

STATE OF CALIFORNIA

FRANCHISE TAX BOARD

PUBLIC MEETING

WEDNESDAY, MARCH 12, 2014

GERALD GOLDBERG AUDITORIUM
9646 BUTTERFIELD WAY
SACRAMENTO, CALIFORNIA

REPORTED BY:

ESTHER F. SCHWARTZ
CSR NO. 1564

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ATTENDEES

02

03 BOARD MEMBERS:

04 JOHN CHIANG, STATE CONTROLLER

05 MARCY JO MANDEL

06 JEROME E. HORTON

07 ERAINA ORTEGA

08 STAFF:

09 SELVI STANISLAUS, EXECUTIVE OFFICER

10 DAN TAHARA

11 CATHY CLEEK

12 MICHELLE FALLON

13 CHRIS REALI

14 SUSAN BORGMAN

15 COLLEEN BERWICK

16 COUNSEL:

17 JOZEL L. BRUNETT

18 BRUCE LANGSTON

19 AUDIENCE PARTICIPANTS:

20 (NONE)

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01 SACRAMENTO, CALIFORNIA
02 WEDNESDAY, MARCH 12, 2014, 10:30 A.M.

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04 CHAIR CHIANG: Good morning.

05 This is the scheduled time for the meeting of
06 the Franchise Tax Board.

07 Will the secretary please call the roll to
08 determine whether a quorum is present?

09 MS. BERWICK: Member Horton.

10 MEMBER HORTON: Here.

11 MS. BERWICK: Chief Deputy Eraina Ortega for
12 Member Cohen.

13 MEMBER ORTEGA: Here.

14 MS. BERWICK: Chair Chiang.

15 CHAIR CHIANG: Here.

16 Good morning. So we have a quorum present.

17 Let's go to Item Number 1, approval of minutes.

18 Is there any comment or is there a motion?

19 MEMBER HORTON: Make a motion.

20 CHAIR CHIANG: We have a motion. Is there
21 a second?

22 UNIDENTIFIED MEMBER: Second.

23 CHAIR CHIANG: Without objection the motion
24 passes.

25 We will go to Item Number 2, FTB 2013

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01 Accomplishments.

02 MS. STANISLAUS: Before we move on to
03 accomplishments, I want to congratulate Controller
04 Chiang. He has been named Attorney of the Year by
05 California Lawyer Magazine. The Controller created
06 the strategy and authorized the litigation to ensure
07 that life insurance companies comply with
08 California's unclaimed property laws. The
09 settlements are worth over \$86.7 million to
10 California beneficiaries and up to \$763 million
11 nationwide. Thirty-five states have joined in
12 executing the settlement.

13 So, Controller, we are so honored to have
14 you as a Board Member and happy to see you here
15 today.

16 CHAIR CHIANG: Thank you, Selvi. As
17 always, it is my staff, Rick Chivaro, my Chief
18 Counsel, and staff, they do the good work as you
19 guys do here at Franchise Tax Board.

20 MEMBER HORTON: Mr. Chairman, I want to
21 join in congratulating our Chairman for his work.
22 This is really dynamic work. It's very smart.
23 It's very strategic. Millions and millions of
24 dollars were going unclaimed, and individuals who
25 had passed away, their family members were not

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01 receiving those funds. So as a result of the
02 efforts of Controller Chiang, now these individuals
03 are receiving the funds, dating back, what, 30 years
04 or so. So they are receiving a significant amount
05 of funding as a result of their insurance policies
06 and their loved ones passing on and not receiving
07 the funds appropriately owed to them.

08 So I want to thank him, not only personally,
09 but also as a Member of the Board. Thank you very
10 much, John.

11 CHAIR CHIANG: Thank you.

12 MS. BERWICK: This agenda item will be a
13 video presentation, so will the Board Members please
14 move over to the left.

15 MR. TAHARA: Good morning, Chair and
16 Members. I am Dan Tahara from the Public Affairs
17 Office. Today I would like to share some of the
18 great work my co-workers have accomplished last
19 year. We're all so busy that sometimes it's hard
20 for us to hit the pause button and celebrate our
21 achievements. Today I would like to share a video
22 that does just that. Our employees have seen it, and
23 we're excited to share with you.

24 Two years ago the Board approved a new
25 strategic plan. The plan was crafted explicitly to

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01 support our mission to provide quality services and
02 promote voluntary compliance with the tax laws.
03 It's been said the best way to predict the future is
04 to create it. So let's look back at what we created
05 in 2013 and look forward to what we could accomplish
06 in 2014 and beyond.

07 (Video shown.)

08 MR. TAHARA: Here, we are very proud at
09 what we've accomplished. Our success is driven by
10 exceptional leadership and nearly 6,000 dedicated
11 employees. And that's not all. Our success also
12 requires the Board. So on behalf of all FTB, please
13 except my sincere gratitude for your continued
14 support, guidance and encouragement.

15 Thank you very much, and I'll be happy to
16 entertain any questions you may have.

17 CHAIR CHIANG: Anybody want to add
18 anything?

19 MEMBER HORTON: Congratulations to you as
20 well and to all of the team members. This is
21 awesome, and it is good that we continue to tell the
22 story. As one of the ambassadors for the Franchise
23 Tax Board, I know myself, John and the rest of the
24 Board, we are constantly reminding people how
25 efficient and effective the Franchise Tax Board is,

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01 but most importantly that we are a team that works
02 together and accomplishes many, many things. So I'm
03 glad that you guys are continuing to tell the story.

