

**Agricultural Inspection Station Tax Leads  
FY 2008-09**

**Purpose:**

BOE requests a two-year funding extension to continue the pilot program for the detection and identification of property brought into California without payment of sales and use taxes. The extension of this pilot program will continue to help BOE close the sales and use tax portion of the tax gap.

**Justification:**

- Increase sales and use tax revenue by \$12.7 million over the two-year period of this extended pilot program.
- Provides an estimated ongoing benefit-to-cost ratio of 4.6 to 1.
- Addresses BOE's goal to maximize voluntary compliance by educating taxpayers on the application of sales or use tax on transactions and addressing a component of the tax gap through this pilot program.
- Creates taxpayer awareness of the BOE's intent to enforce the tax laws fairly and uniformly with regard to transactions subject to sales or use tax and reported tax gap areas of noncompliance.
- Allows BOE to measure the effectiveness of obtaining tax enforcement leads at border locations for two-more years.

		<b>FY 2008-09</b>	<b>FY 2009-10</b>
<b>Expenditures</b>	<b>Total</b>	<b>\$1,386,000</b>	<b>\$1,396,000</b>
	Continuation	1,386,000	1,396,000
<b>Funding Source</b>	General Fund	\$779,000	\$786,000
	Special Funds	187,000	187,000
	Reimbursements	420,000	423,000
<b>Positions</b>	<b>Total</b>	<b>16.0</b>	<b>16.0</b>
	Continuation	16.0	16.0

**Background:**

- Prior to the implementation of the pilot program in FY 2006-07, the BOE's ability to identify property entering California and avoiding sales and use tax was limited due to insufficient resources and occasional visits to Agricultural Inspection Stations and California Highway Patrol Inspection Facilities.
- California based businesses such as construction contractors and commercial builders are purchasing their materials from out of state without a retailer reporting and paying the tax on the transactions.
- Prior to the pilot program, potential tax leads occurred as a by-product of diesel fuel tax enforcement which resulted in less revenue generated.

**STATE BOARD OF EQUALIZATION  
FISCAL YEAR 2008-09**

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**TITLE OF PROPOSED CHANGE:**

Agricultural Inspection Station Tax Leads

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**SUMMARY OF PROPOSED CHANGES:**

This proposal requests to continue a pilot program for the detection and identification of property brought into California without payment of sales and use taxes. The extension of this pilot program will continue to help the Board of Equalization (BOE) close the sales and use tax gap estimated at \$2 billion. BOE anticipates this proposal will generate additional revenue of approximately \$6.35 million annually. Therefore, the ongoing benefit-to-cost ratio for this proposal is estimated to be 4.6 to 1.

This proposal request the continuation of 16.0 two-year limited-term positions expiring June 30, 2008 and \$1,386,000 (\$779,000 General Fund, \$187,000 Special Funds, and \$420,000 Reimbursements) in FY 2008-09 and \$1,396,000 (\$786,000 General Fund, \$187,000 Special Funds, and \$423,000 Reimbursements) in FY 2009-10.

**State Board of Equalization**  
**Sales and Use Tax Program**  
**Agricultural Inspection Station Tax Leads**  
**Fiscal Year 2008-09**

**A. Nature of Request**

This proposal requests a two-year extension of funding for 16.0 two-year, limited-term positions expiring June 30, 2008 and an interagency agreement between the Board of Equalization (BOE) and the Department of Food and Agriculture (CDFA) to continue a pilot program for the detection and identification of property brought into California without payment of the sales and use taxes. The Sales and Use Tax Department (SUTD) is requesting this extension for more time to fully determine the effectiveness of the pilot program. SUTD is requesting the following resources to continue this pilot program for two more years:

- \$1,386,000 in FY 2008-09 and \$1,396,000 in FY 2009-10 for 16.0 two-year, limited-term positions and related resources to increase voluntary compliance and collect unpaid taxes.
- The above costs include \$205,000 for FY 2008-09 and \$215,000 for FY 2009-10 to continue an interagency agreement with CDFA.

The extension of the pilot program will continue to help BOE close the tax gap by generating estimated revenue of \$6.35 million for FY 2008-09 and \$6.35 million in FY 2009-10. The estimated ongoing benefit-to-cost ratio for this proposal is 4.6 to 1.

