

STATE OF CALIFORNIA

FRANCHISE TAX BOARD

PUBLIC MEETING

TUESDAY, JUNE 25, 2013

GERALD GOLDBERG AUDITORIUM

9646 BUTTERFIELD WAY

SACRAMENTO, CALIFORNIA

REPORTED BY:

ESTHER F. SCHWARTZ  
CSR NO. 1564

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**ATTENDEES**

**BOARD MEMBERS:**

- MARCY JO MANDEL, DEPUTY STATE CONTROLLER
- JEROME E. HORTON
- ANA MATOSANTOS

**STAFF:**

- SELVI STANISLAUS, EXECUTIVE OFFICER
- MICHELLE FALLON
- ALLEN WILSON
- DOUG BARISH
- LISA GARRISON
- COLLEEN BERWICK

**COUNSEL:**

- JOZEL L. BRUNETT
- PATRICK KUSIAK

**AUDIENCE PARTICIPANTS:**

(NONE)

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1 SACRAMENTO, CALIFORNIA

2 TUESDAY, JUNE 25, 2013, 1:30 P.M.

3 ---oOo---

4 MEMBER MANDEL: Good afternoon. This is  
5 the scheduled time for the meeting of the Franchise  
6 Tax Board.

7 Will the secretary please call the roll to  
8 determine if a quorum is present.

9 MS. BERWICK: Member Horton.

10 MEMBER HORTON: Here.

11 MS. BERWICK: Member Matosantos.

12 MEMBER MATOSANTOS: Here.

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

15 MEMBER MANDEL: Here.

16 At least two members or their designated  
17 representatives being personally present, there is a  
18 quorum, and the Franchise Tax Board is now in  
19 session. The public has a right to comment on each  
20 agenda item. If there are any members of the public  
21 wishing to speak on an item, please come forward  
22 when that item is called, and you will have three  
23 minutes to address the Board.

24 The first item, Item 1, is the approval of the  
25 minutes. We have of the minutes of the December 5,

1 2012 board meeting and also of the December 5, 2012  
2 Taxpayers Bill of Rights hearing.

3 Are there any questions?

4 MR. HORTON: More approval.

5 MEMBER MANDEL: It's been moved and  
6 approved.

7 Any objection?

8 No objection.

9 Minutes are approved.

10 Item 2 is an information item, a report on  
11 FTB's 2012 accomplishments. We have Michelle Fallon  
12 from our Communication Services Bureau, and she is  
13 going to do a PowerPoint. Right? So we are going  
14 to go over to the side.

15 Thank you.

16 MS. FALLON: I think we are just waiting  
17 for it to key up here. Sorry about that.

18 There we go?

19 Good afternoon. My name is Michelle Fallon.  
20 I am here to give you just a very brief overview of  
21 some of last year's accomplishments of FTB from last  
22 year. And, if you don't mind, I would like to  
23 present these to you in the context of our strategic  
24 plan which you, as a Board, approved over a year  
25 ago.

1           You may recall this picture. It's really a  
2 visual representation of our strategic plan. It  
3 shows how our four main goals support our mission  
4 and our vision. The first pillar is Goal 1,  
5 Taxpayer Central Services. The central theme of  
6 this goal is really to educate taxpayers about  
7 self-service options, so they can get help  
8 immediately whenever they need it.

9           Online there are automated options that save  
10 taxpayer's time and saves California money. A  
11 pretty good deal. So I would like to tell you about  
12 three ways we made progress in this area. In  
13 January of last year we launched a completely new  
14 look in the field of our website. The change was  
15 driven by the belief that effective websites need to  
16 provide -- there's a place where people can go to  
17 get clear answers to common questions. And for the  
18 taxman, those questions include things like: How do  
19 I file my return? or How do I make a payment?

20           Well, it wasn't super easy to find those  
21 answers on our old website. Here is a picture. A  
22 little frightening. It's very busy. It's hard to  
23 navigate, and sometimes the information that you  
24 need is a little buried. We think our new site  
25 offers a lot more.

1 I would like you to meet Eric. Eric is  
2 actually an FTB employee and productive member of  
3 society. Above him you will see tabs where you can  
4 find information that you need. It's directly  
5 attributable to the type of customer you are. Below  
6 Eric you find quick links on popular topics, online  
7 services and popular topics. Overall, it's way more  
8 inviting. And most importantly, it's super easy for  
9 our customers to find what they are looking for  
10 quickly now.

11 Next I would like to talk a little bit about a  
12 new option related to installment agreements. Now  
13 when taxpayers can't pay the entire amount because  
14 of financial hardship, they can set up an  
15 installment agreement with Franchise Tax Board.  
16 Before last year, they could request these  
17 agreements in just three ways: either online, by  
18 mail or by calling the line rep.