04 Let me just say to all of the employees that
05 are here today, thank you so very much. I think
06 it was Magic Johnson who once said that good players
07 win games, but teams win championships. So all of
08 you are champions in my mind, and we are just
09 knocking the ball out of the park. Let's continue
10 to do the good work.

11 CHAIR CHIANG: Daniel, that was an
12 extraordinary video. So to all those that came
13 together to put that together, thank you very much.
14 I think it shares the story that's taking place here
15 at the Franchise Tax Board. Selvi and her
16 leadership team, just absolutely amazing.

17 We had questions a few years ago prior to
18 Selvi's leadership as to the direction of this
19 agency. We're going to reach out and to make sure
20 that we were going to engage with the people that we
21 serve or were we just going to try to be technically
22 focused.

23 I think we have taken the right direction. We
24 are working with our partners. We're making sure
25 that the taxpayers of California feel that they have

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01 a helping hand at the Franchise Tax Board. So we're
02 making great progress. Obviously, we're innovating.
03 I understand there is still a ways we have to go
04 because it is a very difficult and tough subject.
05 It will always be in our existence, but I think in
06 terms of demonstrating where our heart is, we
07 are there with them.

08 So thank you very much.

09 MR. TAHARA: Thank you, Chair.

10 MS. BERWICK: The next agenda item is
11 three, technology trends. This will be a PowerPoint
12 presentation. Cathy Cleek.

13 MS. CLEEK: Good morning. I'm Cathy Cleek
14 and I'm here to talk to you this morning about
15 technology trends. I think all of us realize that
16 in today's day and age that we rely upon technology
17 a great deal, and there's much that really we can
18 use technology for to help provide the good service
19 we do for citizens. So I want to talk about four
20 trends that I think are really going to make a
21 difference in the future at FTB and tell you a
22 little bit about what we're doing in each of these
23 four areas.

24 So the trends that I would like to talk about
25 are mobile devices, big data and actionable

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01 analytics, cloud computing. And at FTB if you talk
02 about data, we can never talk about data without
03 talking about security.

04 So mobile devices is the first thing that I
05 want to talk about. And what you see here is a
06 smart phone and a tablet. And this is what our FTB
07 sites look like on these devices. And we are seeing
08 significant growth in the use of these type of
09 devices. So the first thing I would like to say and
10 kind of get your mindset around is we really are in
11 a post-PC era. We're used to thinking about
12 technology and, I think, most of us think of PCs and
13 mainframes and servers, but we're really coming to a
14 point that desktops and PCs are being replaced with
15 tablets and smart phones.

16 Since statistics in 2013, tablets outsold PCs.
17 This year tablets are expected to outsell laptops.
18 So the tablet is really becoming the device that
19 people are using.

20 How we put information into computers is
21 changing. Keyboards and mice are being replaced
22 with touch and voice. And I think you probably
23 recognize, this is Eric Schmidt who is the Executive
24 Chairman of Google. And he's been known to say "if
25 you don't have a mobile strategy, you don't have a

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01 future strategy."

02 Really just reiterating how important those
03 mobile devices are becoming and how we interact and
04 provide services to what our citizens are using to
05 come and get service from us.

06 Time Magazine also talked about a smart phone
07 that we have today has more computing power than
08 what was sent to the moon on Apollo 11. I think
09 that's always very phenomenal.

10 Close to nine in ten adults carry a mobile
11 phone. One in five people check their phone every
12 ten minutes. And one and three people admit feeling
13 anxious without their smart phone. I know I
14 personally have driven back to my house to get my
15 smart phone.

16 CHAIR CHIANG: You're not alone.

17 MS. CLEEK: And I'm particularly challenged
18 since I did an update on my phone, and it's no
19 longer working today, so I'm quite anxious on that
20 part.

21 Three-quarters of 19 to 25-year-olds sleep
22 with their smart phones. I don't know what that
23 says, and I'm not going to editorialize.

24 Let's look at a few years back and a forward
25 look at what is estimated. This is a Gardner

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01 estimate. And if you go back four years ago, 3
02 percent of the web traffic in the U.S. was coming
03 from a smart phone or a tablet. If you fast forward
04 to today, they estimated 22 percent of people are
05 coming into websites from a smart phone or a tablet.
06 FTB last week, it was 25.8 percent. So we're
07 slightly ahead of this curve. And it's estimated a
08 year ahead to be 30 percent. And we think that
09 trend will continue. You will see what heights this
10 trend is.

11 We think it is really important to do things
12 in regarding. So what have we done and what is
13 planned? So in the last two years we've completed a
14 mobile strategy, and we added make a payment to our
15 mobile platform. This was added in September of
16 last year, and we've gotten over a hundred thousand
17 payments just since last September. So we are quite
18 excited to see that.

19 In 2015, we want to improve the user
20 experience on the tablet. And what we're really
21 making is so you never really have to scroll no
22 matter which device you have - a PC, a tablet or
23 phone. It really looks good on that application.

24 And in 2016, what we are going to do is,
25 instead of making people go to a web browser for the

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01 application, the FTB application, we will have a web
02 app that we will deploy for Apple products with IOS
03 and very many products using the Android operating
04 system. So we will take another step in 2016.

05 The next thing I want to talk a little bit
06 about is big data and actionable analytics. There's
07 a lot you see written about big data, but where I
08 think they miss the point is to have data you really
09 want it to make better decisions. And that's why
10 it's so important to us, is we want to do the
11 actionable analytic. I feel like that is what
12 should get the attention and what is getting the
13 attention is big data.

