

Add Part 12.5 (commencing with Section 15920) to Division 3 of the Government Code to create the Centralized Intelligence Partnership, a multiagency effort to combat the underground economy by institutionalizing collaboration among state agencies through a centralized and collaborative analysis process.

Source: Investigations and Special Operations Division

Existing Law. Various joint agency enforcement efforts have been undertaken to combat the underground economy, including the creation of the Joint Enforcement Strike Force in 1993 (codified in Section 329 of the Unemployment Insurance Code) and the Economic and Employment Enforcement Coalition in 2005. Further, various individual agency efforts such as the Board of Equalization's Statewide Compliance and Outreach Program and the Contractor State License Board's Statewide Investigative Fraud Team have been instituted. However, existing law does not provide for an agency expressly dedicated to the effort.

Background. The underground economy is a threat to the health of California's economy, its business community, its workers, consumers, and the stability and fairness of the tax base. While there are several different entities and task forces currently working on various aspects of the underground economy, no one entity is responsible for coordinating these efforts. As a result, there is a lack of synergy in the collection and analysis of data, and in the development of strategic and focused investigation and prosecution efforts.

This Proposal. To meet the need for a dedicated coordinated effort, the formation of a Centralized Intelligence Partnership (CIP) is proposed to be made up of representatives from seven agencies: Board of Equalization, Franchise Tax Board, Department of Insurance, Employment Development Department, Department of Health, Department of Motor Vehicles and the Department of Industrial Relations. Additionally, other agencies may choose to join and participate in the CIP.

Each CIP partner agency would dedicate human capital and intelligence in a collaborative effort to collect and analyze relative data with the objective of targeting our collective enforcement and prosecution resources to arrest this illegal activity within specific industries.

Given the number of agencies involved, embodying the CIP in statute ensures a dedicated full time staff for this multi-agency undertaking in a timely manner. Additionally, the legislation serves to explicitly authorize intelligence sharing among the partnering agencies. The statutory framework creating the CIP is limited to providing its basic structure thereby giving the CIP the flexibility that might be needed without the need for future legislation to adjust projects, goals, and purposes etc.

The CIP would have four co-directors: the Attorney General, the Secretary of Labor, the Chair of the Franchise Tax Board, and the Chair of the State Board of Equalization. The co-directors, or their designees, would meet on a quarterly basis to direct the goals, plans and policies of the CIP. The co-directors would hire an administrator for the day to day operations of the CIP. The state agency that will house the CIP has not yet been identified pending discussions with other agencies.

To minimize costs given current budgetary constraints, it is anticipated that the CIP evolve in phases over time. In the first phase of the partnership, the core management and administrative structure of the CIP would be created and staffed with five positions. Investigators for the CIP would be provided by using existing resources from each partnering agency. Specifically, each agency would assign two experienced investigators to the collaborative effort. In the first phase, the investigators would work co-operatively together at the newly created CIP but would be supported by the data and resources available to them from each of their *respective* agencies. Thereafter, the scope of activities and projects undertaken by the partnership would be consistent with direction of the co-directors and the money available as appropriated by the Legislature for any projects requiring additional funding.

A collaborative, strategic, targeted and focused effort to combat the underground economy would create a synergy among the various enforcement agencies and impacted California industries. This collaborative effort would significantly increase the State's efficiency and effectiveness in recapturing revenue lost to businesses operating illegally in the State of California.

Once fully phased in, the activities of the CIP are expected to increase governmental efficiencies in numerous ways, including, but not limited to:

- Provide the public with a "one-call" complaint process (CIP staff will forward viable complaints to the agency(ies) with appropriate jurisdiction).
- Provide the public with contact information for assistance/resources available to them if victim of a crime (e.g. fraud, human trafficking, etc.).
- Streamline the intake of complaints and audit leads for each participating agency (consolidation of "fraud/complaint hotlines" of the participating agencies).
- Accelerate the investigation process on complaints by utilizing a "value-added" approach whereby information is instantly shared among CIP investigators as leads are received.
- Reduce prosecution costs through the consolidation of cases that go to a local prosecutor or Attorney General's Office (multi-agency prosecution cases instead of a separate case from each agency).
- Engage California industries and labor organizations that are experiencing a significant fiscal impact in their businesses to take a proactive stance in combating the underground economy by partnering with the CIP.
- Assist in the recapture of unreported taxes, apprehension of employers operating illegally, resulting in the creation more quality jobs for Californians who play by the rules.
- Increase revenue potential as a result of new audit leads (currently, leads are received by one agency). Depending on the agencies intake procedures, and/or information sharing Memorandum of Understanding (MOU), the allegation may or may not be forwarded or worked collaboratively.
- Enhance the long-term revenue stream as illegitimate businesses are prosecuted and forced to leave the marketplace leaving room for legitimate businesses to

flourish. These new business will then supply goods and services using a legitimate workforce with appropriate payment of state and federal taxes.

