State of California | Board of Equalization

Memorandum

To : Mr. Ramon J. Hirsig,
Executive Director (MIC 73)

Date: March 26, 2010

From : Randie L. Henry, Deputy Director
Sales and Use Tax Department (MIC 43)

Subject : **Board Meeting – April 13-15, 2010**
Item P Executive Director's Report
Analysis of Out-of-State Offices

On March 15, 2010, Secretary Bill Leonard of the State and Consumer Services Agency, requested information regarding the Board of Equalization's operations in Houston, Chicago and New York. As you know, we strive to maximize productivity for California taxpayers and evaluate our operations on a continual basis. In the past ten years, several formal reviews of our Out-of-State operations have been completed, the most recent being done in 2008.

In response to Secretary Leonard's request, we have compiled data for the past two full fiscal years and the current fiscal year through December 31, 2009. Combined, these offices have made audit assessments totaling $519 million during this period, with operating costs less than $45 million for the same period of time.

Currently, there are a substantial number of audits performed within commuting distance of auditors headquartered in these offices. If these offices were closed, instead of minimal daily commuting, staff would be required to fly across the country to conduct these audits. In addition to increased costs related to flights, hotels and per diem, we would lose many full workdays on Mondays and Fridays as a result of staff traveling to audits rather than conducting audits.

Having recently analyzed Out-of-State District operations in 2008, it is our conclusion that any potential cost savings would be more than offset by inefficiencies and increased costs associated with extended travel. Our 2008 analysis projected a reduction in revenue of $80 million over a two and a half year period.

Understanding the need to reduce expenditures in this unprecedented fiscal crisis, we have taken measures to decrease our operational costs pertaining to these offices. Recently, we relocated the New York office into a smaller facility. Efforts to renegotiate our lease agreement in Chicago to further reduce costs are in process.

Additional time would be needed to fully evaluate the impact of closing the three out-of-state offices, merging the offices or operating joint offices with the FTB. Factors to be considered include but are not limited to the following:

- Cost of relocating staff
- Compensation for staff that does not move to other offices
- Cost of buying out existing leases
- Impact of replacing experienced staff with new hires (lower productivity, training needs, etc.)
- The difference (presumed reduction) in operational expenditures achieved for housing staff in Sacramento in lieu of Houston, Chicago and New York. The incremental difference of housing so many state employees in California as compared to out of state would likely not result in savings sufficient to offset the increased travel costs.

Please let us know if you need any further information.

RLH:jlm

cc: Mr. Stephen R. Rudd
Ms. Freda Orendt
Mr. Kevin Hanks
Mr. Jeffrey L. McGuire

Approved: ______________________
Ramon J. Hirsig

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