14 So what does big data mean. And let me just
15 talk to you a little bit about how much data is
16 being collected these days. So if you take from the
17 dawn of time to 2003 and you say all the data that
18 has been accumulated during that time frame, it's
19 five exabytes of data. What does that really mean?
20 It is five and 18 zeros. But still in my mind what
21 does that mean? If you took a computer and it had a
22 gigabyte of storage, for me to have five exabytes of
23 data, I would need five billion PCs. Between the
24 dawn of time to ten years ago, I would need five
25 billion PCs.

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01 If I take the dawn of time to 2012, I will
02 have three exabytes of data. That is 500 times more
03 data in a ten-year period of time. And for that
04 much data, to try and put it a number that's
05 somewhat understandable, that takes three trillion
06 PCs.

07 And to fast forward to just 2015, so three
08 years later, they're estimating a three-times growth
09 in data to eight zettabytes of data, and that would
10 take us eight trillion PCs to come up with that much
11 data.

12 So a little bit -- that's not a very big
13 period of time. And why do we have all this data?
14 We're used to thinking of things on a PC or laptops.
15 We're starting to video things. We're putting
16 images electronic. Putting voice online. Social
17 media. All of these things mean more and more data
18 is available. We also are starting to keep track of
19 on our website, for example, what page you go to,
20 how long you are on the page, what order you go to,
21 what page. We start keeping track of all those
22 analytics to better serve our customers.

23 So we're having much more data. And we think
24 it is really important as you go down this road to
25 have privacy principles and really be thinking about

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01 that balance that you need to have. FTB has very
02 privacy principles we've had for ten years and that
03 we adhere to and publish.

04 So like I started out to say: We really
05 believe that big data helps us make better
06 decisions, and we feel like big data leads to better
07 case selection. We want always to be working the
08 best case that we can, and that big data is helping
09 us in this regard. And I think most people, that
10 comes pretty intuitively. What doesn't, I think,
11 come as intuitively to people is we really end up
12 with fewer unnecessary contacts.

13 Let me give you a simple example. Is adding
14 date of birth into our data. When we go to find
15 people who haven't filed their returns, we do not
16 contact someone who passed away. By putting that
17 into our database and into our processes, we are
18 able to avoid contacting someone who erroneously we
19 did not need to contact them. We feel like we can
20 be less intrusive with using better data. And the
21 result is that when we do better case selection and
22 fewer unnecessary contacts, we generate more revenue
23 and have a more efficient department. And we can
24 provide better service.

25 So what are a few things that we're doing? All

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01 of you are aware that we have a large technology
02 project in place, and I'm going to talk about a few
03 of the things that are using big data. And one of
04 the things that we are doing is using predictive
05 modeling in our programs. So this means we're
06 adding new models. We're improving our models. And
07 then we're also -- we used to do a model once a year
08 and then wait until the next year until we got new
09 data and then run the model again. Now we're
10 constantly adding data and reevaluating that model.
11 So that our models are constantly being refreshed.
12 And we anticipate significant performance
13 improvements, and the early signs are very
14 encouraging.

15 Another place that we think we can do better is
16 around what we're calling locate services. And what
17 this really means is that we've created an address,
18 a database. So we take any address we have for a
19 taxpayer, put it into a database. Then when we go
20 to mail something to them, we select the best
21 address. And if we get it returned, we
22 automatically remail to the next best address we
23 have. And that's constantly being reevaluated. So
24 that will be implemented in June of 2014.

25 And then our taxpayer folder for my FTB

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01 account, we'll be making taxpayers' big data - their
02 tax returns, their correspondence they mailed to us
03 - available to them on the web in July of 2015.

04 So a couple of other things we have done that I
05 just have results for that I wanted to share is
06 financial institutions record match. This is where
07 we take our AR, our accounts receivable, and compare
08 it to the financial institution's inventory. And
09 this has been in place about two years, and we have
10 generated \$180,000,000 with that match.

11 Federal treasury offset is using the federal
12 tax refunds. If they owe the State of California
13 money, we offset that with the federal refund,
14 \$175,000,000. And we have also added new levy
15 sources into our levying system, and that's been in
16 place for two years, for \$45,000,000.

17 So the next and third area I would like to talk
18 about is cloud computing. And I often get asked:
19 What does this mean? And I think the example that I
20 would like to share that we are the most familiar
21 with is most of us have a Gmail account, a Hotmail
22 account where you can login, look at your email.
23 And that is an example of cloud computing. Because
24 the email you have isn't on your hard drive or your
25 tablet. It's out in another data center, which is

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01 why they call it a cloud. It is not where you can
02 physically touch it. It's out in the cloud.

03 So many more applications and services are
04 being provided with this cloud infrastructure. So
05 you don't have to own the software, the hardware.
06 You just login and use those services. This is an
07 area that we're moving into, but I would say we're
08 moving in too slowly. And we're only doing it today
09 with our non-tax applications.

10 So there's two of them that I want to bring
11 up. The first one is eGain, our live chat function
12 that we have. We're using a service, and we don't
13 allow any taxpayer data on there, confidential
14 taxpayer data. Our live chat is a cloud service
15 that we're using, that we've had since 2008. And it
16 has been a great time-saver.

17 One thing I meant to say on cloud service, the
18 reason why it is so popular is it really can save
19 you quite a bit of money. So that's the big push in
20 that arena.

21 The Cornerstone store application is something
22 around moving our HR training records, our personnel
23 records into the cloud; and that's something we're
24 working on deploying by July of this year.

