

Title: Agricultural Inspection Station Tax Leads – Tax Gap BCP No. 2c

Purpose: Address the Sales and Use Tax Gap by detecting and identifying property being brought into California without payment of Sales and Use Taxes.

Summary: Under this proposal, the Board of Equalization (BOE) would enter into an interagency agreement with the California Department of Food and Agriculture (CDFA). The CDFA staff at an assigned agricultural inspection station and 3 BOE employees assigned to California Highway Patrol inspection stations would forward bills of lading, fuel tax licenses, and vehicle registration documents from motor carriers transporting products and tangible personal property that may be subject to use tax. BOE staff would analyze all the forwarded information for viable leads, investigate the leads, and then assess and collect taxes due.

Total Resources Needed:

- 18.0 positions for a two-year limited term.
- FY 2006-07: \$1,638,000
- FY 2007-08: \$1,650,000

Estimated Benefit-to-Cost Ratio: 5.4 to 1

**STATE BOARD OF EQUALIZATION
FISCAL YEAR 2006-07
PROPOSAL NO. 2c**

TITLE OF PROPOSED CHANGE:

AGRICULTURAL INSPECTION STATION TAX LEADS

SUMMARY OF PROPOSED CHANGES:

This proposal requests \$1,638,000 (\$937,000 General Fund, \$196,000 Motor Vehicle Fuel Account, and \$505,000 Reimbursements) and 18.0 (17.1 PYs) two-year, limited-term positions in the budget year (FY 2006-07) and \$1,650,000 (\$948,000 General Fund, \$192,000 Motor Vehicle Fuel Account, and \$510,000 Reimbursements) for these positions in FY 2007-08 for a two-year pilot program. This proposal addresses the tax gap by detecting and identifying property being brought into California, via a California Department of Agriculture inspection station and California Highway Patrol inspection stations, without payment of sales and use taxes. It is anticipated that the additional positions will increase sales and use tax revenues by an estimated \$7,430,000 in FY 2006-07 and \$8,910,00 in FY 2007-08. Therefore, the ongoing-benefit-to-cost ratio of this proposal is estimated to be 5.4 to 1.

STATE BOARD OF EQUALIZATION

Sales and Use Tax Program

AGRICULTURAL INSPECTION STATION TAX LEADS

Fiscal Year 2006-07

A. Nature of Request

This proposal requests funding for 18.0 two-year, limited-term positions and an interagency agreement between the Board of Equalization (BOE) and the Department of Food and Agriculture (CDFA) to conduct a two-year pilot for the detection and identification of property being brought into California without payment of the sales and use taxes. Use tax liability from unregistered businesses and taxpayers make up 72% of the BOE's estimated \$1.8 billion "tax gap". This proposal will help accomplish the California Legislature's desire to close the tax gap that exists between tax revenue due under existing laws and the tax revenue reported and paid and will serve to level the playing field between out-of-state and in-state retailers.

All motor carrier traffic entering California must pass through the CDFA's border inspection stations and California Highway Patrol (CHP) weigh stations. CDFA inspectors at their sites are in the unique position of being able to view all commodities coming into California. Under this proposal, the BOE would enter into an interagency agreement with CDFA. This agreement would require CDFA staff to make photocopies of bills of lading, fuel tax licenses, and vehicle registration documents from motor carriers transporting alcoholic beverages, cigarette and tobacco products, fuel products, and tangible personal property that may be subject to use tax. The vast majority of the leads will be use tax leads with a small number of leads for other excise tax programs. CDFA staff would forward the copies to the BOE's Sales and Use Tax Department (SUTD) who would first determine if the entities receiving or shipping the property are registered with the BOE and if the information collected represents a good tax lead. Subsequently, bills of lading and other supporting documentation regarding products being questioned would be assigned to staff for further investigation, assessment and collection of taxes and fees due. Resources needed for the proposal include:

- \$1,638,000 to fund 18.0 two-year, limited-term positions and related resources in FY 2006-07 and \$1,650,000 in FY 2007-08 to detect, investigate, assess, and collect unpaid taxes during the two-year pilot.
- The above costs include \$250,000 for FY 2006-07 and \$205,000 for FY 2007-08 for an interagency agreement with CDFA for the two-year pilot. CDFA has indicated that, without a staff augmentation, they cannot redirect staff to identify tax leads as it would jeopardize pest exclusion; a risk to California Agriculture they are not willing to take.

