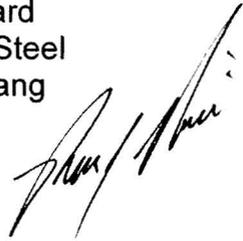


Memorandum

To : Honorable Judy Chu, Ph.D., Chair
Honorable Betty T. Yee, Vice Chairwoman
Honorable Bill Leonard
Honorable Michelle Steel
Honorable John Chiang

Date : June 25, 2008

From : Ramon J. Hirsig
Executive Director



Subject : **Sacramento Board Meeting Materials – July 2008**

Attached are materials in support of items submitted for the July 2008 Board Meeting to be held in Sacramento. The materials pertain to the "Other Administrative Matters", Deputy Directors' Report. These items and materials are summarized below.

Deputy Directors' Report

1. Fiscal Year 2009-10 Conceptual Budget Change Proposals. These concepts support the Board's mission to "...serve the public through fair, effective, and efficient tax administration". Of the ten concepts listed below, the first seven directly address revenue generation or the risk of lost revenue. The last three address critical business processes which support BOE's current and future ability to effectively and efficiently achieve its mission. Materials for this item are:
 - Establishment of a Permanent U.S. Customs Program
 - Out-of-State Audit Workload
 - Establishment of Permanent Environmental Stewardship Programs
 - Natural Gas Surcharge Program
 - Flavored Malt Beverages
 - Cigarette and Tobacco Enforcement
 - Tax Litigation Defense
 - BOE – Digital Office
 - FI\$CAL Project Implementation
 - BOE Facilities Operations Augmentation

Should you have any questions regarding these subjects, please feel free to contact Ms. Liz Houser, Deputy Director of the Administration Department, at 916.445.4272. Ms. Houser may also be reached via e-mail at liz.houser@boe.ca.gov.

RJH:LH:aw

Attachments

cc: Mr. Steve Shea
Mr. Alan LoFaso
Ms. Barbara Alby
Mr. Erik Caldwell
Ms. Marcy Jo Mandel
Executive Team

**State Board of Equalization
Summary of Proposed Concept Papers
Fiscal Year 2009-10**

Cor	Concept Title	2009-10 Revenue Estimate	2009-10 Cost Estimate	2009-10 Positions	Benefit/Cost Ratio	Summary
SALES AND USE TAX						
	Permanent U.S. Customs Pilot Program	\$9,200,000	\$776,700 General Fund and Reimbursements	11.5	11.8:1	This concept paper requests funding to make permanent 11.5 LT positions to identify and investigate unpaid taxes. Not approving this concept paper will result in a loss of revenue of approximately \$9.2 million and lack of staff to continue identifying and investigating unpaid tax. The BOE would become dependent on purchasers to voluntarily report to the BOE the use tax due or voluntarily report and pay the use tax on the California Income Tax Return.
	Out-of-State Audit Workload	\$7,500,000	\$1,700,000 General Fund and Reimbursements	21.0	4.4:1	This concept paper requests funding for 21.0 permanent positions (\$1.7 million) in FY 2009-10 and an additional 13.0 permanent positions in FY 2010-11 for a total of 34.0 positions (\$3.6 million) to be assigned to the out-of-state offices and audits. This concept paper consists of two elements. One element requests out-of-state auditors that will increase revenue by \$4.3 in FY 2009-10 at a cost of \$1.4 million. The second element consists of 5.0 positions for the BT 1032 program. BT 1032 is an involuntary registration program that reduces the number of out-of-state unregistered companies with nexus in California. The BT 1032 positions will increase revenue by \$3.2 million in FY 2009-10 at a cost of \$340,000. The overall estimated revenue increases from \$7.5 million in FY 2009-10 to \$19.1 million in FY 2010-11, \$24.0 million in FY 2011-12 and \$25.5 million in FY 12-13 and ongoing. With an ongoing cost of \$3.8 million starting in FY 2011-12, the ongoing benefit-to-cost ratio will be 6.7 to 1. Not approving this concept paper would result in a loss of new revenue from a known and reliable source.
	<u>Environmental Stewardship Program:</u>					This concept paper contains 3 elements:
	Continuation of Ongoing Environmental Fee Program Workload	\$5,300,000	\$391,000 Reimbursements	5.0	13.6:1	This element requests funding to make permanent 5.0 LT positions to administer the provisions of AB 1803, which expands the types of organizations subject to the environmental fee. Not approving this concept paper will jeopardized BOE's ability to collect approximately \$5.3 million.
	Continuation of Ongoing Covered E-Waste Recycling Fee Workload	\$2,500,000	\$409,000 Special Fund	6.0	6.1:1	This element requests funding to make permanent 6.0 LT positions to administer the provisions of SB 50. SB 50 requires consumers to pay a fee upon the purchase of certain electric devices. If this request is not approved, tax revenue will decline. Not approving this concept paper will inhibit the Board of Equalization from meeting statutory mandates of Public Resources Code Section 42464.2 and legislative mandates of SB 50. Denial would adversely impact the amount of fees deposited to the Electronic Waste and Recovery Recycling Account in the Integrated Waste Management Fund by approximately \$2.5 million.
	Continuation of Underground Storage Registration Investigation	\$1,700,000	\$126,000 Special Fund	2.0	13.1:1	This element requests funding to make permanent 2.0 LT positions to address new and ongoing outstanding registration, and reporting and compliance issues. The current LT positions are working on the backlog. Once these positions are made permanent, they will begin working on the new and ongoing workload starting in FY 2009-10. Not approving this concept paper will result in increased backlogs and a potential loss of \$1,650,000 in new revenue.
	Environmental Stewardship Subtotal	\$9,500,000	\$926,000	13.0	10.2:1	