25 Like I said, we think we are very security

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01 conscious. I want to talk a little bit about this.
02 This is an area that I wish was all good news.
03 I will say I feel like I spend more of my time
04 thinking about security. If you talk to Gardner or
05 any of the predictive firms, they talk about 2004
06 being more security threats that continue to be more
07 involved and multiply. They expect the number of
08 threats and incidents from 2013 to double. I think
09 we are all very familiar with the Target, Neiman
10 Marcus, South Carolyn Department of Revenue; all had
11 issues in 2013. And this is -- we expect more of
12 this to come.

13 What are we doing here at FTB? The number one
14 thing is educating staff. We talk about security
15 regularly. Protecting people's data. Making sure
16 we're only talking to the taxpayer about their
17 records. On the right-hand side is poster we have
18 throughout the Department, trying to be a little
19 creative. Says, "I need a job. Start a career in
20 advertising." To get people to think about misusing
21 data. We take this very, very seriously. So
22 educating staff is, we think, the most important
23 thing we can do.

24 EDR is enhancing the security on our new
25 system and many of our existing systems, which is a

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01 good thing. We are also in the middle of a data
02 security project taking -- to improve our
03 infrastructure that will be completed in July 2015.
04 And then each year we have a third party come in and
05 review one or more of your systems and give us
06 advice and evaluate how well we've made that system
07 secure. And we always get very good reviews on
08 that.

09 And then the IRS comes in every three years
10 and looks at our system, and they do an extremely
11 thorough job. We just finished with that evaluation
12 and got excellent, excellent marks.

13 And then we also do table top exercises - the
14 what ifs. If we had a security breach, are we
15 ready? How would we respond to that kind of
16 incident to make sure we know what we need to do?

17 So, in conclusion, I really want to end with
18 two quotes. When you think about the PC era and
19 what has occurred in the last 20 years, we really
20 think to Bill Gates and Steve Jobs for the kind of
21 leadership that they have really shown. So that's
22 why I picked their quotes. That one that Bill Gates
23 said, "Never before in history has so much
24 innovation offered so much promise of so much to so
25 many in such a short time." I see looking at these

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01 trends we can do that kind of innovation.

02 Steve Jobs says, "Innovation distinguishes
03 between the leaders and the followers."

04 So I think FTB has been seen a leader in the
05 technology arena. We want to continue in that
06 regard. And I think that is why Selvi has been
07 known to say and was earlier quoted, "The best way
08 to predict the future is to create it. So let us
09 begin."

10 So that is the end of my prepared remarks. I
11 will be happy to answer any questions.

12 CHAIR CHIANG: Any questions?

13 Thank you, Cathy. Very well done.

14 MS. BERWICK: The next item is Item 4,
15 filing season readiness. This is Michelle Fallon
16 and Chris Reali.

17 MR. REALI: Good morning. My name is Chris
18 Reali. I'm a manager in the E programs area.
19 Today I will be presenting with Michelle Fallon,
20 Director of Communications Services Bureau.

21 Today we're going to talk about our filing
22 season readiness process. That is who is involved,
23 what it is, why we do it. Also talk a little bit
24 about some of our -- what the filing process, filing
25 season readiness process results in, and what we

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01 have planned for this year. And Michelle will talk
02 about online services outreach.

03 Filing season readiness review team. It
04 consists of staff from filing, technology services,
05 legislative services and administrative services
06 division. It includes division chiefs, bureau
07 directors, section managers and subject matter
08 experts. The reason we have a wide variety of staff
09 at different levels is we want to make sure we have
10 expertise in the room, but also decision makers in
11 the room. It helps us move along.

12 The team's purpose is to review projects,
13 annual changes enhancements. Anything that actually
14 could impact our filing season readiness. We want
15 this important for us to make sure the taxpayers are
16 ready to interact with our systems file. We have a
17 task plan that now includes over a thousand tasks.
18 Fortunately, we don't have to review all thousand
19 every meeting.

20 MS. FALLON: Although it often feels like
21 we are.

22 MR. REALI: Reviewing these tasks with all
23 areas of the Department allows each area to see what
24 others are doing. You may not think the potential
25 impact until you actually see what somebody else

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01 might be doing. So during the last few months of
02 the year we meet just about every single week.
03 Other times of the year we meet every two to three
04 weeks, but more often if necessary, just to make
05 sure that things that are going on throughout the
06 year don't have the potential to impact our filing
07 season.

08 The reason we do this, taxpayers, our
09 customers. It's extremely important to Franchise
10 Tax Board that our systems and applications are
11 ready for them when they're ready to use them.

12 As I mentioned before, we have a milestone task
13 that has over a thousand tasks. We can't go through
14 all of them, like I said, at every meeting. So we
15 have another document that we use just on a high
16 level. This is what we refer to as our Filing
17 Season Readiness Bubble Chart. It gives high level
18 view of all of the tasks. Each bubble kind of
19 refers back to that task bar. So we can see on a
20 high level where we stand. Whether we use
21 stoplights, green, actually good. Yellow, little
22 concerned, maybe. Just keep an eye on it. Red, we
23 better have a plan. So we work together to come up
24 with those plans to make sure we're ready to go.

25 I know the previous slide was a little hard to

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01 read, so we moved it up a little bit. In each we
02 have swim lengths. And, obviously, the first listed
03 are tax forms, intake and Internet. Tax forms for
04 us are extremely important. It's where it all
05 starts, what taxpayers may use to paper return. The
06 tax forms and instructions are what software
07 companies use to prepare their software. It's what
08 we use to make all our decisions and make decision
09 changes to our back end systems and applications.