**B. Background/History**

Prior to the implementation of the pilot program in FY 2006-07, the BOE's ability to identify property entering California and avoiding sales and use tax was limited due to insufficient resources and occasional visits to stations. Because the primary program focus was to ensure compliance with fuel taxes, the program's ability to identify other potential tax leads occurred as a by-product of diesel fuel tax enforcement.

Motor carrier traffic entering California generally must pass through CDFA's border inspection stations and open California Highway Patrol (CHP) inspection stations. Some carriers may bypass open CHP inspection facilities by enrolling in a program called PrePass, an automated, state-of-the-art system allowing heavy vehicles that are registered in the program to legally bypass open weigh stations. However, these carriers may not bypass CDFA inspection facilities. CDFA inspectors at their sites are able to view all commodities coming into California. Since the implementation of the program in 2006-07, BOE has had an interagency agreement that requires CDFA staff to make photocopies of bills of lading, fuel tax licenses, and vehicle registration documents from motor carriers transporting any items that may be subject to use tax. CDFA staff then forwards the copies to the SUTD staff who determine if the entities receiving or shipping are registered with the BOE. Products being questioned are assigned to staff for further investigation, assessment and collection of taxes and fees due. BOE's Motor Carrier Section (MCS) will continue to develop sales and use tax leads from their presence at CHP stations and through their efforts of ensuring compliance in the fuel tax licensing area.

## **B. Background/History (Continued)**

This requested extension stems from the analysis of the progress and relatively limited results of the existing pilot program due to the short time the pilot has been operational. Under this extended pilot, CDFA would continue to refine their skills in reviewing bills of lading, observing cargo, and identifying and forwarding leads to BOE.

Based on the limited information from the current pilot, it is estimated that the leads will generate \$6.35 million per year. The revenue estimate of \$6.35 million was calculated by annualizing the actual revenue generated from the pilot program during the previous ten months of operation and by applying certain assumptions to yield a revenue projection. Because the audit component of the pilot program has not worked through an annual audit lifecycle<sup>1</sup>, the audit caseload (audits in process) has not yet reached the point to provide the detail necessary to understand the audit component and potential revenue. The potential for a greater productivity of the estimated ongoing 4.6 to 1 benefit-to-cost ratio may be possible but the information to support any other revenue estimate is not yet available.

## **C. State Level Considerations**

This proposal partially addresses the Legislature's intent to close the \$2 billion tax gap and is consistent with the principles articulated in Goal No.1 of the BOE's Strategic Plan entitled "Maximize Voluntary Compliance in BOE's Programs." Specifically, Strategy 5 of Goal No. 1 calls for the BOE to "identify and analyze areas of noncompliance and develop approaches (such as enhanced partnerships with other governmental agencies) to address targeted areas of concern. The pilot program requires that resources are applied only to the highest priority workload. Also, Revenue and Taxation Code section 7051 provides the BOE with the authority to enforce provisions of the Sales and Use Tax Law.

## **D. Justification/Analysis of All Feasible Alternatives**

The BOE needs the additional two years to continue to improve our effectiveness in identifying and investigating tax avoidance and tax underpayment. The increasing likelihood of California businesses and consumers purchasing expensive products from out-of-state retailers without paying California sales tax has resulted in the probability that additional tax will go unreported. New marketing technologies like Internet sales extend beyond individuals purchasing products for personal consumption. More than ever before, California based businesses such as construction contractors and commercial builders are purchasing their materials from out of state without a retailer reporting and paying the tax on the transactions. Absent any concentrated enforcement effort, the adverse effect on state and local tax revenues will continue to widen (this component of) the tax gap. Listed are the alternatives:

### **Alternative 1 – Approve 16.0 two-year limited-term positions and related resources to continue the pilot program for an additional two years.**

This alternative requests \$1,386,000 in FY 2008-09 and \$1,396,000 in FY 2009-10 for 16.0 two-year, limited-term positions and related resources to increase voluntary compliance and collect unpaid taxes. The above costs include \$205,000 for FY 2008-09 and \$215,000 for FY 2009-10 to continue an interagency agreement with CDFA. Of the 16.0 positions - 13.0 positions are requested in the SUTD and 3.0 positions are requested in the MCS of the Property and Special Taxes Department (PSTD). This alternative continues SUTD's efforts to identify tax leads and concentrate on outreach, education, and to a somewhat lesser extent on

<sup>1</sup> BOE's Audit Manual, Chapter 2, Section 0203.06 explains that an annual audit lifecycle should encompass at least twelve quarterly periods (3 years).