This funding is estimated to generate additional sales and use tax revenues of \$7.43 million for the last ten months of FY 2006-07 and \$8.91 million for FY 2007-08 at an estimated benefit-to-cost ratio 5.4 to 1.^{a1} The first year of the pilot includes a start-up process that will delay the initial flow of revenue in the first year until the pilot is fully operational.

^{a1} The revenue estimates are derived from the anticipated 59,400 annual leads from CDFA and BOE staff. Twenty-five (25%) percent, or 14,850, of the 59,400 leads are estimated to be referred for further investigation. Fifty percent of these leads will be forwarded to audit and compliance staff after the additional research is completed leaving approximately 7,425. Forty percent of the investigated leads are estimated to produce revenue (40% x 7,425 investigated leads = 2,970 revenue generating leads). Each tax producing lead is estimated to generate \$3,000. Therefore, the annual revenue is estimated to be \$8.91 million (\$3,000 x 2,970 revenue generating leads).

B. Background/History

Currently, the BOE's ability to identify property entering California and avoiding California Use Tax is limited. The primary focus of the BOE's Truck Stop program is to ensure compliance with diesel fuel tax licensing. Because of the program's focus on fuel taxes and small number of staff, its identification of potential tax leads for other BOE tax programs occurs only as a small by-product of the diesel fuel tax enforcement process. Likewise, given existing resources, the BOE's Sales and Use Tax Department (SUTD) cannot redirect staff to investigate a large number of tax leads without risking substantial revenue loss in other audit and collection areas.

This proposal stems from two different sources of data and prior experiences. The first is a five-year history of referrals of use tax leads by the BOE's Motor Carrier Section to the Sales and Use Tax Department. During the five-year period, staff in the Motor Carrier Section, assigned to enforce fuel tax licensing, occasionally observed property that may be subject to use tax entering California through CHP Truck Inspection and CDFA border inspection facilities. These leads included such high value purchases as steel beams and lumber purchased by construction contractors, metal buildings, and log homes. During this period, 1,210 leads were referred to SUTD for investigation. Five hundred of these leads generated \$4.7 million in tax, interest and penalties. This represented \$3,900 for each tax lead referred for investigation (1210) or \$9,400 for each tax lead (500) that generated tax.

The second supporting experience is that this proposal is very similar to a tax gap program currently in place in the State of Florida. Since 1993, Florida's Department of Revenue has partnered with Florida's Department of Agriculture and Consumer Services to reduce the tax handicap and resulting competitive disadvantage Florida businesses can face when competing with out-of-state businesses. Under an interagency agreement, agricultural inspectors send copies of bills of lading to the Florida Department of Revenue for review and investigation to ensure the purchasers have paid Florida taxes due on the goods. In the past ten years, Florida has recovered more than \$125 million from this program.

Under this proposal, two teams will be formed to obtain leads. CDFA will, by reviewing and scanning bills of lading and observing cargo, identify and forward leads at an average of 6 leads an hour or approximately 36,000 leads a year. The Motor Carrier Section of the Property and Special Taxes Department within the BOE will also develop an estimated 23,400 leads from operations at the California Highway Patrol inspection stations as part of their fuel permit compliance activity. It is estimated that 25 percent of all leads, or 14,850, will be referred for investigation and that 50 percent of those leads (7,425) will be referred to compliance and audit staff. It is estimated that 40 percent of investigated leads (2,970) would produce revenue. A conservative estimate of \$3,000 for each tax producing lead has been used to calculate projected total revenue from CDFA and Motor Carrier referrals. A conservative amount is used because staff will mostly be new, need to be trained, and gain experience before they are able to consistently identify good tax leads.