10 So we start with the intake and Internet. Our
11 filing system, over E-file applications, our CalFile
12 applications, my FTB account. We want to make sure
13 that all of those systems are up and running again.
14 But, if they're not, then it doesn't really matter
15 if the taxpayer is ready. We have to be ready as
16 well. And we use this at a high level.

17 You can see right now most things are
18 complete. This was after the first of the year.
19 There are still a few things that may have a
20 stoplight, like the very last row, the projects and
21 Windows 7.

22 You might wonder why does Windows 7 have an
23 impact on the filing season. Well, for us
24 internally all our systems that the individual
25 employees use need to make sure they work with all

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01 the other systems. So we're even concerned at the
02 operating level of a PC to make sure those
03 applications work. We don't want to interrupt the
04 processes that would slow down working returns and
05 getting the folks a refund.

06 When applications are ready. Every year we try
07 to make sure all our applications are ready the
08 first business day. This year, January 2nd. We
09 tried to make sure everything was ready to go by
10 9:00 a.m. This year we missed our goal a little
11 bit, by 45 minutes. Everything was ready at 9:45.
12 Pretty close. We were in the ninth hour. And
13 within 20 minutes of actually going live, we already
14 had our first CalFile return. I sure hope -- I'm
15 really hoping it's a refund return. I hate to think
16 that somebody got up after New Year's Day to do a
17 return to pay.

18 I'm not going to go through every bullet on
19 here. I'm just going to highlight a few of the
20 applications, some of the significant changes we
21 made. The first bullet, CalFile. This year you can
22 not only file your current return, but your previous
23 year return. So we want taxpayers to have
24 convenience of filing electronically online or free,
25 directly with the Franchise Tax Board. Michelle is

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01 going to mention what we're doing to promote that.
02 Web pay. Fourth bullet down. We added a new
03 payment type within the application and within our
04 accounting system. We call it amended return
05 payment. We had more people choose to pay
06 electronically. Some still have to file paper
07 documents when they file amended return. In that
08 scenario when they pay electronically, which we
09 process a lot faster than a paper return, the
10 payment goes to our accounting system. There's no
11 liability. Refund is right back out. We don't want
12 that and neither does the taxpayer. It's
13 inconvenient. So we added a new payment type. So
14 when that is chosen, that payment will go to the
15 accounting system and sit there and wait for the
16 amended return to be processed. We'll avoid sending
17 money back out and inconvenience the taxpayers who
18 have to just turn around and send it right back to
19 us.

20 Second to last bullet, the new employment
21 credit reservation. This was related to the
22 Governor's 2013 Economic Development Initiative.
23 And employers may qualify for certain tax credits.
24 As part of those credits, they need to reserve a
25 tentative credit reservation with us. We made that

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01 application available online. Save them from
02 sending paper. Less chance of getting lost. Much
03 faster. They get instant response that we received
04 their reservation request.

05 Then the final bullet. Well, technically not
06 a web application, we thought it was important to
07 point out. Our contact center platform/interactive
08 voice response. We call it IVR. We made
09 significant upgrades to the hardware and software in
10 2013 to make sure the phone system is reliable and
11 available for taxpayers. We obviously prefer that
12 they go online, self-serve, but sometimes they are
13 going to have to call. So we need to be ready when
14 they do.

15 Our systems -- this is more of our back-end
16 systems. They need to be ready on January 2nd, just
17 like the web application. If we don't have them all
18 working together, it's pointless.

19 For e-file, still our fastest, cheapest way to
20 process. And, actually, my e-file program manager
21 this morning took a little bit offense to the
22 cheapest. So I said I'll say less expensive. This
23 year our personal income tax, we're projecting 83
24 percent of all personal income tax returns will be
25 e-filed, 13.7 million returns. Business entity

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01 e-filing increases each and every year. This year
02 we're projecting about 57 percent, and we've added
03 fiduciary e-filing. All returns will be e-filed.

04 Our data capture system. Although we hope
05 taxpayers will electronically file, we know some are
06 still going to send in paper returns or paper
07 checks. So those systems need to be ready to
08 process. Expedite getting to the systems and
09 issuing refunds.

10 Our Enterprise Data to Revenue Project. We
11 had two releases beginning of the year. For our
12 Release 1.1, that expanded the capturing of business
13 entity and fiduciary returns. And our Release 2.1
14 expanded internal taxpayer folder information. That
15 is business entity demographic information and our
16 case management process. We now scan more types of
17 correspondence, route that electronically to get it
18 to the people who can work it faster.

19 Our major accounting system. Those all need
20 to be ready so everything works in hand together.

21 Just a few things that I want to mention to
22 look for in 2014. In Dan's video we saw business
23 entity credit card payments is coming May 2014.
24 We're expanding the offers with our vendors to allow
25 business entities, personal income taxpayers, to pay

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01 by credit card and maybe get some frequent flier
02 miles.

03 So in a couple more releases for the EDR
04 Project. We released the 2.2. Coming up again and
05 adding more information to our internal taxpayer
06 folder, centralizing more information for FTB staff.
07 Primarily business entity financial data, and even
08 more case management functionality, more
09 correspondence and routed electronically.

10 And the final release for 2.3, our taxpayer
11 folder. Cathy mentioned go right to the public in
12 2015, but it will come over to FTB staff in November
13 and September of this year, which will allow us nine
14 months to do even more testing. Security is the
15 utmost importance. We want to make sure everything
16 is working as the taxpayers expect and as we expect.