**State Board of Equalization
Summary of Proposed Concept Papers
Fiscal Year 2009-10**

Cor	Concept Title	2009-10 Revenue Estimate	2009-10 Cost Estimate	2009-10 Positions	Benefit/Cost Ratio	Summary
	Natural Gas Public Purpose Programs Surcharge (PPPS)	\$4,400,000	\$185,000 Special Fund	2.0	23.8:1	This concept paper requests funding for 2.0 permanent positions to administer the Natural Gas Surcharge Program. This program currently receives a direct appropriation for administering the program but no positions have been established to perform the work. Current workload can no longer be absorbed with existing staff doing overtime. Not approving this concept paper will jeopardize BOE's ability to potentially collect an estimated \$4.4 million in revenue to fund low-income rate assistance, weatherization, energy efficiency, conservation and public interest research programs.
	Flavored Malt Beverage (Submitted to DOF on 4/9/08 for May Revise but was denied)	\$38,300,000	\$1,086,000 General Fund	4.0	35.3:1	This concept paper requests funding for 5.5 permanent positions (4.0 - FY 2009-10; 1.5 - FY 2010-11) to implement, administer and enforce the taxation of flavored malt beverages (FMB). On April 8, 2008 the Board adopted revised regulations to implement the taxation of flavored malt beverages as distilled spirits. These regulations are expected to be approved by the Office of Administrative Law in June 2008 and fully operative on October 1, 2008. This concept paper requests resources to address the new workload associated with this change in the taxation of FMB. Not approving this concept paper will jeopardize BOE's ability to potentially collect the estimated \$38.3 million in revenue and to administer this new law. Note: Due to the large one-time expenditures that drop out after FY 2009-10, the ongoing benefit-to-cost ratio increases to 56.7 to 1 starting in FY 2010-11.
	<u>Cigarette and Tobacco Enforcement :</u>					This concept paper contains 3 elements:
	Cigarette and Tobacco Products Licensing Act of 2003 (AB 71) and Tobacco Manufacturers and Importers Licensing (AB 1749)		\$9,193,971 General Fund and Special Funds	93.4		This element requests funding to make permanent 93.4 LT positions to administer the provisions of AB 71 and AB 1749. These bills authorized any peace officer, or BOE employee with limited peace officer status, to conduct license inspections of businesses importing, manufacturing, distributing, wholesaling, and retailing cigarette and tobacco products.
	Cigarette Tax Stamp Authentication for Refunds and Credits		\$200,000 General Fund and Special Funds	2.0		This element requests funding for 2.0 permanent positions to perform authentication of tax stamps for destruction, refunds and credits. Not approving this concept paper will directly impact the AB 71 program; thereby potentially decreasing its annual revenue when enforcement program positions are redirected to process stamp refunds and credits.
	Cigarette Tax Stamp Contract Augmentation (SB 1701)		\$1,900,000 General Fund and Special Funds	N/A		This element requests a budget augmentation to establish additional funding necessary to support the continuation of the cigarette tax stamp with encrypted indicia. This augmentation will address the increase in the cost of living and costs of new technologies that have become available since the initial SB 1701 tax stamp contract was enacted in 2005. The augmentation increases to \$3.8 million in FY 2010-11.
	Cig. and Tobacco Enf. Subtotal	\$144,930,000	\$11,293,971	95.4	12.8:1	

**State Board of Equalization
Summary of Proposed Concept Papers
Fiscal Year 2009-10**

Cor	Concept Title	2009-10 Revenue Estimate	2009-10 Cost Estimate	2009-10 Positions	Benefit/Cost Ratio	Summary
LEGAL/EXECUTIVE/ADMINISTRATION						
	Tax Litigation Defense	_a/	\$1,785,000 All Funds	15.0	N/A	This concept paper request 15.0 new positions and \$1.8 million to more effectively manage increased tax litigation, and for the Board Proceedings and Appeals Divisions to accelerate the collection of revenue by increasing their capacities to process their increased workloads. Denial of the request will jeopardize the effective management of tax litigation, increasing the risk of adverse rulings in those matters, and delay the processing of appeals and the generation of revenue at issue in those appeals.
	Board of Equalization (BOE) Digital Office (Anticipate spring Finance Letter)	TBD	TBD	TBD	TBD	This concept paper is a placeholder pending additional information on a master plan that would significantly reduce BOE's paper usage. The BOE expects to complete the master plan in late June. The BOE is requesting resources to implement technological and process improvements opportunities to reduce paper consumption, improve taxpayer services and increase revenue.
	FI\$Cal Project Implementation	N/A	TBD All Funds	TBD	N/A	This concept paper is a placeholder and it requests funding for BOE to complete tasks required in preparation for FI\$Cal implementation. Implementation of the FI\$Cal Project will result in business process re-engineering and greater consistency and accuracy in shared financial management, procurement, human resources, and information systems. While the FI\$Cal Project includes proposed funding for some critical agency tasks, it does not address all key costs of preparing for implementation. Not approving this proposed concept paper will result in BOE not being prepared to transition to the State's new financial management system.
	BOE Facilities Operation Augmentation	N/A	TBD All Funds	TBD	N/A	This concept paper is a placeholder and it requests funding to meet the needs for facilities operations and rent increases. As BOE operations expand, BOE must identify appropriate facilities to meet our business needs. Not approving this concept paper will hamper BOE's ability to provide for current and future planned growth, and address the need for a safe and efficient work environment.
Estimated Grand Total New Resources			\$6,856,000	44.0		
Estimated Grand Total Continuation Resources			10,896,671	117.9		
Estimated Grand Total			\$213,830,000	\$17,752,671	161.9	

_a/ This concept paper protects \$500 million in litigation and it accelerates an additional \$27.6 million annually.