19 But in March of last year, we expanded their  
20 choices by including an IVR option that let's them  
21 make this request over the phone without having to  
22 talk to anybody live. And while they interact with  
23 that IVR system, it checks eligibility for  
24 installment agreement. And, if for some reason they  
25 don't meet that requirement, it transfers them to an

1 agent that can talk to them about those options.

2 Since implemented, we've helped over 7,700  
3 taxpayers that have installment agreements with  
4 little or no cost to FTB.

5 Another favorite taxpayer centric service is  
6 Live Chat. You heard me talk about this before.  
7 We've had this tool since 2010, but up until last  
8 year it's been limited to general tax filing  
9 questions. But what we've always loved about this  
10 tool is that it's an application that gives us an  
11 easy way to educate our taxpayers about self-service  
12 options. For example, if we're chatting online with  
13 the taxpayer and they're asking questions about  
14 filing, we can talk to them about Calfile and how  
15 it's a free online service that FTB offers. We can  
16 even push them to a link to that page. Because our  
17 bullet Live Chat is not just to answer immediate  
18 questions, but to show them, or show taxpayers how  
19 to find answers to their questions through  
20 self-service options in the future without having to  
21 make a phone call.

22 This has been such a successful tool for us  
23 that last year we expanded Live Chat to include  
24 general questions about collection accounts. As you  
25 know, Live Chat was never designed to handle

1 confidential taxpayer data. So if taxpayers have  
2 questions about account specific issues, we just  
3 transfer or move them into a secure email channel.

4 In total, FTB respond to over 140,000 chats  
5 last year. Our access staff is strong and our  
6 reviews are very positive. Taxpayers appreciate the  
7 immediate access to collection staff, and we  
8 appreciate the cost savings because one rep can  
9 handle up to five chats at a time.

10 Now I would like to move on to goal two,  
11 effective enforcement. This goal is all about  
12 equitable tax administration. We are very thankful  
13 most taxpayers voluntarily meet their tax  
14 obligation. Unfortunately, as we reported to you at  
15 the March Board meeting, those who aren't in  
16 compliance make up an income gap that is estimated  
17 about to be about \$10 billion.

18 Now our EDR Project is all about taking a big  
19 bite out of that tax gap. And I'm very happy to  
20 tell you that the project remains on schedule,  
21 within budget and exceeding revenue projections. So  
22 far EDR early initiatives have brought in nearly a  
23 half billion dollars in State revenue.

24 In 2012, we added a new source to the EDR  
25 revenue stream. That source was called FIRM, or

1 financial institution record match. The program  
2 lets us match data between delinquent debtors and  
3 financial institutions to resolve collection  
4 accounts. Since we implemented this program in  
5 April of 2012, FIRM has helped us collect over  
6 \$97,000,000, which hugely exceeded our expectations  
7 of \$34,000,000 annually.

8 I also wanted to note that this program has  
9 been expanded in January to include a partnering  
10 effort with our sister tax agencies. So far BOE and  
11 EDD have collectively requested 100,000 data matches  
12 to help with their collection efforts. It is a big  
13 win all the way around.

14 Now I would like to talk about another highly  
15 successful program, our Top 500 list. As you know,  
16 our top debtor list has a fairly long and successful  
17 history that began in 2007 when Member Horton  
18 sponsored the bill that created the Top 250 list.

19 Thank you for signing my PowerPoint, Member  
20 Horton.

21 Then, in 2012, the Delinquent Taxpayer  
22 Accountability Act expanded on the success of this  
23 program to include our top 500 debtors and to also  
24 allow for authority to suspend drivers and  
25 occupational licenses.

1           What is really important to note here is that  
2 by the time the taxpayers reach our list we have  
3 really tried every other means to get them to begin  
4 working on their debt. But sometimes the only  
5 meaningful motivation some taxpayers respond to is  
6 avoiding having their name added to this very public  
7 list. In fact, it is such a strong motivation that  
8 nearly 75 percent of the revenue that we collect  
9 from this effort is from people who are working very  
10 hard to avoid having their name added to this list.  
11 So they either agreed to an installment agreement or  
12 pay their tax as a way to avoid that.

13           Since we began using these tools, we have  
14 collected over \$240,000,000, and hugely, again,  
15 exceeding all expectations.

16           Finally, for this goal I would like to  
17 highlight a federal treasury offset program that we  
18 refer to as FTOP. It is a program that allows state  
19 agencies to work with the IRS to offset federal tax  
20 refunds to pay for state tax debts. This is  
21 something that Selvi actually encouraged us to do  
22 back in 2008 because she knew that other states use  
23 this tool successfully. And, as usual, Selvi was  
24 spot on. FTOP has proved to be a very easy and  
25 cheap way to close account receivables.

1 I'm bringing this to you as a 2012  
2 accomplishment because as of last year the U.S.  
3 Treasury Department reported that California tops  
4 the list of states that request and receive offsets  
5 under this program. In 2012, we collected  
6 \$73,000,000 in offsets. Since we began  
7 participating in the program in 2008, we've brought  
8 in over \$172,000,000. Not bad for a bit of  
9 paperwork.