#### **D. Justification/Analysis of All Feasible Alternatives – Alternative 1 (Continued)**

tax avoidance. This extension of the two-year pilot, which involves partnering with CDFA, provides additional revenue and a reliable measurement of the size of the tax gap for this stream of commerce between tax revenue due under existing laws compared to the actual revenue reported and paid. The positions and their estimated workload are described below.

##### **SUTD Team**

The SUTD team is currently located in the Riverside District Office. When the team receives the leads, they review the documents to determine if tax may be due and if each lead warrants further investigation. The team contacts potential taxpayers and performs required prioritization of case assignments. The SUTD team consists of 13.0 positions:

- Business Taxes Administrator I,
- Business Taxes Compliance Specialist  
*(because of workload complexities, we are requesting that one BTR position be upgraded to the BTCS level.)*
- 3.0 Business Taxes Representatives
- Business Taxes Specialist I,
- 2.0 Associate Tax Auditors
- 3.0 Tax Auditors
- Tax Technician III
- Office Technician (Typing)

##### **Duties and Workload**

Under this proposal, CDFA and BOE's MCS will work to obtain leads. These leads include such high value purchases as steel beams and lumber purchased by construction contractors.

##### **CDFA Workload - Compliance**

From August 2006 through May 2007, 833,832 vehicles passed through the Needles CDFA station. Based on the pilot's data, the associated workload is based on the team receiving 26,236 documents from CDFA in a ten-month period (34,981 annualized) to BOE by reviewing and copying bills of lading and observing cargo. After further review by BOE staff, 11,506 (44%) leads were assigned to be worked. Seven-thousand seven hundred and nine (7,709) leads were worked, and included 3,065 letters sent along with 136 permits issued or use tax payments made. Two thousand nine hundred and twenty-nine (2,929) of the 3,065 letters were satisfied through the proper identification of a valid permit, the taxpayer responded with documentation to support that the use tax had been paid, or the item was otherwise exempt from tax. The 136 permits issued and use tax payments generated \$1,458,978 revenue. There is an inventory of 3,797 leads waiting to be worked.

##### **MCS Workload - Compliance**

MCS has also developed 457 (609 annualized) leads from operations at the California Highway Patrol inspection stations. Two-hundred ninety-seven (297) (about 65% of the leads) leads were worked to conclusion. The revenue generated from these leads was \$204,248. There is an inventory of 160 leads to be worked from the MCS. MCS leads are more thoroughly screened prior to being forwarded to staff which accounts for the higher percentage.

## **D. Justification/Analysis of All Feasible Alternatives – Alternative 1 (Continued)**

### **Audit Workload – CDFA & MCS**

The audit component has identified 240 total leads from the CDFA and MCS data. Sixty (60) of these audit leads were worked to completion. Seventeen (17) of 60 leads resulted in assessments of \$312,508. The timeframe elapsed thus far in the pilot is insufficient to determine the long term revenue potential for the audit program. However, we feel the data will give us a conservative basis for projecting the future revenue.

### **Revenue Projection**

Combining the revenue over the previous ten months (August 2006 – May 2007) from returns filed, payments made on billings issued, and payments on audit assessments, as of May 31, 2007, the total revenue generated and assessed from all components of the pilot program is \$1,975,734 (\$1,458,978 CDFA Compliance + \$202,248 MCS Compliance + \$312,508 Audit – CDFA and MCS = \$1,975,734) thus far. This figure does not account for returns that will be received in the future from newly permitted businesses. Using the May 31, 2007 total revenue number as a starting point, the annualized projected revenue from all leads is \$6.35 million dollars. The calculation of the \$6.35 million also includes assumptions regarding recurring revenue for a fiscal year from new permits issued, an increase of revenue generating leads with knowledgeable and trained staff, sales and use tax payments made by taxpayers, and audits completed within a fiscal year. These assumptions and estimates were based on the previous ten months of pilot program data. Please see Exhibit 1, Revenue Chart, for additional details.