17 That's it. I'm going to turn it over to
18 Michelle. She's going to talk about our online
19 services outreach.

20 MEMBER HORTON: If I may, Chris. I have a
21 few questions. I sent you several E-cards where I
22 inquired about some of your testimony today. Were
23 you able to receive those and do you have the
24 answers?

25 MR. REALI: That was recently?

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01 MEMBER HORTON: No. I sent you
02 E-postcards. Let me just tell you what some of the
03 questions were. Maybe you can answer them.
04 Relative to the stoplight analogy, what happens when
05 you run the stoplight?
06 MR. REALI: We try not to.
07 MEMBER HORTON: In the bubble analogy, what
08 happens when the bubbles burst?
09 MR. REALI: We do our very best.
10 MEMBER HORTON: And please explain why you
11 were 45 minutes late. And the rell [phonetic] page,
12 what happens if you're afraid of spiders? Do you
13 have answers for me, sir? Is this your first time
14 before the Board?
15 MR. REALI: Yes, it is.
16 MS. FALLON: That's not very nice, Member
17 Horton.
18 MEMBER HORTON: Did you get the binder with
19 all the questions?
20 MR. REALI: It never made it to my desk.
21 MEMBER HORTON: Thank you, Chris.
22 MS. FALLON: I hope you got that out of
23 your system.
24 MEMBER HORTON: A little bit left.
25 MS. FALLON: Good morning. I am here to

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01 talk to you about our outreach services. And if you
02 heard Chris talking a lot about the monumental
03 efforts we go in to preparing for our filing season.
04 And just as Chris said and you heard others say, it
05 is all because we really want our customers to have
06 that great experience when they interact with us.

07 I suppose that when Chris and people are all
08 done with their stuff that we can take like Kevin
09 Costner in Field of Dreams kind of attitude and say,
10 "If they build it, they will come." But, you know,
11 Hollywood has never been very ground in reality. So
12 we thought it more prudent to produce some outreach
13 products that you see up here on the screen. And I
14 would like to walk you through just a few of those.

15 First I would like to start with our YouTube
16 videos. There are three of them up here. These are
17 the ones that we use to promote CalFile and Ready
18 Return. I especially like the instructional videos.
19 Because it takes the user through the process,
20 through the application step-by-step. We can give
21 them screen shots on the web of what their user
22 experience will look like. With all our videos for
23 CalFile and Ready Return, we are very careful to
24 make sure that we say several times, "This is fast,
25 easy and free."

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01 But for those services to be successful, our
02 customers need to be able to find them, and that is
03 on our website." You've heard us say on many
04 occasions that we consider our web to be our primary
05 service channel. Because of that, because we want
06 our taxpayers to talk to us through that channel, we
07 are constantly gathering performance data and making
08 improvements. On the screen you will see such
09 improvement. This is the landing page, the before
10 and after, where taxpayers go to figure out whether
11 Ready Return or CalFile is more appropriate for
12 their situation. And the before shot, you see that
13 the information is kind of stacked. It goes below
14 the fold. Down below there's more information and
15 somewhere on the bottom is a link to get you to the
16 application.

17 We really felt that that wasn't working for
18 customers. So on the after shot you will see a
19 side-by-side comparison that quickly tells them what
20 CalFile and Ready Return would do for them. They
21 can make a quick choice and find the button right
22 away for talking them into the application.

23 Now I would like to tell you or show you how we
24 leverage our tax booklets for outreach messaging.
25 You know that we no longer mail tax booklets to

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01 taxpayers, but let me tell you they still go out in
02 droves to our distribution sites and pick them up.
03 If you think about it, those people are really the
04 sweet spot of our target audience. Because we want
05 to encourage those folks to step away from the paper
06 and join the brave new world of E-services,
07 especially e-filing. So in all of our booklets,
08 both inside and on the cover, you will see
09 advertisements for those services in the hopes that
10 they will take advantage of that.

11 Along with the booklets that we send to our
12 distribution centers, we also include posters, such
13 as the ones that you see here. And this is just
14 another way that we are inviting the folks picking
15 up booklets to try some of our E-services, most
16 particularly CalFile.

17 Now the next product I want to share with you
18 is a great idea that almost didn't make it. You see
19 every year we send out over a million notices to
20 taxpayers who didn't file a tax return but appear to
21 have a filing requirement. Now, Anne Miller, our
22 chief of filing, thought it would be a great idea to
23 include these inserts that talk about CalFile on the
24 notices that go out to those taxpayers. Really
25 brilliant when you think about it. Because we're

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01 providing our customers with the solution in the
02 same envelope as the potential problem. Great idea.
03 We're hoping that Ms. Miller's brilliance comes a
04 little more timely next year because we almost
05 didn't make that. We had to wait a whole other
06 year.

07 I blame you, Chris.

08 MR. REALI: Yeah.

09 MS. FALLON: Moving on to one of my
10 favorite topics, social media. This is the picture
11 of our Facebook account. Now we use Facebook as a
12 way to communicate informally with our customers.
13 And during filing season our messages are all about
14 how to survive the tax season. And one of our
15 favorite survival tips is CalFile, which is that
16 first red box. We love reading the feedback that we
17 get from posts like that. For example, in this next
18 slide you will see a sampling of over 70 positive
19 comments that we've received in the last month or so
20 that talk about how much they love our CalFile
21 product.

22 I think my favorite is the one at the bottom.
23 She is a first time CalFile user. She says, "I just
24 filed my first California tax return, and I'm going
25 to Disneyland." I thought that was very cool.