10 Now I would like to talk little bit about goal  
11 number three. This goal reflects our commitment to  
12 develop all employees as leaders, and that really is  
13 the cornerstone of our workforce planning effort.

14 At FTB leaders are identified as anyone who  
15 wants to excel at their job and encourages others to  
16 do the same. In other words, you don't have to have  
17 subordinate staff to be considered a leader in FTB.  
18 We are so committed to this ideal that we created a  
19 Growing Future Leaders Program that offers  
20 leadership skill development to all employees. The  
21 first few forums that we have had to help with these  
22 leadership development has been extremely well  
23 received with positive ratings, well in the 90  
24 percentile.

25 Valuing diversity is another area that supports

1 FTB's description of a leader. We have expanded the  
2 traditional definition of diversity to include or to  
3 be more inclusive of all aspects of those things  
4 that make a person unique. That combination of work  
5 experience, education, culture, gender, age,  
6 religion, and so much more, because we truly believe  
7 we are stronger as an organization when all of us  
8 bring our very best to the job every day.

9         Last year we created posters highlighting  
10 employees who were willing to share a little bit  
11 about what makes them unique and how it impacts  
12 their life and approach to work. I would like to  
13 share one of those posters with you now.

14         This is Jeremy Chau, one of our IT supervisors.  
15 A great guy. When Jeremy was young his parents took  
16 a huge leap of faith by immigrating to the United  
17 States from Vietnam because they believed their  
18 homeland didn't offer much of a future for their  
19 children. Jeremy is very well aware of the  
20 sacrifice that was made all those years ago. And he  
21 is convinced that, if not for that bold and  
22 difficult move, his life aspirations would have been  
23 limited to a career in farming. This unique  
24 perspective drives Jeremy to make the most of every  
25 opportunity and to bring his very best to FTB

1 because he believes that in America and at FTB  
2 excellence is definitely achievable.

3 It is employees like Jeremy that make FTB a  
4 strong organization.

5 Our workforce planning effort also includes a  
6 focus on the leadership at the executive management  
7 levels. Nearly 69 percent of our senior managers  
8 are eligible to retire within the next five years or  
9 less, and, sadly, I'm not one of those.

10 But with this mass exodus in mind, we've also  
11 been very diligent to prepare to fill that future  
12 void. Last year we established the Executive  
13 Assessment and Development Program, or EADP. That's  
14 a very long title for a new annual program that  
15 helps get managers ready for their next potential  
16 career move to bureau director or division chief  
17 level. It's an individualized program that helps  
18 participants build executive skills of their  
19 choosing. We use the CalHR leadership competencies  
20 as our baseline for that.

21 Our first year has been extremely successful  
22 with 93 percent of the participants meeting their  
23 goals. I'm not sure what happens to the other 7  
24 percent.

25 But we are going to quickly move on to goal

1 number four, operational excellence. At FTB  
2 operational excellence is everyone's business. Here  
3 are just a few examples. Our employees are  
4 constantly looking for ways to save FTB time and  
5 money. We celebrate those savings by designating a  
6 special place on our inside net where progress can  
7 be continually highlighted. You will see a picture  
8 of that up on the screen.

9 A couple examples include one employee had the  
10 idea of getting rid of most of our greenbar printing  
11 in the Department. We reduced it by 65 percent. So  
12 rather than viewing those reports on a green bar  
13 piece of paper, we look at them online. Doesn't  
14 sound like much, but it saved \$48,000 a year.

15 Another example was an employee had an idea  
16 that prompted a change to the way we make a status  
17 letter request. We moved from a very manual process  
18 that happens in the district offices to something  
19 that was requested now online. This saves taxpayers  
20 a processing fee, and it frees up time in district  
21 offices for our counter staff to help other  
22 customers.

23 All these little things add up. They are  
24 acknowledged right there on the Internet.

25 Security is another area that really also is

1 everyone's business. In 2012, we implemented  
2 something new called Two-Factor Authentication. We  
3 did this because we are extremely careful with the  
4 confidential information that is entrusted to our  
5 care. To explain what Two Factor is, you have to  
6 kind of talk about it in terms of proofs. There are  
7 three main kinds.

8         The first one is something that you know.  
9 Like your ID or your password. The second one is  
10 something that you have like a smart phone or debit  
11 card or an ID grid or security grid that you see on  
12 the screen. And the third one is something that you  
13 are, like a thumbprint or retinal scan. Two factor  
14 requires that you have two of these proofs before  
15 you can gain access to the systems that are secured  
16 with this authentication process.