Please note: Workload is based on projections for cases or leads that will be generated and ready to work on July 1, 2008.

#### **1.0 Business Taxes Administrator I**

The Business Taxes Administrator (BTA) I plans and supervises the activities of the SUTD Team including the review of collection cases and audits and the review for appropriate assignment of tax leads. The BTA I reviews reports of discussion prepared by staff in response to petitioned determinations, conducts office discussions and represents the Board throughout any appeal of an audit determination related to lead assessments. The BTA I approves/disapproves staff actions as captured in the database and assignment tracking systems (IRIS and ACMS, respectively), and responds to constituent, Board Member, and BOE management inquiries.

#### **1.0 Business Taxes Compliance Specialist**

The Business Taxes Compliance Specialist (BTCS) will handle the high dollar collection cases, provide guidance on other collection cases, and is expected to be the BOE resource dedicated to refining the knowledge base of CDFA staff which is critical to enhancing productive lead generation. Table A below provides additional details of responsibilities with an estimated workload for the 1.0 BTCS position.

**D. Justification/Analysis of All Feasible Alternatives – Alternative 1 (Continued)**

**TABLE A**  
**Workload Detail**  
**Business Taxes Compliance Specialist**

Activity	Cases/Year	Hours/ Case	Total Hours
Works the larger dollar and complex leads and analyzes scope of potential liability for self-assessment by taxpayer	50	16	800
Works largest delinquent accounts (non-voluntary compliance)	80	12	960
Works with auditors on complex compliance issues			100
Works at Inspection Station with staff (CDFA) to enhance lead generation			100
Total Hours			1,960
Total Positions (1800 Hours per Position)			1.08

**3.0 Business Taxes Representative**

The Business Taxes Representative (BTR) is assigned unregistered tax leads to determine if a permit is required and investigates use tax leads relating to business operations for tax evasion and/or non-compliance with applicable sales tax laws. The BTR analyzes the scope of the potential liability for self-assessment by the taxpayer on leads where a full audit may not be warranted. Table B below provides additional details of responsibilities and an estimated workload for the 3.0 BTR positions.

**TABLE B**  
**Workload Detail**  
**Business Taxes Representative**

Activity	Leads/ Year	Hours/ Lead and/or Case	Total Hours
Initial review of unregistered tax leads and paper correspondence	14,500	0.13	1,933
Investigates leads on business operations for tax evasion/non-compliance, contact taxpayers, follow-up contacts, obtain returns, collect payments and take appropriate collection action (e.g. levies, earnings withhold orders, collection warrants, etc.), analyzes scope of potential liability for self-assessment.	4950	.75	3,712
Total Hours			5,645
Total Positions (1800 Hours per Position)			3.13

**1.0 Business Taxes Specialist I**

The Business Taxes Specialist (BTS) I performs a necessary step in the audit process by analyzing and reviewing tax audits and field billing orders completed by members of the audit staff. Table C below provides the additional details of responsibilities and an estimated workload for the 1.0 BTS I position.

**TABLE C**  
**Workload Detail**  
**Business Taxes Specialist I**

Activity	Cases/Year	Hours/ Case	Total Hours
Analyzes and reviews assessments, audits, billings, deficiencies, and petitions	250	6	1,500
Reviews petitions, correspond with taxpayers and prepare recommendations for management review and Board action.	25	10	250
Researches complex legal and technical auditing issues, communicate with auditor and supervisor to correct errors or deficiencies, and prepare correspondence on more complex issue raised in response to staff inquiries on transactions	40	5	200
Total Hours per year			1,950
Total Positions (1800 Hours per Position)			1.1

**D. Justification/Analysis of All Feasible Alternatives – Alternative 1 (Continued)**

**2.0 Associate Tax Auditor**

The Associate Tax Auditor (ATA) handles the complex audits resulting from sales and use tax leads for the largest potential liabilities, where there may be an extended period of noncompliance, or where compliance staff could not ascertain the full extent of any liability. Table D below provides the additional details of responsibilities and an estimated workload for the 2.0 ATA positions.

