

**BOE FY 2013/14 BUDGET CHANGE PROPOSALS SUBMITTED TO DOF**  
(as of 11/28/2012 - in 000s)

Budget Items		2013/14				2014/15			
BCPs	Positions	Total Cost	Revenue	Benefit/ Cost Ratio	Positions	Total Cost	Revenue	Benefit/ Cost Ratio	
Ramp Up - Additional 0.25% Sales and Use Tax Rate Increase (Proposition 30)		\$635 GF: \$416 R: \$219				\$64 GF: \$42 R: \$22			
<b>TOTAL</b>	<b>0.0</b>	<b>\$ 635</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>\$ 64</b>	<b>-</b>	<b>-</b>	

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 05/11)

Fiscal Year 2012-13	BCP No.	Org. Code 0860	Department Board of Equalization	Priority No. 1
Program 30 Sales and Use Tax Program			Element	Component

Proposal Title  
 Ramp Up – Additional 0.25% Sales and Use Tax Rate Increase (Proposition 30)

Proposal Summary

As part of the General Election 2012, Proposition (Prop) 30, which is titled "The Schools and Local Public Safety Protection Act of 2012," and passed by the California voters, adds section 36 to Article XIII of the California Constitution and therefore adds a 0.25 percent to the general Sales and Use Tax rate. The new 0.25 percent sales and use tax is temporary and will sunset on December 31, 2016. The Board of Equalization (BOE) requests \$635,000 for 2012-13 and \$64,000 in Budget Year (FY 2013-14) to notify over 1 million taxpayers of the 0.25 percent temporary Sales and Use Tax increase and timely reprogram BOE's computer systems.

Requires Legislation <input type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

FSR       SPR      Project No.      Date:

If proposal affects another department, does other department concur with proposal?       Yes       No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

**Department of Finance Use Only**

Additional Review:  Capital Outlay     ITCU     FSCU     OSAE     CALSTARS     Technology Agency

BCP Type:       Policy       Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
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**STATE BOARD OF EQUALIZATION**  
**Sales and Use Tax Program**  
**Ramp Up – Additional 0.25% Sales and Use Tax Rate Increase (Proposition 30)**  
**Fiscal Year 2012-13**

**A. Proposal Summary**

As part of the General Election 2012, Proposition (Prop) 30, which is titled "The Schools and Local Public Safety Protection Act of 2012," and passed by the California voters, adds section 36 to Article XIII of the California Constitution and therefore adds a 0.25 percent to the general Sales and Use Tax rate. The new 0.25 percent sales and use tax is temporary and will sunset on December 31, 2016. The Board of Equalization (BOE) requests \$635,000 for 2012-13 and \$64,000 in FY 2013-14 and 2014-15 to notify over 1 million taxpayers of the 0.25 percent temporary Sales and Use Tax increase and timely reprogram and maintain BOE's computer systems.

**B. Background/History**

Under current law, the statewide Sales and Use Tax Rate is 7.25 percent. Of the 7.25 percent base rate, 6.25 percent is the state portion and 1 percent is the local portion. The components of the state Sales and Use Tax rate are as follows:

- 5.0 percent state tax allocated to the state's General Fund (Revenue and Taxation Code (RTC) § 6051, 6051.3, 6201, and 6201.3)
- 0.25 percent state tax allocated to the Fiscal Recovery Fund (RTC § 6051.5 and 6201.5)
- 0.50 percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (RTC § 6051.2 and 6201.2)
- 0.50 percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund public safety services (California Constitution, Article XIII, Section 35).

In addition to the state portion of sales use tax rate, BOE administers 1.0 percent Bradley-Burns Uniform Local Sales and Use Tax which is allocated to cities and counties (RTC § 7200 et seq.). The BOE also administers Sales and Use Taxes that are levied at varying rates (from 0.10 to 1.0 percent) in various cities, counties, and special tax jurisdiction and which are distributed pursuant to RTC § 7251 et seq.).

**C. State Level Considerations**

Over the past four years alone, California has had to cut more than \$56 billion from education, police and fire protection, healthcare, and other critical state and local services. These funding cuts have forced teacher layoffs, increased school class sized, increased college fees, reduced police protection, increased fire response times, exacerbated dangerous overcrowding in prisons, and substantially reduced oversight of parolees.

The new tax revenue is guaranteed in the California Constitution to go directly to local school districts and community colleges. Cities and counties are guaranteed ongoing funding for public safety programs such as local police and child protective services. State money is freed up to help balance the budget and prevents even more devastating cuts to service for seniors, working families, and small businesses. To ensure these funds go where the voters intended, the funds are put in special accounts that the Legislature does not have access to. None of these new revenues can be spent on state bureaucracy or administrative costs.