17         And I am very happy to report that we are  
18 using best practices by using the first two,  
19 something that you know - a password and ID - along  
20 with something that you have. A security challenge  
21 that you can only answer if you have a copy of the  
22 grid uniquely assigned to an employee. I'm very  
23 happy that we're not using retinal scan right now or  
24 fingerprints. Very costly. Because everyone  
25 contributes to all operational excellence measures,

1 the proofs of those labors are really considered to  
2 be everyone's success as well.

3 Last year we exceeded our overall revenue  
4 goals for our compliance programs. We also had a  
5 extremely successful filing season. We brought in  
6 more than 70 percent of the State's general fund.  
7 But I'm not going to talk too much about because  
8 Allen will be up in just a few moments to give you a  
9 few more details.

10 I thought I would end my presentation with just  
11 a snapshot of what others are saying about FTB, but  
12 I would also like to add something that is not on  
13 the slide that is little more current.

14 Just last month Selvi received the  
15 Administrator of the Year Award from the American  
16 Society of Public Administration. That was a huge  
17 and well deserved honor that many of us here in this  
18 room had the privilege to witness. However, while  
19 FTB's success is driven by exceptional leadership,  
20 it certainly does not happen in a vacuum. It  
21 requires the unwavering support of our Board.

22 Like any good coach, you challenge us. You  
23 encourage us. You are a resource to us. And most  
24 importantly, you hold us accountable.

25 So on behalf of FTB please allow me to

1 formally thank you for that. And I'd entertain any  
2 questions you may have.

3 MEMBER MANDEL: Thank you, Michelle.

4 Any questions or comments from the Members?

5 Mr. Horton.

6 MEMBER HORTON: Just a short comment, if I  
7 may. Well done. Very well done. Thank you very,  
8 very much for all the work you've done to reach  
9 these accomplishments. Not only to you, but to our  
10 entire team here at Franchise Tax Board.

11 MEMBER MANDEL: I hear a ditto coming from  
12 the other Board Member.

13 Thank you, Michelle.

14 Our next, Item 3, filing season update. We  
15 have an information item and another PowerPoint. As  
16 Michelle said, Allen Wilson, our filing division  
17 manager of FTB's electronic filing and services  
18 program. He will be presenting.

19 Welcome.

20 MR. WILSON: I am Allen Wilson manager of  
21 our electronic programs and E-filing section. It is  
22 my pleasure to provide you an update on our  
23 financing staff and also tell you about some of the  
24 enhancements we've made to our Calfile program and  
25 also some of the successes we've had with our

1 customer service efforts.

2           The numbers I am giving you today are as of  
3 June 1st of this year. And to begin, we'll look at  
4 the personal income tax returns that have been  
5 filed. So far we have received over 114,000,000  
6 returns, and that's pretty much on par with what we  
7 received last year. Also, the E-file returns are  
8 now making up 84 percent of total returns filed,  
9 compared to 83 percent last year. The total returns  
10 filed so far is about 90 percent of the total  
11 returns we received for the year, so we have a  
12 little bit more to go.

13           Looking at business entity returns. We've  
14 received about 800,000 returns so far. And that is  
15 actually about half of the total of all we get for  
16 the year. What is encouraging here is that you can  
17 see that green part, the E-file portion, has grown  
18 to 61 percent compared to 41 percent last year. We  
19 anticipate annual growth of 5 or 10 percent for  
20 E-file. And we attribute that to an increase in  
21 awareness and availability of E-file for business.

22           Now looking at refunds. We issued over  
23 9,000,000 refunds to taxpayers, putting \$8 billion  
24 in their pockets. The average refund is over \$800,  
25 and over 60 percent of them request that refund

1 through direct deposit to their account.

2 Business entities have also received over  
3 62,000 refunds, totaling over \$500,000,000.

4 Looking at payments. The dollar amount of  
5 payments have increased substantially this year.  
6 It's up 67 percent to \$7 billion. The majority of  
7 that money was received electronically. In fact,  
8 our two largest deposit days was 2.6 and \$2.3  
9 billion received around April 15th and 16th.  
10 However, the method of payment continues to be by  
11 paper check. We are happy to see the volume drop a  
12 little bit, from 75 percent last year to 72 percent  
13 this year. We just hope that more of them will do  
14 like they did with direct deposit and use electronic  
15 methods of transacting with the Franchise Tax Board.

16 Looking at our return processing. We've had  
17 some significant changes to our paper processing as  
18 a result of our EDR Project. This year we are  
19 imaging all pages of the personal income tax return.  
20 So far this year we've imaged over 26,000,000 pages.  
21 That allows us to process the tax return using the  
22 image instead of paper. Gives us a paperless  
23 environment.

24 We have also implemented bar coding on some of  
25 the tax returns, which allows us to capture

1 information from the return electronically, rather  
2 than having to key them. Here you can see a couple  
3 pictures of our high speed scanners in action.