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01 Amazing that with taxes and the happiest place on
02 earth can be used in the same thought. We're going
03 places.

04 Twitter is also another outreach tool that we
05 use. And as we do on our Facebook account, we like
06 to promote the services like the Board of
07 Equalization or the Controller's Office or even our
08 friends at the IRS. And all of this sharing the
09 love thing kind of creates a circle of happy karma.
10 And eventually it comes back to us, as you will see
11 in the red box. DMV is letting their followers know
12 about our CalFile program. And instantly when that
13 tweet hits, we've increased our sphere of outreach
14 by DMV's over 13,000 followers. Pretty cool.
15 Pretty powerful.

16 I've already showed you a few of our videos.
17 I want to show you our YouTube page. And this is
18 just the first page. There's so many videos there.
19 The ones in the red are the ones that I have already
20 showed you. If you notice that handsome man in the
21 lower left-hand corner, Mr. Jerome Horton, who has
22 helped us in many occasions and has helped us with
23 our e-file efforts. He produced a few videos for
24 us, and, Controller, you've just recently supported
25 our CalFile efforts, and that video will join these

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01 very shortly.

02 We use these videos and we link them to our
03 Twitter accounts and to our Facebook posts. That is
04 what makes our communications to our customers more
05 interesting. So thank you for your help with that.

06 Now I have to confess on the next item it would
07 be a significant career-limiting move on my part if
08 I failed to mention that Selvi also supports our
09 outreach efforts. On the screen there is a picture
10 of the letter that she sends to all the department
11 heads across the state. She asks them to please
12 post this on their individual intranet sites. What
13 is so cool about this is that it gives us a direct
14 link to other state employees to get the CalFile
15 message out there. Even our Controller supports our
16 efforts by reserving prime real estate at the bottom
17 of the March pay stub to remind employees that they
18 also can try our CalFile program, and that it's
19 fast, easy and free.

20 So our outreach efforts wouldn't be nearly as
21 successful without your support, and we thank you
22 for that.

23 This pretty much sums up our presentation.
24 And now Chris would like to invite any questions
25 that you might have.

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01 MR. REALI: Any more? I will look for the
02 binder.

03 CHAIR CHIANG: Very good. Thank you for
04 the presentation.

05 MS. BERWICK: The next agenda item is Item
06 5, administrative matters. And if the Board Members
07 would come back to the Board table.

08 MS. BORGMAN: Good morning. My name is
09 Susan Borgman. I'm the Director of the Procurement
10 Bureau. I'm sorry I don't have a PowerPoint
11 presentation. Those were amazing. So I will have
12 to describe the context.

13 Today we have three contracts for the Board's
14 approval. These contracts all involve software
15 maintenance that need to be renewed in June. The
16 software runs many of our systems and applications
17 that you just heard about earlier today.

18 We are still in the early stages of procurement
19 planning, so the cost of each of these contracts is
20 estimated.

21 The first contract is Genesys Software
22 maintenance renewal. This software supports our FTB
23 call center applications, such as the successful
24 interactive voice response system and virtual whole
25 technology. You heard a little bit about IVR

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01 earlier today. It answers most of our taxpayers'
02 questions, 40 percent at 10 percent of the cost for
03 a live agent.

04 The virtual hold technology enables FTB to
05 call the taxpayer back without having the taxpayer
06 wait on hold and waste their time, I guess.

07 This software is estimated that the renewal
08 would be \$1.8 million for a three-year term.

09 The next contract is Sybase software
10 maintenance renewal. This is a database software,
11 and it stores and provides access to the data
12 contained in EDR as well as ARCS and PASS. FTB's
13 collection and audit applications. It's estimated
14 that the renewal would be about \$1,000,000 for a
15 three-year term. Please note that the Board's
16 materials had an error in it. It indicated that the
17 contract would be a two-year term. We are pursuing
18 a three-year term.

19 The last contract is IBM Passport Advantage
20 software. This software maintenance covers both the
21 subscription and technical support for all IBM
22 software used to run various systems, such as EDR,
23 INK for our filing activities, ARC for our
24 collection activities, and PASS for our audit and
25 legal activities and security issues. It is

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01 estimated that this renewal would cost between
02 1,000,000 and 1.3 million for a one-year term.

03 Thank you.

04 MEMBER HORTON: Move approval of all items
05 as recommended by staff.

06 CHAIR CHIANG: I have a motion. Is there a
07 second?

08 MEMBER ORTEGA: Second.

09 CHAIR CHIANG: Is there any public comment?

10 On this business service software
11 maintenance renewal, can you clarify the cost?

12 MS. BORGMAN: The cost would be around
13 \$1,000,000. Last term was around 900,000 for the
14 three-year term. Last time was 900,000 for a
15 two-year term. This year we are going for a
16 three-year term for around \$1,000,000. We estimated
17 based on prior contract.

18 CHAIR CHIANG: Very good.

19 Any public comment?

20 No public comment.

21 We have a motion and a second.

22 Without any objection the motion passes.

23 Thank you very much.

24 We are on officer's time.

25 MS. STANISLAUS: Thank you. Just a quick

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01 update on VITA. We have a month and a half more to
02 go, but we already have our numbers. So VITA is off
03 to a really good start. Currently, VITA sites, we
04 have 1,198 sites in California. We have 420 of AARP
05 sites. We have 17 military sites, and we trained
06 the trainers who are volunteers in the military
07 sites.

08 FTB Employees. We have 140 volunteer on VITA.
09 We have many, many super events for VITA. Several
10 in Sacramento, eight with the Controller's Office on
11 the road again and eight with Chairman Horton, as
12 well.