This measure gives constitutional protection to shift local public safety programs from state to local control and the shift of state revenues to local government to pay for those programs. It guarantees that schools are not harmed by providing even more funding than schools would have received without the shift. This measure guarantees that the new revenues will be sent directly to school districts for classroom expenses,

not administrative costs. This school funding cannot be suspended or withheld no matter what happens with the state budget.

All revenues from this measure are subject to local audit every year, and audit by the independent Controller to ensure that the funds will be used only for schools and local public safety.

This proposal supports the recently enacted 0.25 percent Sales and Use Tax rate increase that is critical to support public education and local public safety. This proposal is consistent with the BOE's mission to serve the public through fair, effective, and efficient tax administration. Specifically, this proposal allows the BOE to:

- Respond quickly and effectively to new tax and fee programs and changes in existing programs.
- Be fair and objective in our treatment of all taxpayers and consistent in our administration of the law.
- Be persistent in promoting and encouraging voluntary compliance with the tax laws.
- Provide convenient, timely access to accurate information while ensuring the continued integrity of our operations and confidentiality of taxpayer information.

#### **D. Justification**

Review of workload indicates that the BOE's Technology Services Department (TSD) is not able to absorb the additional workload associated with this approved tax increase without additional resources.

The new tax rate is operative January 1, 2013, which provides less than two months to make all necessary system modifications and notify over 1 million taxpayers, in addition to bringing up the new system for passage of Assembly Bill 1492 – Lumber Assessment. The lack of additional resources will further diminish the ability to provide adequate support to meet mandated timelines.

TSD does not have sufficient internal resources to perform this additional work due to its current workload. To the extent possible, TSD plans to redirect staff, utilize overtime, and, due to the urgent and temporary nature of this project, augment state staff with contractors. Without the requested augmentation, both mandated initiatives (Prop 30 and AB 1492) are at risk of missing their operative dates (January 1, 2013).

In-lieu of requesting Limited Term positions, TSD proposes to utilize the requested overtime hours to perform necessary system stabilization, on-going maintenance and to meet ad hoc reporting needs through Fiscal year 14-15. These on-going maintenance and operations tasks include defect fixes, application enhancements, version control and ad-hoc reporting. Database and Systems management tasks including data integrity verification, quality control, performance monitoring and tuning along with system security and testing are also required.

#### **E. Outcomes and Accountability**

This proposal will allow the BOE to timely and effectively implement the mandated state sales and use tax increase and notify over 1 million taxpayers of the new rate, effective January 1, 2013.

#### **F. Analysis of All Feasible Alternatives**

**Alternative 1 – Provide the necessary funding for implementation and stabilization costs associated with the Sales and Use Tax rate increase**

The resources will allow BOE to continue to provide high quality service to the 1 million taxpayers while protecting the General Fund revenue. The requested funding for Operating Expenses and Equipment (OE&E) is needed to:

- Prepare and distribute electronic (e-blast) Special Notices to over 600,000 taxpayers
- Prepare and distribute print Special Notices to over 400,000 taxpayers.

- Reprogram BOE's computer systems to accommodate the tax rate increase and prior period tax recovery claims.
- Provide on-going maintenance and operations tasks including detect fixes, application enhancements, version control, and ad hoc reporting.

The funding request is explained in detail below:

	Contractor Services	Overtime	Printing & Envelopes	Postage	Total
FY 2012-13	\$372,000	\$64,000	\$87,000	\$112,000	\$635,000

**Pros:**

- Safeguards \$650 million through June 30, 2013 and \$1.3 billion ongoing in new General Fund revenue
- Allows BOE to promptly and adequately notify over 1 million taxpayers of the new tax rate
- Provides the resources needed to timely and efficiently implement the tax rate increase
- Provides the resources necessary for system stabilization

**Cons:**

- Requires a current year budget augmentation.

**Alternative 2 – Provide the necessary funding for only implementation costs associated with the Sales and Use Tax rate increase**

The resources will allow BOE to continue to provide high quality service to the 1 million taxpayers while protecting the General Fund revenue. The requested funding for Operating Expenses and Equipment (OE&E) is needed to:

- Prepare and distribute an electronic (eblast) Special Notices to over 600,000 taxpayers
- Prepare and distribute print Special Notices to over 400,000 taxpayers.
- Reprogram BOE's computer systems to accommodate the tax rate increase and prior period tax recovery claims.