4 Another example of our paperless environment  
5 is the implementation of image tax letter; and  
6 that's the process where we make our deposits of  
7 checks through an electronic imaging to the bank,  
8 rather than sending the paper check. In our first  
9 phase of that we have deposited 361,000 checks.  
10 That was just in the initial phase, beginning this  
11 month we are processing all checks electronically to  
12 the bank, and that amounts to about 9,000,000 checks  
13 per year. And we actually have a good cost saving  
14 from that bank for that. The bank charges one cent  
15 more for a paper check than they do for an  
16 electronic image. So there will be substantial  
17 savings there. Both of these are examples of the  
18 changes that we're making to a more paperless  
19 environment.

20 Now switching gears, I would like to talk about  
21 the enhancements that we've made to Calfile. We are  
22 excited about several of the changes we've made to  
23 the taxpayer's experience to Calfile, and that's our  
24 free online direct to government electronic filing  
25 program. First of all, by registering for their

1 account and authenticating, they're able to import  
2 data from Franchise Tax Board's system. This allows  
3 them to import some of their wage and withholding,  
4 name and address information, that we all know about  
5 them to make their experience easier.

6 They also now have the option to save their  
7 returns before they've finished it and come back  
8 later, rather than starting all over again. And  
9 something that they asked for is the ability to get  
10 email confirmation. So we've added that. If they  
11 will simply give us an email address, we will send  
12 them confirmation once we've received it.

13 Now I'm going to show you some screen shots to  
14 kind of walk you through the experience of E-file.

15 First of all, there are two free options to  
16 create a free account. The one in green, profile of  
17 a basic, only requires an email address to register  
18 and use Calfile. It includes all the benefits of  
19 Calfile, except for the import feature. For that  
20 one you have to use the Calfile deluxe where you  
21 authenticate, and then you are able to use the  
22 import feature.

23 Here is actually a screen shot of asking  
24 whether you want to import your data. Very simple  
25 yes or no. With this we will prepopulate your

1 return, like I said, with the wage withholding  
2 information and any other information we have about  
3 you.

4       Here is an example of the save feature. If you  
5 look at the bottom-left corner, there is button over  
6 save. So once you've entered information on the  
7 program, once you click save, that information will  
8 be saved so that if you need to return later, you  
9 don't have all your documents, you don't have to  
10 start all over again.

11       And, finally, if you do want to receive that  
12 email confirmation, you simply can enter your email  
13 address, and we will give you that confirmation.

14       The next screen is a shot of the actual email  
15 address that you received from Franchise Tax Board  
16 telling you that your 2012 California tax return has  
17 been filed. Also, in this email we include a link  
18 to our Calfile survey and also ask you to like us on  
19 Facebook. Facebook is actually a free and creative  
20 use of social media. And we are happy to have  
21 report that we have over 2,300 likes this season,  
22 along with many positive comments. I would like to  
23 share a couple comments we received through the  
24 Calfile survey.

25       This first one has a lot of love. Maybe too

1 much. I love the new system. I love the clock at  
2 bottom. It tells me how long I have to complete the  
3 page. I also love that I can save my work and  
4 continue later. And I really love that now I can  
5 receive an email confirmation and also review my  
6 taxes online after I submitted them.

7 Another comment. This one has a little less  
8 love, but I actually like it quite a bit. Great  
9 improvements. Love the new import feature. Many  
10 thanks. I will continue to recommend to friends and  
11 family to file on Calfile.

12 That part of recommend, that's what I really  
13 like. That's an important part of our outreach to  
14 let others know about Calfile. Beside referrals,  
15 though, we also do some marketing. And Michelle's  
16 staff helps us with advertisements in our tax  
17 booklets and YouTube videos, messaging on employee  
18 pay stubs, messaging on our websites, on other  
19 agency websites. All encouraging people to use  
20 Calfile.

21 I would also like to add we have over 251,000  
22 Calfile returns received this year, which is a 5  
23 percent increase over last year. And not to be  
24 forgotten, regular return has an additional 77,000  
25 returns they have been received.

1           Now switching gears to our customer service  
2 efforts. Franchise Tax Board has answered over  
3 529,000 calls in this filing season. An average  
4 wait time of ten minutes. And our tax practitioner  
5 hot line, an additional 84,000 calls. Something  
6 else I will add on our big date, April 15th, our  
7 customer service team handled over 14,000 calls.  
8 Our online communication tool, Live Chat, has  
9 assisted over 83,000 Live Chat conversations this  
10 filing season, including 3,400 chats on April 15th.

11           And here's a quote from a Live Chat user.

12 "This service was very helpful. I was able to  
13 receive answers to all my questions quickly and  
14 efficiently and without waiting on a phone. Thank  
15 you."

16           And finally, something that I know is important  
17 to the Board Members, and that is our VITA/TCE  
18 Program. That's available to those with low income,  
19 over the age of 60 and military personnel, helping  
20 them to file federal and state tax returns. At the  
21 end of the filing season, that came completed with  
22 over 518,000 returns and had a presence at over  
23 1,200 locations throughout the State of California.