13 So current statistics. We have filed close to
14 94,000 E-file returns to the VITA process. That's
15 really cool. And about 10,000 volunteers. Too many
16 to keep count of all the volunteers in the VITA
17 sites.

18 Let me share with you a quick story. So when
19 I attended one of the VITA events, one of the ladies
20 told me that now she can buy or use a washer and
21 dryer to take care of her three children thanks to
22 the FTB employees.

23 I saw this article and it came out in the
24 Community Housing Opportunities Cooperation. And
25 it's about this taxpayer, Ramon. And he had been

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01 receiving tax letters from FTB for the past several
02 years. He hasn't filed tax returns for several
03 years. He was an emotional wreck. He was really a
04 mess. He comes to the VITA site, and talks to Sue,
05 our volunteer here, who matched him up with Charlene
06 Hirst, another FTB employee. Five hours later six
07 years of tax returns were all done. And he was a
08 very happy person. And he said his tax returns were
09 not easy because he had a small business income,
10 rental property income, corporation income. A combo
11 tax.

12 And so I want to share with you this story
13 that thanks to you, all the Board Members who help
14 us with our efforts, this is truly a success story.

15 CHAIR CHIANG: Any comment?

16 MEMBER HORTON: Thank you, Mr. Chairman. .

17 California has one of the highest poverty
18 rates in the nation. VITA has proven to lift folks
19 out of poverty. And the story you shared is a story
20 that we hear just every day from individuals who
21 have been helped by the FTB or the VITA, Volunteer
22 Income Tax Assistance Program, and it's changed
23 their lives in a significant way. Many individuals
24 couldn't afford their medicine if it wasn't for the
25 return that they receive. The children were having

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01 to drop out of college because they couldn't pay for
02 the tuition. And all of a sudden, through VITA
03 income tax credit, they were able to do that.

04 It is hugely important to the State of
05 California, this particular program. But despite
06 all of your effort, \$1.2 billion goes uncollected or
07 somewhere thereabouts. So quite a bit of funds that
08 go uncollected every year by taxpayers who need
09 these funds the most. So it's good for us, the work
10 that we're doing is exciting and so forth.

11 But in the coming year maybe we can find a way
12 to encourage the Legislature to invest a few funds
13 in a VITA program because of the return. In any
14 given city that John or I or FTB may be operating,
15 if we do a thousand returns, there is a potential
16 for \$6.5 million to go back into that local economy.
17 That is huge for a small city. And there are
18 thousands of returns in just about every small city
19 that failed, thousands of individuals who failed to
20 file a tax return or failed to take advantage of the
21 VITA program.

22 I started with the Board of Equalization when
23 I was 18, as many of you know, but the first thing I
24 did was I joined VITA and became a certified VITA
25 preparer and so forth. And it's just enriching to you

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01 as an individual as well. So in that sense, let me
02 just specifically thank all of the FTB employees who
03 volunteer, who participate, who give of themselves,
04 to help change lives and improve our economy.

05 Thank you very so very much.

06 CHAIR CHIANG: Thank you, Mr. Horton.

07 I, too, wanted to thank the Franchise Tax
08 Board for their leadership on this issue. It is
09 especially exciting to see the popularity of this
10 program swell. I remember when I first came to the
11 Board of Equalization. I started VITA in our
12 office, and we were the first elected office
13 officials to do this. We would volunteer to do this
14 program for others. It was rough sledding in the
15 beginning.

16 So one of my requirements if you joined my
17 public affairs staff back at the Board of
18 Equalization and today at the Controller's Office is
19 you have to be VITA trained. If we're going to
20 engage, we are focused the first three months on
21 making sure that we understand this program lifts
22 people at the margins out of poverty. But as the
23 demands have increased, the Franchise Tax Board has
24 continued to be incredibly responsive to all the
25 legislative requests. And Jerome has done a great

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01 job in building partnerships. And as Jerome pointed
02 out, there is a great demand. There is a great
03 demand for education about this program which will
04 require greater assistance. The best work is yet to
05 be done. We've come far.

06 So thank you, Selvi.

07 Was there anything you wanted to share?

08 MS. STANISLAUS: No.

09 Item Number 7 is Board Member's time.

10 Let me comment then. At the last meeting we
11 asked staff to work on reducing the protest backlog
12 and to report to the Board. I'm very pleased that
13 our Chief Counsel responded and she was going to
14 take up that challenge. We responded very well. My
15 understanding is that we have closed about 52
16 percent of the workable protests in the over 36
17 month category. We know that we've had budgetary
18 challenges in the past, but we take this issue very
19 seriously.

20 I also want to make sure that we keep a fresh
21 eye and a close eye on this issue.

22 So, Jozel, if I ask for a report at the next
23 Board meeting I would greatly appreciate it.

24 MS. BURNETT: Yes, definitely. Staff has
25 been working all hands on deck and very hard to

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01 reduce the backlog. We look forward to reporting on
02 this effort in July.

03 CHAIR CHIANG: Very good.

04 Before we go into closed session, are there
05 any public comments?

06 Then we are going to take a break and we are
07 going to go into closed session. We will reconvene
08 after closed session.

09 (Board in closed session.)

10 MEMBER MANDEL: The Board met in closed
11 session and discussed pending litigation and
12 personnel matters.

13 We are adjourned. Thank you.

14 (Meeting adjourned at 12:30 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 44 herein constitute a complete, true and correct record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 17th day of March, 20014.

ESTHER F. SCHWARTZ
CSR NO. 1564