C. State Level Considerations

This proposal addresses the Legislature's intent to close the \$1.8 billion tax gap and is consistent with the BOE's Strategic Plan. This proposal requires that resources are applied only to the highest priority workload and to workload growth. Thus, this proposal meets the Board's purpose to ensure that the BOE identifies and analyzes areas of non-compliance and develops approaches to address targeted problem areas as in Strategic Plan Issue 2, Strategy 3.

C. State Level Considerations (Continued)

- Issue 2- Modernizing Tax Compliance Practices, Strategy 3 – Identify and analyze areas of noncompliance and develop approaches to address targeted problem areas, while maintaining customer service awareness.

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 proposes a new effort in identifying and investigating tax avoidance and tax underpayment. The increasing ability of California businesses and even consumers to purchase big dollar products from out-of-state retailers without paying California sales tax has resulted in greater tax avoidance. 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 reporting and paying the tax on the transactions. Absent any concentrated education and enforcement effort, these transactions will continue to grow in number and increase the negative effect on state and local tax revenues. Because the BOE cannot expand the identification of tax avoidance at present staffing levels, most alternatives below provide for additional staff at various levels. Alternative 3, however, provides for no new staff.

Alternative 1 – Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations.

This alternative requests a total of 18.0 two-year, limited-term positions: 14.0 positions are requested in the Sales and Use Tax Department (SUTD), 3.0 positions are requested in the Fuel Taxes Division (FTD) and 1.0 position is requested in the Administration Department, Technology Services Division (TSD). This alternative increases the SUTD's ability to identify tax leads and concentrate on tax avoidance. This two-year pilot, which involves partnering with CDFA would provide 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 and the actual revenue reported and paid.

Under this proposal, the SUTD is requesting 14.0 two-year limited-term positions, in which 11.0 are revenue-generating positions and 3.0 are revenue-support positions. FTD is requesting 3.0 revenue-generating positions. These positions and their estimated workload are described below.

SUTD Team

The SUTD team will be located in the Riverside District Office. When the SUTD team receives the leads, they will review them to determine if tax may be due and if each lead warrants further investigation. The team will contact potential taxpayers, perform investigations and audits, make assessments and collect any taxes due. The number of productive leads generated may exceed the available hours for the allocated positions requiring prioritization of assignments. The SUTD team consists of 14.0 positions: 1.0 Business Taxes Administrator I, 1.0 Business Taxes Specialist I, 1.0 Business Taxes Compliance Specialist, 4.0 Business Taxes Representatives, 2.0 Associate Tax Auditors, 3.0 Tax Auditors, 1.0 Tax Technician III and 1.0 Office Technician (Typing). The general

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 1 – Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations. (Continued)

duties and the associated workload are based on the team receiving 59,400 annual leads. Based on historical data, an estimated 25%, or 14,850 leads, will be potential revenue producing leads. After further analysis we estimate that fifty percent of those will be assigned to staff. The team duties and workload are as follows:

1.0 Business Taxes Administrator I

The Business Taxes Administrator I (BTA I) will plan and supervise the activities of the SUTD Team including the review collection cases and audits and the review for appropriate assignment of tax leads. The BTA I will review reports of discussion prepared by staff in response to petitioned determinations and assist the audit staff in representing the Board throughout any appeal of an audit determination. The BTA I will approve/disapprove staff actions in the database and assignment tracking systems (IRIS and ACMS, respectively), and respond to constituent, Board Member, and Board management inquiries.

1.0 Business Taxes Compliance Specialist

The Business Taxes Compliance Specialist (BTCS) will act as a lead and resource for selected staff and serve as the liaison to the Motor Carrier staff and the Agricultural Inspection Station Manager and Inspectors. The BTCS will conduct initial training for CDFA, coordinate the movement of tax leads, and assist BOE compliance staff with complex use tax leads. The BTCS may assist with the more complex use tax leads from the Property and Special Taxes Department (PSTD). (The PSTD tax leads are referenced on page 9.)

1.0 Business Taxes Representative

The Business Taxes Representative (BTR) reviews leads received from the Agricultural Inspection Station. The review will include applying the sales and use tax laws and regulations to determine if a taxable transaction has occurred, identifying the parties associated with the lead, searching the BOE database and other information sources to determine if the parties are reporting tax or if they require licensing. The BTR will also assist in the use tax leads investigation and tax determinations from the tax leads forwarded from PSTD. (The PSTD tax leads are referenced on page 9.)