24           In addition, I will point out that VITA/TCE  
25 Program assisted taxpayers in claiming an earned

1 income tax credit. And during this process, they  
2 helped taxpayers claim over \$103,000,000 in EITC,  
3 which is an \$8,000,000 increase over the EITC that  
4 they helped them collect last year.

5 So I would like to sincerely thank the Board  
6 for continued interest and support of this program,  
7 and that completes my presentation.

8 Do you have any questions?

9 MEMBER MANDEL: Thank you, Allen.

10 Any questions?

11 MEMBER MATOSANTOS: I just want to say  
12 thank you 'cause I know you've just gotten through  
13 the crunch time. And if I recall correctly, we had  
14 two of the largest cash days that the State has ever  
15 had in, you know, kind of basically within the  
16 course of a week.

17 So thank you very much and particular thanks  
18 to Selvi. You always thank the Board, but you make  
19 it easy for us. You are not only incredibly hard  
20 working and ethical, but you just get the bullet  
21 across, get the importance of the work that we do.  
22 So we appreciate that.

23 MS. STANISLAUS: Thank you.

24 MEMBER MANDEL: Thank you, Allen.

25 Ditto from down here.

1 MEMBER MANDEL: We can go back.

2 We are on Item 4, regulation matters. We  
3 have proposed Regulation 17942, LLC fees. Staff  
4 report and possible Board action. And we have Doug  
5 Barish with us today.

6 MR. BARISH: Good afternoon.

7 In March of 2012, this Board granted  
8 permission to take proposed Regulation § 17942 to  
9 the formal regulatory process. Proposed Regulation  
10 17942 provides guidance as to the proper calculation  
11 of limited liability company fee. The version  
12 approved by this Board includes language to address  
13 the single sales factor election provided by Revenue  
14 and Taxation Code 25128.5 for years beginning on or  
15 after January 1st, 2011.

16 In the explanation provided to the Board  
17 Members there was a slight typo and it referred to  
18 2012 instead of 2011. Since the time that this  
19 Board granted the permission, the California voters  
20 approved Proposition 39. Thus repealing the  
21 elective single sales factor started in 2013, and  
22 instead is requiring the use of a mandatory single  
23 sales factor.

24 In response to this, the Franchise Tax Board  
25 amended proposed Regulation 17942 to account for

1 Proposition 39. This was done by adding language  
2 that for 2013 and thereafter taxpayers that are  
3 required to apportion income using a single sales  
4 factor must also use the same methodology  
5 calculating the limited liability company.

6 In addition, the proposed regulation was  
7 amended to approve the clarity of existing language  
8 as well as to add an effective date of January 1st,  
9 2012.

10 These new changes simply clarify the existing  
11 language of the statute and do not propose any  
12 additional costs or reporting requirements on  
13 taxpayers.

14 Based on the foregoing, I respectfully request  
15 permission from this Board to take the proposed  
16 Regulation 17942 into the formal regulatory process.

17 MEMBER MANDEL: Thank you.

18 MR. HORTON: Move staff recommendation.

19 MEMBER MATOSANTOS: Second.

20 MEMBER MANDEL: It's been moved and  
21 seconded.

22 Any objection?

23 No objection from us.

24 So that is what the Board orders.

25 MR. BARISH: Thank you very much.

1           MEMBER MATOSANTOS: Question just for  
2 purposes of clarification. How are we going about  
3 modifying the other regulations that we adopted on  
4 single sales now that there is no longer an  
5 election?

6           MR. BARISH: We have an ongoing staff  
7 process to review all regulations to determine if  
8 there is conformity since Prop 39. We are preparing  
9 those now.

10          MEMBER MATOSANTOS: Thank you.

11          MEMBER MANDEL: Thank you, Doug.

12          Now Item 5, administrative matters. We have  
13 three sub items. Lisa is going to present all of  
14 them. First one is the 2014-15 proposed budget  
15 change proposals. This is an information item.

16          MS. GARRISON: Thank you, Madam Chair,  
17 Board Members.

18          The materials are in binders under Item No. 5.  
19 The first item, 5(a), is informational, and in it we  
20 are presenting to you the five concepts staff is  
21 preparing for change proposals for the '14-15 year.

22          The first item is we're developing an online  
23 ongoing PCP for enterprise data revenue project.  
24 We're requesting an appropriation of \$73.5 million  
25 and 36 positions. As I said, this is ongoing. We

1 are in month 24 of the 66-month contract. And of  
2 that 73.5 million, 68.5 million are debt payments.

3 Any questions on that PCP concept?

4 The second concept we are developing is a  
5 request to make permanent 115 account receivable  
6 collector positions. These positions are temporary  
7 positions, two-year-positions that were granted to  
8 us. This is an \$8.7 million ongoing appropriation.  
9 As I said, it is looking at making temporary  
10 positions permanent. These collective positions are  
11 filled at this point. They have justified for CDR.  
12 Currently, we see that they are bringing in 14 to  
13 one CDR. Therefore, we feel this is an ongoing  
14 workload.