The funding request is explained in detail below:

	Contractor Services	Printing & Envelopes	Postage	Total
FY 2012-13	\$372,000	\$87,000	\$112,000	\$571,000

**Pros:**

- Safeguards \$650 million through June 30, 2013 and \$1.3 billion ongoing in new General Fund revenue
- Allows BOE to promptly and adequately notify over 1 million taxpayers of the new tax rate
- Provides the resources needed to timely and efficiently implement the tax rate increase

**Cons:**

- Requires a current year budget augmentation
- Does not provide the resources necessary for system stabilization

**Alternative 3 – Implement the Sales and Use Tax rate increase without a budget augmentation.**

Under this alternative, BOE would need to redirect contractors working on other mandated system modifications to implement the Sales and Use Tax rate increase.

**Pros:**

- Does not require a budget augmentation

**Cons:**

- High probability of not meeting the operative date of January 1, 2013 for both Prop 30 and AB 1492
- Significantly impacts ongoing workload
- May delay notification to taxpayers regarding the tax rate change
- Failing to notify taxpayers and modifying the BOE's computer systems will create numerous reporting and payment errors, jeopardizing the scored revenue for this proposal

**G. Implementation Plan**

November 2012 – January 2013
<ul style="list-style-type: none"><li>• Contract with Contractor Services</li><li>• Revise paper and eFile returns to accommodate tax rate increase</li><li>• Complete IRIS programming to implement tax rate increase</li><li>• Prepare and distribute special notices to taxpayers</li></ul>

**H. Supplemental Information (Check box(es) below and provide additional descriptions.)**

None     Facility/Capital Costs     Equipment     Contracts     Other \_\_\_\_\_

\$372,000 in contractor services is necessary to make the system modifications necessary by January 1, 2013.

**I. Recommendation**

**Alternative 1 is recommended.**

BOE request the funding of \$635,000 in FY 2012-13 and \$64,000 in FY 2013-14 to implement the mandated 0.25 percent Sales and Use Tax rate increase. This alternative will provide the hard costs associated with notifying taxpayers of the tax rate change and reprogramming the BOE's computer systems. This alternative allows the BOE to meet its statutory obligation to efficiently administer the 0.25 percent increase in the statewide sales and use tax rate. With respect to current economic conditions, BOE would be adversely affected if funding is not provided for this mandate approved by the California voters.

**Fiscal Summary**  
(Dollars in thousands)

BCP No.	Proposal Title			Program		
	Prop 30					
Personal Services	Positions			Dollars		
	CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries and Wages <sup>1</sup>	0.0	0.0	0.0	\$59	\$59	\$59
Total Staff Benefits <sup>2</sup>				\$5	\$5	\$5
Distributed Administration						
<b>Total Personal Services</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>\$64</b>	<b>\$64</b>	<b>\$64</b>
<b>Operating Expenses and Equipment</b>						
<b>General Expense</b>						
Distributed Administration						
Printing				\$87		
Communications						
Postage				\$112		
Travel-In State						
Travel-Out of State						
Training						
Facilities Operations						
Utilities						
Consulting & Professional Services: Interdepartmental <sup>3</sup>						
Consulting & Professional Services: External <sup>3</sup>				\$372		
Data Center Services						
Information Technology						
Equipment <sup>3</sup>						
Other/Special Items of Expense: <sup>4</sup>						
<b>Total Operating Expense and Equipment</b>				<b>\$571</b>		
<b>Total State Operations Expenditures</b>				<b>\$635</b>	<b>\$64</b>	<b>\$64</b>
<b>Fund Source</b>	<b>Item Number</b>					
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>			
General Fund	0860	001	0001	\$416	\$42	\$42
Special Funds <sup>5</sup>						
Federal Funds						
Other Funds (Specify)						
Reimbursements	0860	001	0995	\$219	\$22	\$22
<b>Total Local Assistance Expenditures</b>						
<b>Fund Source</b>	<b>Item Number</b>					
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>			
General Fund						
Special Funds <sup>5</sup>						
Federal Funds						
Other Funds (Specify)						
Reimbursements						
<b>Grand Total, State Operations and Local Assistance</b>				<b>\$635</b>	<b>\$64</b>	<b>\$64</b>

<sup>1</sup> Itemize positions by classification on the Personal Services Detail worksheet.  
<sup>2</sup> Provide benefit detail on the Personal Services Detail worksheet.  
<sup>3</sup> Provide list on the Supplemental Information worksheet.  
<sup>4</sup> Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.  
<sup>5</sup> Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