**TABLE D**  
**Workload Detail**  
**Associate Tax Auditor**

Activity	Cases/Year	Hours/ Case	Total Hours
Completes complex audits (e.g. construction contractors, manufacturers, wholesalers, and other service business enterprises not reporting substantial sales or use tax), acts as lead auditor on more difficult and complex audits and recommends to supervisor if an audit assistant or Computer Audit Specialist is warranted.	40	75	3,000
Total Hours per year			3,000
Total Positions (1600 Hours per Position)			2.14

**3.0 Tax Auditor**

The Tax Auditor (TA) works a wide variety of leads, and performs routine field audits resulting from sales or use tax leads with significant potential liability where there appears to be an extended period of noncompliance, or where compliance staff could not ascertain the sales or use tax liability requiring travel to business locations. Table E below provides the additional details of responsibilities and an estimated workload for the 3.0 TA positions.

**TABLE E**  
**Workload Detail**  
**Tax Auditor**

Activity	Cases/Year	Hours/ Case	Total Hours
Prepares for audits (e.g. reviews sales and use tax lead documentation; receives selected assignments; makes audit appointments; reviews laws, regulations and rulings; develops procedures and scope of testing, performs audits resulting from sales or use tax leads with significant potential liability from extended period of noncompliance or where compliance staff could not ascertain the sales or use tax liability.	100	45	4,500
Total Hours per year			4,500
Total Positions (1600 Hours per Position)			3.21

**1.0 Tax Technician III**

The Technician (TT) III is given assignments to initially contact tax debtors by telephone or mail to collect delinquent smaller dollar use tax liabilities; recommends issuance of levies, Earnings Withhold Orders, warrants for collection; and recommends approval of installment payment proposals. Table F below provides the additional details of responsibilities and an estimated workload for the 1.0 TT III position.

**D. Justification/Analysis of All Feasible Alternatives – Alternative 1 (Continued)**

**TABLE F**  
**Workload Detail**  
**Tax Technician III**

Activity	Leads/Year	Hour/Lead and/or Case	Total Hours
Initial review of collection cases, contacts tax debtors by telephone or prepare correspondence to collect delinquent small dollar use tax liabilities.	32,200	0.05	1,600
Follow-up contacts, collection actions (e.g. issuance of levies, Earnings Withhold Orders, warrants for collection, recommends approval of installment payment proposals). Utilizes skip-tracing techniques such as cross-reference directories, credit reports, DMV/EDD/FTB information, and external agency sources to locate tax debtors, assets, and forwarding addresses.	400	1.0	400
Total Hours per year			2,000
Total Positions (1800 Hours per Position)			1.11

**1.0 Office Technician (Typing)**

The Office Technician (OT) inputs data to the Integrated Revenue Information System (IRIS) from completed audit reports and field billing orders; updates audit interest calculations in the IRIS for full or partial payments of recommended liabilities; resolves exceptions such as missing, conflicting or erroneous data; computes and verifies the mathematical accuracy of audit working papers; prepares and organizes transmittal reports to Headquarters; identifies documents such as waivers of limitation and claims for refund which must be included with the transmittal report; handles appropriate documents to be sent to taxpayers and their representatives; responsible for attendance coordinator duties with regard to time sheets, leave requests, etc.

**Property and Special Taxes Department**

The Motor Carrier Section (MCS) has staff consisting of 3.0 Business Taxes Representatives located at CHP inspection stations throughout California. Within the fuel tax enforcement program, Motor Carrier staff interviews carriers and inspects documents to identify property with possible sales or use tax due. The MCS is knowledgeable on sales and use tax laws and regulations, and completes a more sophisticated review step with their screening process of sales or use tax leads. The sales or use tax leads that warrant further investigation will be forwarded to the Sales and Use Tax team for further investigation.

**3.0 Business Taxes Representative**

The Business Taxes Representative (BTR) interviews motor carriers and performs on site review of documents to determine if a taxable transaction has occurred; identifying the parties associated with the products. Table G below provides the additional details of responsibilities and an estimated workload for the 3.0 BTR positions.