15 MEMBER MANDEL: When these come back at the  
16 September meeting, we will be told --

17 MS. GARRISON: Yes. Each item will be  
18 written up, and they are presented for the Board's  
19 approval.

20 MEMBER MANDEL: Thank you.

21 MS. GARRISON: Our third item is we are  
22 developing concept for a request for authority to  
23 expend our assets forfeiture account. This is a  
24 special account within the general fund, and this is  
25 money that we are in agreement with the Department

1 of Treasury and the U.S. Department of Justice,  
2 Investigations Division. They work with the task  
3 force with the federal government and local  
4 government. And assets are received. Federal  
5 government does allocate the money from those assets  
6 to the various members of the tasks force. We have  
7 \$120,000 in that account, and this is asking for  
8 authorization to spend the money.

9         If authorization is not granted, that money  
10 does refer back to the Department of the Treasury or  
11 Department of Justice. It does not roll over into  
12 the general fund. There is a special condition of  
13 that agreement that says, basically, it has to be  
14 used for additional expenditures in the  
15 investigation program. It can't be used as a  
16 substitute for previous funding.

17         Our fourth concept we are developing for our  
18 PCP is we are going to request \$2.5 million to  
19 replace our end of life mainframe triplex printer.  
20 We have been looking at different options as far as  
21 printing.

22         We can go outside, the state printing  
23 department or to another department. We have  
24 determined that is not in the State's best interest  
25 as we have a 24/7 B-C printing operation. So we are

1 developing that concept.

2 MEMBER MANDEL: Thank you.

3 MS. GARRISON: Our final concept is we are  
4 requesting \$1.8 million for security for some  
5 software to improve our data system.

6 MEMBER MANDEL: Thank you. Any questions?  
7 If not, we look forward to that.

8 MS. GARRISON: Thank you.

9 Item 5(b) is a request for the Board's  
10 approval to receive contracts over a million  
11 dollars. This is a contract for proprietary service  
12 maintenance renewal with IBM. The software is used  
13 for our mainframe system. We have roughly a hundred  
14 products that are proprietary to IBM that are used  
15 in some form in our mainframe system. We project  
16 that we will negotiate this with California  
17 Technology Agency and our portion of the contract  
18 will be approximately \$9,000,000.

19 We ask the Board's approval to move forward  
20 with the negotiations of this contract.

21 MEMBER MANDEL: Any questions on the  
22 contract?

23 MR. HORTON: No. Move adoption.

24 MEMBER MATOSANTOS: Contract or --

25 MEMBER MANDEL: Our discussion was

1 information. For the record, finance makes the  
2 decision. Finance does not participate in the DC  
3 process here.

4 MR. HORTON: So moved.

5 MEMBER MANDEL: Move the contract?

6 MR. HORTON: Yes.

7 MEMBER MATOSANTOS: Second.

8 MEMBER MANDEL: Member Horton moves the  
9 contract and second and no objection from here. So  
10 that will be the Board's order.

11 MS. GARRISON: Thank you.

12 Item 5(C) is requesting permission to move  
13 forward with four facility action requests. This is  
14 an action item for the Board.

15 First is to work with DGS to negotiate for our  
16 Los Angeles field office parking. This is off-site  
17 parking that is subsidized for employees where the  
18 parking in the building -- there is not sufficient  
19 parking for all the employees.

20 The second item is we would be requesting DGS  
21 for authority to move forward with modular furniture  
22 purchases. DGS handles that for departments. We  
23 have in the past had delegated authority. We would  
24 ask for that authority again.

25 The third item is looking at asking DGS about

1 bringing new lighting occupancy sensors to our  
2 central office location. Again, nominal thing -  
3 walk into a room and the lights go on. It is adding  
4 that to our building.

5           And then the final item. We are asking  
6 permission to move forward with a new power  
7 distribution unit in the L.A. Data Center. As they  
8 explained, there are too many plugs plugged into our  
9 current system. We have our data center and printer  
10 on the same plug. We have to have appropriate data  
11 security. We need to have new plugs.

12           MEMBER MANDEL: The L.A. data is here, here  
13 in this building?

14           MS. GARRISON: It is.

15           MEMBER HORTON: You were looking for it in  
16 L.A.?

17           MS. GARRISON: Our nomenclature, for naming  
18 all the building locations in the state.

19           MEMBER MANDEL: Okay. Thank you.

20           MS. GARRISON: We ask the Board permission  
21 to move on those four actions.

22           MEMBER MANDEL: Any questions on them?

23           MR. HORTON: No. But move adoption to  
24 staff recommendation. Add a caveat, if you will.  
25 Possibly take a look at landscaping.