Table A below provides the estimated workload for the 1.0 BTR position.

TABLE A
Workload Detail
Business Taxes Representative

Activity	Leads Yearly	# per Hour	Total Hours
Investigate tax leads/determine if potentially productive (4 min. per lead)	36,000	15	2,400
Total Positions (1800 Hours per Position)			1.3

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 1 – Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations. (Continued)

3.0 Business Taxes Representative

The Business Taxes Representative (BTR) is assigned tax leads categorized as unregistered leads to determine if permit is required, investigates use tax leads relating to business operations for tax evasion and/or non-compliance with applicable sales tax laws. Initiate contact with tax debtors by phone or in person to collect monies owed and/or arrange for filing and payment of past due use tax.

The BTR contacts taxpayers, accountants, attorneys and other representatives and prepares correspondence as required. 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. The number of productive leads generated will be in excess of the productive hours of the allocated positions. Table B below provides the estimated workload for the 3.0 BTR positions.

TABLE B
Workload Detail
Business Taxes Representative

Activity	Leads Yearly	Hours/ Case	Total Hours
Initial review and correspondence regarding leads	7,425	0.25	1,857
Investigate leads, contact taxpayers, collect payments	3,263	1.25	4,079
Total Hours			5,936
Total Positions (1800 Hours per Position)			3.3

1.0 Business Taxes Specialist I

The Business Taxes Specialist I (BTS I) will analyze and review tax audits and field billing orders completed by members of the team audit staff. These assignments involve use tax deficiencies that may require in-depth analysis and research of complex legal and auditing issues. This could include communication with the auditor and their supervisor to correct minor audit errors or deficiencies, and the preparation of written correspondence setting forth the guidelines to correct more substantial audit errors and deficiencies. Review hours equate to 3% of audit hours.

The BTS I will receive and review petitions of non-final determination billings received from taxpayers. The BTS I will correspond with taxpayers regarding their petition to determine the basis for the petition and to gather information regarding taxpayer claims for relief and prepare reports and recommendations regarding the petitioned liability for management review and Board action. Table C on the following page provides the estimated workload for the 1.0 BTS I position.

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 1 – Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations. (Continued)

TABLE C
Workload Detail
Business Taxes Specialist I

Activity	Cases Yearly	Hours/ Case	Total Hours
Review assessments, audits, correct errors, prepare correspondence	600	1.5	900
Review petitions, correspond with taxpayers, make recommendations	400	2.3	920
Prepare correspondence on more complex issue raised in response to staff inquiries on transactions	40	5.0	200
Total Hours per year			2020
Total Positions (1800 Hours per Position)			1.1

2.0 Associate Tax Auditor

The Associate Tax Auditor (ATA) will handle the complex audits resulting from use tax leads where compliance staff could not ascertain the use tax liability. These accounts consist of construction contractors, manufacturers, wholesalers and other service business enterprises not reporting substantial sales tax but where the omission of paying use tax would probably involve significant additional taxes. The ATA serves as lead auditor in the more difficult and complex audits and recommends to the supervisor if an audit assistant is warranted. Table D below provides the workload for the 2.0 ATA positions.

TABLE D
Workload Detail
Associate Tax Auditor

Activity	Cases Yearly	Hours/ Audit	Total Hours
Completes complex audits, acts as lead auditor	100	35	3,500
Total Hours per year			3,500
Total Positions (1600 Hours per Position)			2.2

3.0 Tax Auditor

The Tax Auditor (TA) will make preliminary preparations such as reviewing use tax lead documentation, make the audit appointment; reviews the laws, regulations and rulings pertinent to the assignment; develops the audit program and determines the appropriate audit procedures to be performed and the scope of testing. The TA will perform the less complex audits resulting from use tax leads where compliance staff could not ascertain the use tax liability. Table E on the following page provides the workload for the 3.0 TA positions.

