue to work towards ensuring
that
14 the project remains on schedule.

15 These resources that we are requesting add up to
152.1
16 million for 13/14. They deal with additional staffing
17 levels and they deal with additional contracting of
services
18 and some hardware and software that's necessary.

19 The majority, but not all, of these expenses are
also
20 consistent with the most recent Special Project Report
that
21 we have outstanding. For the future, we are requesting
184

22 permanent positions. 26 of these are already on board at
23 Franchise Tax Board in limited-term capacity, so we are
24 looking to establish those as permanent positions.

25 These resources are going to be used primarily
within

25

1 our accounting system, our collecting and filing business
2 areas to address the information that's coming out of the
3 EDR project itself.

4 The request also includes \$133 million in funds to
pay
5 for the vendor. And, once again, payments to the vendor
6 under the terms of the contract is dependent on the fact
7 that the project generates the revenue that is coming

8 forward under the proposal.

9 At this point, in 13/14, the projected revenue for
the
10 EDR project is \$280.1 million.

11 The second Budget Change Proposal is requesting
12 3.6 million in one-time funding, and 700,000 ongoing
funding
13 to upgrade our capacity, our processing capacity that we
14 have with our current infrastructure.

15 For many reasons, including our operational strategy
16 of continuing to allow and enhance our e-services for both
17 taxpayers and staff that accommodates those taxpayers, we
18 continue to have an increased demand on our system
services
19 to make sure that we get our accounts updated, the
batching
20 process, nightly.

21 During filing season, FTB processes on average about
22 20 million online transactions in a month as well as
242,000
23 batches. And these are updates that we do to make sure
that
24 our accounting system is matching what he have in paper or
25 in other avenues that we get, so it's very critical.

26

1 Industry guidelines suggest that 90 percent capacity
2 is the best, the current range, to make sure that we do
not
3 have any issues. For fiscal 12/13, we are approaching at
or

we

4 above, slightly above that 90 percent, so this upgrade is
5 very critical. 13/14 projections, we are expecting to
6 exceed our existing capacity. So we want to ensure that
7 get this upgrade in place to make sure that we do not have
8 any issues.

9 At this point, I'm happy to answer any questions you
10 have on the Budget Change Proposals.

11 ACTING CHAIR MANDEL: Are there any questions about
12 this BCP?

13 Mr. Reyes, are you abstaining?

14 MR. REYES: Yes, I am.

15 ACTING CHAIR MANDEL: Do we have a motion for this
16 BCP?

17 MR. HORTON: Move approval.

18 ACTING CHAIR MANDEL: It's been moved. The
Department

19 of Finance is abstaining.

20 So the motion is passed two to zero.

21 Thank you.

22 MS. HARRIMAN: Item b. under Item 6 deals with a
23 contract over a million dollars that we are looking for
24 approval to move forward on. This is for unarmed security
25 guard contracts that we have for FTB's Central Office

27

1 Campus. Typically, we look to negotiate contracts for a
2 three-year period, with the cost over three years of \$9.3

3 million. So this is seeking your approval to move forward
4 and enter into negotiations to put that contract in place.

5 MR. HORTON: Move adoption.

6 MR. REYES: Second.

7 ACTING CHAIR MANDEL: It's been moved and seconded.

8 No objection from me.

9 So that's also passed, three to zero.

10 MS. HARRIMAN: Thank you.

11 ACTING CHAIR MANDEL: Next item.

12 MS. HARRIMAN: The last item is a facilities item
13 under Item 6. Your approval is also requested on this.

14 We are looking to enter into --

15 MR. HORTON: Move approval.

16 MR. REYES: Second.

17 ACTING CHAIR MANDEL: Without presentation, it's
been
18 moved and seconded. Very good.

19 Go ahead.

20 MS. HARRIMAN: All right. Thank you.

21 ACTING CHAIR MANDEL: Okay.

22 MR. HORTON: I really appreciate that last
23 presentation.

24 ACTING CHAIR MANDEL: Okay. And my paperwork is all
25 misnumbered, but we are now on Executive Officer's Time,

28

1 whatever that number happens to be.

2 Selvi.

of 3 MS. STANISLAUS: Thank you, Madam Chair and Members
4 the Board.

EDD 5 I'd like to give you a brief update on our FTB and
6 Tax Branch consolidation effort.

7 FTB and EDD continue to work on this project at the
8 request of the Administration. To facilitate this study,
we 9 received approval to hire a consultant project management
10 team to assist FTB and EDD in this effort.

11 The project study continues to conduct a full
12 feasibility analysis on merging the EDD's Tax Branch and
FTB 13 into the California Department of Revenue, and the areas
of 14 review will be FTB's current tax processing, auditing, and
15 collection functions; EDD will be looking at their current
16 tax processing, accounting, auditing, and collection
17 functions and other core activities, such as their
18 Unemployment Insurance rating system, benefit chargebacks,
19 appeals, and benefit overpayment collection, also the
impact 20 to EDD's UI and DI benefit programs.

21 The study period has commenced and it is estimated
to 22 conclude in late November. The study will evaluate our
23 current operations as separate entities, opportunities
that 24 could occur based on a consolidation, as well as a fiscal

25 analysis. The analysis will also include full
consideration

29

1 of risks associated with the creation of a Department of
2 Revenue as well as potential enhanced operations that
could
3 be achieved. And so we will be looking at an increase in
4 revenue to the State, improved productivity for mandated
5 services. We will also be looking at reducing total
6 operating costs to provide such services, and looking at
7 improved customer service experience and also improving
the
8 agility to respond to California's evolving needs.

9 So I will have a better and a more comprehensive
10 update at the next Board meeting.

11 ACTING CHAIR MANDEL: Great. Thank you, Selvi.

12 All right. We are now on Board Members' Time.

13 This is the Members' opportunity to raise other
14 matters of interest.

15 Anything? No.

16 Okay.

17 At this time the Board is going into closed session
to
18 discuss items listed on the public agenda.

19 (Closed Session.)

20 ACTING CHAIR MANDEL: The Board met in closed
session
21 and discussed pending litigation.

22 We are adjourned.

23 Thank you, Members.

24 (Meeting adjourned at 2:36 p.m.)

25 ---oOo---

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REPORTER'S CERTIFICATE

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4

5 STATE OF CALIFORNIA)
6 COUNTY OF SACRAMENTO) ss.

7

8

9 I, SANDRA VON HAENEL, certify that I was the
10 official Court Reporter for the proceedings named herein,

and

11 that as such reporter, I reported in verbatim shorthand
12 writing the named proceedings;

13 That I thereafter caused my shorthand writing

to

14 be reduced to typewriting, and the pages numbered 1

through

15 30, inclusive, constitute a complete, true, and correct
16 record of said proceedings:

17

18 IN WITNESS WHEREOF, I have subscribed this
19 certificate at Sacramento, California, on the 13th day of
20 September, 2012.

21

22

23

24

25

SANDRA VON HAENEL
CSR No. 11407