



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	08/07/06	Bill No:	AB 2098
Tax:	Administration	Author:	Liu
Related Bills:			

BILL SUMMARY

This bill would establish an eight member Electronic Funds Transfer Task Force, including a representative from the Board, to evaluate the need and potential of a state-wide electronic payment system.

Summary of Amendments

The amendments since the previous analysis delete the provisions establishing a statewide electronic payment system, and instead create the Electronic Transfer Task Force to determine the need and feasibility of an electronic payment system.

ANALYSIS

Current Law

Electronic payments received. The Board is responsible for collection of state and local sales and use taxes and a variety of special taxes and fees. Accordingly, there are various Revenue and Taxation Code sections that authorize the Board to receive payments from tax or fee payers by electronic funds transfers (EFT). In general, certain tax or fee payers are mandated to file by EFT while others can participate in the EFT program voluntarily.

Additionally, current Government Code section 6163 (a)(1) requires that all state agencies accept payment made by means of a credit card or other payment device. Government Code section 6163 (a)(2)(A) provides that a state agency may request that the director grant an exemption from subdivision (a)(1) if the agency determines that its acceptance of payments by credit card or other payment device would have any of the following results: (i) It would not be cost-effective; (ii) it would result in a net additional unfunded cost to the agency; or (iii) it would result in a shortfall of revenues to the State of California.

Electronic payments made. With respect to payment methods used by state agencies, the Prompt Payment Act (Government Code section 927) requires state agencies to pay undisputed invoices within 45 days of receipt or late payment penalties will be incurred. State agencies primarily use two payment methods when buying goods and services. One method is a typical paper process, which requires state agencies to go through many administrative functions and results in processing numerous individual invoices. The second method is a state charge card process, which allows state agencies to pay vendors at the point of sale and to receive payment performance and sales volume rebates for those purchases. The Department of General Services (DGS) has entered into an agreement with U.S. Bank allowing state agencies to make procurement transactions for goods and services through the purchase card system known as CAL-Card.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

Proposed Law

This bill would add Part 5.6 (commencing with Section 14995) of Division 3 of Title 2 of the Government Code to provide for the establishment of an Electronic Funds Transfer Task Force (Task Force). The Task Force would prepare a report for the Legislature by July 1, 2007 regarding the feasibility and desirability of providing a state-wide approach for receiving and dispersing electronic payments. The Task Force would include a member of the Board, along with a representative of the following state agencies: Franchise Tax Board (FTB); Employment Development Department (EDD); Treasurer; Controller; Department of Finance; Department of General Services; and the Department of Technology Services.

The Task Force would provide a plan for development and implementation of a new electronic funds transfer system. The Task Force would report on the following:

- Examination of all payments received and dispersed by the state and the methods currently used to transfer these funds.
- Recommendation on which payments should be included in a new electronic payment system.
- Examination of the cost of developing and utilizing a comprehensive electronic payment system, including, but not limited to, the costs and savings related to (1) float time; (2) transaction process time; (3) paperless transactions; (4) system development and implementation of a new electronic payment system; and (5) administration of a new electronic payment system.
- Recommendation on how the electronic payment system should be developed, including whether the state should contract for private administration of such system, develop a payment system within state government, or use other available means.
- Examination of the costs and benefits of using a single-portal interface for the acceptance and dispersal of funds through an electronic payment system.
- Examination of the dollar amount of fees that will be passed on to customers to cover the service rates and recommendation on ways to minimize these fees.
- Examination and proposal of methods to maximize the state's bargaining power to minimize fees associated with credit cards and other forms of electronic funds transfers.
- Recommendation on which state agencies should be required to use the system and what, if any, exceptions should be provided.
- Examination and recommendation on incorporating the collection and dispersal of funds for localities into the electronic payment system.
- Examination of the current system's flexibility for future expansion of services.
- Examination and recommendation on incorporating electronic payment cards, or similar products, into the electronic payment system.
- Examination and recommendation on incorporating electronic check conversion into the electronic payment system.

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- Examination on the timely development of the electronic payment system.