**TABLE G**  
**Workload Detail**  
**Business Taxes Representative**

Activity	Leads Yearly	# per Hour	Total Hours
Interviews motor carriers, review bills of lading & motor carrier registration documents.	23,400	6.0	3,900
Screens and analyzes tax leads by searching BOE database/determine if potentially productive (8 min. per lead)	11,700	7.5	1,560
Prepare, log & forward lead to SUTD (2 min. per lead)	5,850	30.0	195
Total Hours per year			5,655
Total Positions (1800 Hours per Position)			3.14

#### **D. Justification/Analysis of All Feasible Alternatives – Alternative 1 (Continued)**

##### **California Department of Food and Agriculture (CDFA) Interagency Agreement**

Of the \$2,782,000 two-year cost, \$420,000 is included to extend the funding of an interagency agreement with CDFA for two-years for their personnel services and operating expenses. These positions review the cargo, bills of lading, fuel tax licenses, and vehicle registration documents of motor carriers to identify tax leads for the BOE. Based on predetermined guidelines, CDFA forwards copies of pertinent motor carrier documents (leads) to the BOE for review and possible investigation.

##### **Pros:**

- Potential revenue increase of \$12.7 million over the two-year period of this extended pilot program for increased tax gap enforcement through tax lead identification at inspection stations.
- Creates taxpayer awareness of the BOE's intent to enforce the tax laws fairly and uniformly.
- Allows SUTD to measure the effectiveness of obtaining tax enforcement leads at border locations for two-more years.
- Encourage voluntary compliance.

##### **Cons:**

- Continues a program cost of \$1,386,000 in FY 2008-09 and \$1,396,000 in FY 2009-10.

##### **Alternative 2 – Approve 16.0 one-year limited-term positions and related resources to continue the pilot program for one additional year.**

This alternative requests \$1,386,000 in FY 2008-09 for 16.0 one-year, limited-term positions and related resources to increase voluntary compliance and collect unpaid taxes for one additional year. The above costs include \$205,000 for FY 2008-09 to continue an interagency agreement with CDFA.

##### **Pros:**

- Potential revenue increase of \$6.35 million over the one year period of the extended pilot program for increased tax gap enforcement.
- Allows SUTD to measure the effectiveness of obtaining tax enforcement leads at border locations for an additional year.
- Continues taxpayer awareness of the BOE's intent to enforce the tax laws fairly and uniformly.

##### **Cons:**

- Continues a program cost of \$1,386,000 in FY 2008-09.
- An additional year of data may not be an adequate amount of time to determine the effectiveness of the program including the audit component.

##### **Alternative 3 – Approve 29.0 two-year limited-term positions and related resources and add a second Agricultural Station to continue the pilot program for an additional two years.**

This alternative requests \$2,806,000 in FY 2008-09 and \$2,632,000 in FY 2009-10 for 29.0 two-year, limited-term positions: 26.0 positions are requested in the SUTD and 3.0 positions are requested in the Fuel Taxes Division and an increase of funding to contract for a second

#### **D. Justification/Analysis of All Feasible Alternatives – Alternative 3 (Continued)**

Agricultural Station along with existing services from CDFA. This alternative continues SUTD's efforts to identify tax leads and concentrate on outreach, education, and tax avoidance by adding a second CDFA location. The estimated benefit-to-cost ratio for this proposal is 1.95 to 1.

##### **Pros:**

- Potential total revenue increase of \$10.55 million over the extended pilot program for increased tax gap enforcement through tax lead identification at two Agricultural Inspection stations.
- Creates taxpayer awareness of the BOE's intent to enforce the tax laws fairly and uniformly.
- Allows SUTD to measure the effectiveness of obtaining tax enforcement leads at more than one agricultural inspection border location to determine the viability of the program.

##### **Cons:**

- Increases program cost by \$2,806,000 in FY 2008-09 and \$2,632,000 FY 2009-10.
- Potential revenue may not be realized with an additional Agricultural Station because quality, quantity and type of leads may differ for a second location.

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

The proposal will extend the use of existing resources starting July 1, 2008. All positions will have existing staff in place and available to continue their work without interruption. The productivity of staff will continue to be measured by the number of cases handled and by the general overall effectiveness of the program's ability to generate revenue. Revenue is routinely measured and increases (or decreases) will be reflected in monthly reporting processes. The program's supervisory team will maintain control and oversight of program operations.

#### **F. Timetable**

The current pilot authorization is through FY 2007-08. BOE proposes the continuation of the pilot program effective July 1, 2008 through June 30, 2010.