1 MEMBER MANDEL: The grass is a little long,  
2 but not greener.

3 MR. HORTON: Just a tad.

4 MEMBER MANDEL: Been moved.

5 MEMBER MATOSANTOS: Second.

6 MEMBER MANDEL: Moved and seconded.

7 No objection.

8 That is the Board's order. Unless you bring  
9 in some palms. You know how he loves animals.

10 We're on Item 6, which is Executive Officer's  
11 time. Selvi.

12 MS. STANISLAUS: Thank you, Madam Chair.

13 FTB has developed an EDR card, a billion  
14 dollar campaign, and recognize individuals who are  
15 contributed much to the success of FTB. And I have  
16 a postcard for each of one of you and also the  
17 Controller. For the benefit of the audience and  
18 also the court reporter I would like to read the  
19 postcard that I have written to you.

20 I would like to thank the Board Members for  
21 your overwhelming support over the past few years  
22 for the EDR Project and FTB. As you know, with EDR  
23 we have taken on a very challenging project. With  
24 your ongoing support and guidance, we are confident  
25 that the project will remain on track and continue

1 to get a raise in revenue, improved taxpayer  
2 service, and take transparency at FTB to a very high  
3 level. We are 23 months into the project. It has  
4 23 more months to go. In the past 23 months we have  
5 generated a total revenue of \$456,000,000. That's  
6 nearly 105 percent over our projection. We also  
7 kept our project costs down, and we only spent 29  
8 percent of the total project budget. All of this is  
9 possible due to your unwavering support and  
10 thoughtful guidance for FTB and me personally.

11 So on behalf of FTB, we want to offer our  
12 sincerest thanks to all the Board Members. So  
13 thanks a billion.

14 MEMBER MANDEL: You're welcome. And EDR --

15 MS. STANISLAUS: If you don't mind, a  
16 picture of the four of us.

17 MEMBER MANDEL: Thank you, Selvi.  
18 Everybody knows I love EDR.

19 Anything else?

20 Item 7. We are on Board Members' time.

21 MR. HORTON: We can do this Board Members'  
22 time. I just want to say thank you as well to Selvi  
23 for all the work that you have done over the years  
24 and to your entire team here at the Franchise Tax  
25 Board. I mean, it's really proud to be an

1 ambassador. When I say that I sit on the Franchise  
2 Tax Board -- Strike that term. As a representative  
3 of it, I am able to say it with great pride because  
4 of -- not only because of the members that I serve  
5 with, the executive of the team, but most  
6 importantly because of the individuals who work for  
7 the Franchise Tax Board. They are just awesome, as  
8 my grandbaby would say.

9 Thank you all, and we sincerely appreciate  
10 you.

11 MEMBER MANDEL: More dittos. And Board  
12 Members' time, just to do my official. This is the  
13 Members opportunity to raise other matter of  
14 interest. This is not an the action item.

15 I do have an item for Board Members' time.

16 It saddens me to announce that Sandi Von  
17 Haenel, FTB's long time court reporter from Capitol  
18 Reporters, passed away on June 7th, 2013 from  
19 complications relating to her long battle with  
20 cancer. She was 64.

21 Sandi von Haenel transcribed her first FTB  
22 meeting in September 2005. Over the nearly eight  
23 years since then, as FTB's court reporter - I am  
24 sure she did other work. We thought of her as our  
25 own - she provided verbatim transcripts of more than

1 50 Board meetings and regulation hearings. Her  
2 lilting accent and pleasant, unflappable demeanor  
3 were appreciated by all who came in contact with  
4 her.

5 On behalf of the Board, the Executive Officer,  
6 Selvi Stanislaus, FTB staff and myself, I would like  
7 to extend our sincerest sympathy to Sandi's family  
8 and friends for their loss.

9 When we adjourn this meeting, the record should  
10 reflect that we will adjourn in memory of Sandra von  
11 Haenel.

12 Thank you.

13 MR. HORTON: Thank you, Madam Chair.

14 MEMBER MANDEL: At this time the Board will  
15 go into closed session to discuss pending  
16 litigation.

17 (Board in closed session.)

18 MEMBER MANDEL: The Board met in closed  
19 session and discussed pending litigation.

20 We are adjourned.

21 (Board Meeting concluded at 2:34 p.m.)

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REPORTER'S CERTIFICATE

STATE OF CALIFORNIA )  
 ) ss.  
COUNTY OF SACRAMENTO )

I, ESTHER F. SCHWARTZ, certify that I was the official Court Reporter for the proceedings named herein, and that as such reporter, I reported in verbatim shorthand writing those proceedings;

That I thereafter caused my shorthand writing to be reduced to printed format, and the pages numbered 3 through 35 herein constitute a complete, true and correct record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 5th day of July, 2013.

\_\_\_\_\_  
ESTHER F. SCHWARTZ  
CSR NO. 1564