COMMENTS

1. **Sponsor and purpose.** This bill is sponsored by the State Controller's office and the California Small Business Association. The purpose of the bill is to create a Electronic Funds Transfer Task Force that will evaluate the need and potential for a comprehensive, single portal system allowing payments to the state to be received or made electronically.
2. **The August 7, 2006 amendments** completely change the bill to establish the Task Force to study the feasibility and desirability of a state-wide system for receiving and dispersing electronic payments. The previous provisions of the bill would have established a statewide electronic payment system. **June 22, 2006 amendments** clarified the factors for determining the cost-effectiveness of joining the electronic payment system, and also clarify that the system will still allow state agencies to receive checks or cash. **May 26, 2006 amendments** provided that the online electronic payment system would be implemented by January 1, 2009. **The May 18, 2006 amendments** provided that the DGS in consultation with, or in conjunction with, the Controller's office would develop and implement a comprehensive online electronic payment system based on certain factors. Both agencies would use their best efforts to minimize the financial impact for the users of the system, and DGS would be authorized to negotiate and enter into contracts necessary to receive or make electronic fund transfers. **The May 8, 2006 amendments** provided that all agencies are required to participate in the electronic payment system, unless they are approved for exemption by the DGS, or if a state agency or its director is unable to enter into the contracts on acceptable terms, or if a state agency has established a comparable electronic payment system. The bill would allow the participating state agencies to receive and make *all* payments electronically through the online payment processing system. **The May 1, 2006 amendments** provided state agencies the option of participating in the electronic processing system. Additionally, the DGS was identified as the agency to negotiate the best possible provider rates on behalf of all state agencies.
3. **The Board utilizes various electronic payment mediums.** The Board accepts credit card payments from the Discover Network, MasterCard, Visa and American Express. The Board subscribes to the DGS Master Service Agreement that negotiates the terms of the credit card payment program contract. Currently, the fee associated with accepting credit card payments is 2.5 percent of the transaction amount and is paid to the credit card processing vendor. The fee is not paid to, or charged by, the Board.

Electronic funds transfers are received by automated clearing house (ACH) debit and ACH credit as well as Fedwire transfers. Those taxpayers that utilize the ACH debit process first contact the State's data collection service and provide the payment information. The State's bank will then debit the authorized amount from the taxpayer's account. The state pays the cost to report a debit transaction. The taxpayer pays any fees that their financial institution may charge. For ACH credit payers their first contact is with their own bank to instruct them to transfer the

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payment to the Board's bank account. The taxpayer is responsible for any fees charged by their financial institution.

Certain payments to vendors, up to a specified amount, are made through the CAL-Card program. The DGS administers this program which allows participating state agencies to make procurements up to \$50,000 per transaction. The CAL-Card program is flexible enough to allow participants to tailor the program to meet their individual card needs. The Board will soon be implementing this program and taking advantage of certain cost savings associated with the state's Master Purchase Agreement.

4. **To some extent, the bill follows what the Chief Information Officer and the DGS are seeking to put into place.** The State Chief Information Officer (CIO) has provided an outline of how California government services, including payment processing, should be provided on the internet. The outline discusses a new customer service model: "California In-Touch". A goal of the model is to provide a comprehensive portfolio of web based services by 2010.

While the CIO has provided a model, the DGS is looking to put a program in place. An administrative project is currently underway, facilitated by DGS, to aid in the development of a statewide payment acceptance strategy. The Board will be representing the three main taxing agencies (FTB, EDD and BOE) on the new Statewide Payment Acceptance Plan Steering Committee. The idea is provide taxpayers, businesses, and other customers an internet based system to make their electronic payment. The system will have the same look and feel – regardless of which agency is being paid.

COST ESTIMATE

To the extent that a Board representative would be required to participate in the Electronic Funds Transfer Task Force, some costs would be incurred. The bill charges the Task Force with the complicated and difficult task of providing a comprehensive online electronic payment system to receive and disperse funds. However, if the Board representative is limited to the involvement similar to that in the Statewide Payment Acceptance Plan Steering Committee, then the Board's costs would be absorbable.

REVENUE ESTIMATE

The bill would not affect the revenues collected for the state by the Board.

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