**F. Timetable (Continued)**

**Timeline Chart for Alternative 1**

<b>July – September 2008</b>	<b>October – December 2008</b>	<b>January – March 2009</b>
Continue pilot program and related operations.	<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management reports.</li> </ul>	<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management reports.</li> </ul>
<b>April – June 2009</b>	<b>July – September 2009</b>	<b>October – December 2009</b>
<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management report.</li> <li>• Prepare recommendation to Deputy Director for decision on future of the program.</li> </ul>	<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management report and report for the FY 08-09.</li> <li>• Evaluation and report due to the Deputy Director.</li> </ul>	<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management report.</li> </ul>
<b>January – March 2010</b>	<b>April – June 2010</b>	<b>July – September 2010</b>
<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management report.</li> </ul>	<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management report.</li> </ul>	<b>Reports/Data Evaluation</b> <ul style="list-style-type: none"> <li>• Prepare quarterly management report.</li> <li>• Prepare final report for Deputy Director regarding FY 08-09 and FY 09-10 pilot program results.</li> </ul>

**G. Recommendation**

Alternative 1 is recommended. This alternative would authorize the extension of funding for 16.0 two-year, limited-term positions and related resources to address this area of the tax gap. By providing the resources as identified in Alternative 1, the BOE will continue to conduct the pilot for the detection and identification of property being brought into California without payment of the sales and use taxes. This alternative is expected to result in a potential revenue gain of \$12.7 million over the two-year period this pilot program is operational yielding an estimated benefit-to-cost ratio of 4.6 to 1.

**H. Fiscal Detail**

See attached "Fiscal Detail" schedules.

### Exhibit 1 - Revenue Chart

Revenue Components	Revenue Figures from 10 Months of Pilot Data		Fiscal Year 08-09 Estimated Revenue*	Fiscal Year 09-10 Estimated Revenue*
	CDFA	MCS		
New Permits>Returns (Recurring Revenue)	\$1,132,366	\$157,735	\$3,302,000	\$3,302,000
Sales and Use Tax Payments (79-B and A/R Payments)	\$326,612	\$46,513	\$1,206,500	\$1,206,500
Subtotal	\$1,458,978	\$204,248	\$4,508,500	\$4,508,500
Assessed Dollars for Audits Completed from CDFA and MCS Leads	\$312,508		\$1,841,500	\$1,841,500
Total Pilot Revenue & Total Estimated Revenue	\$1,975,734		\$6.35 million	\$6.35 million

Based on the pilot program data through May 31, 2007, the calculations of the estimated revenue for the FY 08-09 and FY 09-10 were developed from this data. New permits/Recurring Revenue made up about 52% of the total revenue generated from leads. The payments made after initial contact by the Board and paid by using the Board's sales tax returns or use tax return constituted about 19% of the total revenue generated from the pilot program. The assessed dollars from audits contributed about 29% of the total revenue. The timeframe elapsed thus far in the pilot is insufficient to determine the impact of a full audit lifecycle on revenue estimates.

\*The revenue estimate uses the data for all ten months but takes into consideration factors such as staff training periods and revenue trending upwards throughout the ten months of data.

DATE: July 26, 2007

**STATE OF CALIFORNIA  
BUDGET CHANGE PROPOSAL--FISCAL DETAIL  
STATE OPERATIONS  
FISCAL YEAR 2008-09  
(Dollars in Thousands)**

**Title of Proposed Change:** AGRICULTURAL INSPECTION STATION TAX LEADS

**Program/Element/Component:** Program 30 - All Elements, Program 50 - All Elements

	<u>PERSONNEL YEARS</u>			<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>			
<b>TOTAL SALARIES AND WAGES</b> <i>_a/</i>		16.0	16.0		\$778	\$778
Salary Savings		- .8	- .8		-39	-39
<b>NET TOTAL SALARIES AND WAGES</b>		15.2	15.2		739	739
Staff Benefits <i>_a/</i>					273	273
<b>NET TOTAL SALARIES AND WAGES</b>		15.2	15.2		1,012	1,012
Distributed Administration <i>_b/</i>					14	14
<b>TOTAL PERSONAL SERVICES</b>		15.2	15.2		\$1,026	\$1,026
<b>OPERATING EXPENSE AND EQUIPMENT</b>						
General Expense					\$29	\$29
Distributed Administration					3	3
Printing					3	\$3
Communications					2	2
Postage					5	5
Travel--In-State					100	100
Travel--Out-of -State						
Training					11	11
Facilities Operations						
Consulting & Professional Services: Interdepartmental					205	215
Consulting & Professional Services: External						
Stephen P. Teale Data Center						
Data Processing					2	2
Equipment						
Other Items of Expense: (Specify Below)						