- Additional efficiencies may be gained as a result of the CIP's identification of topics and issues in need of policy, procedural or legislative changes.

Part 12.5 (commencing with Section 15920) is added to Division 3 of the Government Code to read:

15920. This part shall be known, and may be cited, as the Centralized Intelligence Partnership Act.

15921. (a) The Legislature finds and declares all of the following:

(1) According to the Employment Development Department's analysis of findings of the Internal Revenue Service, the underground economy in California is estimated to be between \$60 billion and \$140 billion each year.

(2) According to the Franchise Tax Board and the State Board of Equalization, an average of \$8.5 billion in owed corporate, personal, and sales and use taxes goes uncollected in California each year, with unreported and underreported economic activity responsible for the vast majority of that total.

(3) The underground economy hurts everyone; tax revenues to support government services are lost, workers are forced to go without basic employment protections, and legitimate businesses are confronted with unfair competition. Furthermore, the presence of the underground economy allows human traffickers to operate and victimize individuals who are trapped into forced labor conditions. Regrettably, California is reported to be one of the top four human trafficking destination states in the United States.

(4) Since the activities of many operating in the underground economy span across multiple jurisdictions, various joint agency enforcement efforts have been undertaken to combat the underground economy, including the creation of the Joint Enforcement Strike Force in 1993 and the Economic and Employment Enforcement Coalition in 2005. Further, various individual agency efforts such as the Board of Equalization's Statewide Compliance and Outreach Program and the Contractor State License Board's Statewide Investigative Fraud Team have been instituted. As such, investigative collaboration among agencies is not a new concept in California. Many collaborative efforts are already under way, in which investigators periodically meet to discuss current investigations, team up to conduct sting operations and collaborate on best practices.

(5) However, despite these significant efforts, California continues to lose billions of dollars in annual revenue due to the underground economy.

(b) Therefore, the Legislature finds and declares that this act serves to enhance existing efforts to combat the underground economy by institutionalizing collaboration among state agencies through a centralized and collaborative analysis process. This collaborative effort to combat the underground economy will, in turn, further aid the state in its progress towards preventing human trafficking. The Legislature finds a need to comprehensively address the underground economy and capitalize on each agency's enforcement efforts and investigate resources by creating the Centralized Intelligence Partnership. A key

element of this effort is to authorize and facilitate intelligence sharing among state agencies. It is the intent of the Legislature in enacting this act to focus on the criminal prosecution of those operating in the underground economy in flagrant violation of law. Businesses who are in compliance with our state employment, safety, licensing and tax laws that are found to have committed minor or inadvertent violations of existing law are to be addressed through the administrative procedures for such events.

15922. (a) The Centralized Intelligence Partnership is hereby established in state government [in the _____].

15923. (a) The Centralized Intelligence Partnership shall include, but is not limited to, representatives of the following agencies, boards, departments, and offices, appointed by the corresponding agency, board, department, or office head, as follows:

- (1) State Board of Equalization.
- (2) Franchise Tax Board.
- (3) Department of Insurance.
- (4) Employment Development Department.
- (5) Department of Health.
- (6) Department of Motor Vehicles.
- (7) Department of Industrial Relations.

(8) Other agencies, boards, departments, and offices may be included in the partnership.

(b) Using existing funding, participating agencies shall assign at least two of its investigators to provide investigative resources for the partnership.

15924. (a) As used in this part, “partnership” means the “Centralized Intelligence Partnership” and “participating agencies” means any agency, board, department, or office included in the partnership.

15925. To serve the best interests of the state by combating the underground economy, the Centralized Intelligence Partnership shall be created to formalize the collaboration among participating agencies in collecting, analyzing and sharing intelligence with the objective of improving the efficiency and effectiveness of independent and joint enforcement efforts targeted at illegal underground operations. To further the state in its progress towards preventing human trafficking and informing victims of their rights and available services, the Centralized Intelligence Partnership shall also make available educational and training programs to participating agencies.

15926. The co-directors of the partnership shall be the Attorney General, the Secretary of Labor, the Chair of the Franchise Tax Board, and the Chair of the State Board of Equalization. The co-directors, or their designees, shall meet quarterly to direct the goals, plans and policies of the partnership. The scope of activities and projects undertaken by the partnership shall be consistent with money available as appropriated by the Legislature.

15927. The co-directors shall hire a person to serve as the Chair of the partnership. The Chair shall thereafter hire support staff as necessary or appropriate.

15928. Notwithstanding any other provision of law, duly authorized representatives of participating agencies may exchange intelligence, data, documents, information, complaints, or lead referrals with other duly authorized representatives of participating agencies provided the participating agency agrees to maintain the confidentiality of the intelligence, data, documents, information, complaints, or lead referrals to the extent required by law.

15929. (a) The Chair of the partnership shall quarterly report statistical data related to its activities to the co-directors of the partnership.

(b) The partnership shall annually report on its activities and accomplishments to the Governor and the Legislature. The first report shall be made no later than July 1, 2014.