*\_a/* See page 15 of 15 for itemized staff benefits and classification detail.

*\_b/* Represents Distributed Administration costs resulting from this BCP. The Distributed Administration costs for existing BOE programs will reflect a corresponding decrease which will be addressed in the Planning Estimate process.

	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
<b>TOTAL OPERATING EXPENSE AND EQUIPMENT</b>		\$360	\$370
<b>TOTAL EXPENDITURES (State Operations)</b>		\$1,386	\$1,396

**Source of Funds**

General Fund	(0001)	\$779	\$786
Special Funds:			
Breast Cancer Fund	(0004)		
State Emergency Telephone	(0022)		
Propane Surcharge Fund	(0051)		
Motor Vehicle Fuel Account	(0061)	187	187
Occupational Lead Prevention Fund	(0070)		
Childhood Lead Poisoning Prev. Fund	(0080)		
Cig. and Tobacco Prod. Surtax Fund	(0230)		
Oil Spill Prevention and Admin. Fund	(0320)		
Integrated Waste Management	(0387)		
Underground Storage Tank Fund	(0439)		
Energy Resources Programs Account	(0465)		
CA. Children and Families First Trust Fund	(0623)		
Federal Trust Fund	(0890)		
Timber Tax Fund	(0965)		
Gas Consumption Surcharge Fund	(3015)		
Water Rights Fund	(3058)		
Elec. Waste Recovery and Recycling Acct.	(3065)		
Cig. and Tobacco Prod. Compliance Fund	(3067)		
Federal Funds			
Other Funds			
Reimbursements	(0995)	\$420	\$423
Net Total Augmentation (Source of Funds)		\$1,386	\$1,396

**DETAIL OF STAFF BENEFITS  
AND PERSONAL SERVICES**

<b>Staff Benefits Detail:</b>	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
	<i>(Whole Dollars)</i>		
OASDI		\$56,534	\$56,534
Health Insurance		87,858	87,858
Retirement		125,608	125,608
Workers' Compensation		302	302
Industrial Disability Leave		528	528
Non-Industrial Disability Leave		382	382
Unemployment Insurance		113	113
Other		1,949	1,949
<b>TOTAL</b>		<u>\$273,274</u>	<u>\$273,274</u>

<u>Classification</u>	<u>Positions</u>			<u>Salary</u> <u>Range</u> <small>_a/</small>	<u>Amount</u>		
	<u>CY</u>	<u>BY</u>	<u>BY + 1</u>		<u>CY</u>	<u>BY</u>	<u>BY + 1</u>
Sales and Use Tax Department							
Riverside District Office:							
Associate Tax Auditor		2.0	2.0	5,171		\$124,104	\$124,104
Business Taxes Administrator I		1.0	1.0	5,412		64,944	64,944
Business Taxes Compliance Specialist		1.0	1.0	4,925		59,100	59,100
Business Taxes Representative		3.0	3.0	3,416		122,976	122,976
Business Taxes Specialist I		1.0	1.0	5,965		71,580	71,580
Office Technician (Typing)		1.0	1.0	2,865		34,380	34,380
Tax Auditor		3.0	3.0	3,901		140,436	140,436
Tax Technician III		1.0	1.0	3,146		37,752	37,752
Property and Special Taxes Department							
Fuel Taxes Division:							
Business Taxes Representative			3.0	3,416		122,976	122,976
Blanket Funds:							
Overtime (Various)							
Temporary Help							
<b>TOTAL SALARIES AND WAGES</b>		<u>16.0</u>	<u>16.0</u>			<u>\$778,248</u>	<u>\$778,248</u>

\_a/ The salary is the mid-step of the salary range for the stated classification.