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 1 – Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations. (Continued)

TABLE E
Workload Detail
Tax Auditor

Activity	Cases Yearly	Hours/ Audit	Total Hours
Prepares for audits, develops procedures, performs audits	200	25	5,000
Total Hours per year			5,000
Total Positions (1600 Hours per Position)			3.12

1.0 Tax Technician III

The Technician III (TT III) will contact tax debtors by telephone or mail to collect delinquent use tax liabilities; perform follow-up contacts; recommend issuance of levies, Earnings Withhold Orders, warrants for collection and successor billings; recommend approval of installment payment proposals. The TT III responds to telephone and mail inquiries regarding accounts receivable assignments and related items and issues. The TT III will utilize skip-tracing techniques, including but not limited to, cross-reference directories, credit reports, DMV/EDD/FTB information, and external agency sources to locate tax debtors, assets, and forwarding addresses. Table F below provides the workload for the 1.0 TT III position.

TABLE F
Workload Detail
Tax Technician III

Activity	Cases Yearly	Hours/Case	Total Hours
Initial review of collection cases, prepare correspondence (33% of leads billed)	1,075	0.3	323
Follow-up contacts, collection actions, billing input (50% of the initial contacts)	538	3.0	1,614
Total Hours per year			1,937
Total Positions (1800 Hours per Position)			1.1

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; and handle appropriate documents to be sent to taxpayers and their representatives.

D. Justification/Analysis of All Feasible Alternatives (Continued)

**Alternative 1 – Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations.
(Continued)**

Property and Special Taxes Department

The Motor Carrier Section staff will consist of 3.0 Business Taxes Representatives located at CHP Inspection facilities throughout California. Within the fuel tax enforcement program, Motor Carrier staff will interview carriers and inspect documents to identify property with possible use tax due. The use tax leads that warrant further investigation will be forwarded to the Sales and Use Tax team for further investigation.

The general duties and the associated workload are based on 23,400 vehicles checked at the CHP Inspection facilities. It is estimated that fifty percent of the vehicles will warrant further review and that fifty percent of the reviewed vehicles will result in use tax leads forwarded to the SUTD team.

3.0 Business Taxes Representative

The Business Taxes Representative (BTR) will interview motor carriers and perform on site review of documents, including bills of lading and vehicle registration documents. The review will include applying the sales and use tax laws and regulations to determine if a taxable transaction has occurred, identifying the parties associated with the products, searching the BOE database and other information sources to determine if the parties are reporting tax or if they require licensing. Table G below provides the estimated workload for the 3.0 BTR positions.

TABLE G
Workload Detail
Business Taxes Representative

Activity	Leads Yearly	# per Hour	Total Hours
Stopping vehicle & reviewing bill of lading	23,400	6.0	3,900
Investigate tax leads/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 b/	120.0	49
Total Hours per year			5,509
Total Positions (1800 Hours per Position)			3.1

Administration Department

In addition, 1.0 position is requested in the Technology Services Division (TSD) of the Administration Department. TSD is responsible for the computer systems and technology infrastructure that support the BOE's tax and administrative programs. Due to the increased workload associated with this proposal, TSD is requesting the following position:

b) The 5,850 leads will be forwarded to the SUTD team. (See, page 5, the 1.0 Business Tax Compliance Specialist and 1.0 Business Tax Representative paragraphs).

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 1 - Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations. (Continued)

1.0 Senior Information Systems Analyst (Specialist)

This position will accommodate the new workload, including network connectivity, network hardware and operating systems, server and applications software, routers, gateways, PCs and peripherals operating in a multi-platform /protocol network environment for this proposal.

Network Connectivity

The duties include network activities such as: installation and maintenance of network hardware and operating systems and the management and performance tuning of routers and gateways.

Servers/Apps/Security/MAC

The maintenance of application servers and application software, include e-mail servers, back-up and archive servers, server patch maintenance, security monitoring, Active Directory and security server maintenance as well as maintenance of server virus software.

PCs & Peripherals

These duties include PCs and peripherals operating in a multi-platform/protocol network environment, including installation of hardware and software; trouble shooting PC problems; PC computer virus monitoring, control and repair; and PC application updates.

Help Desk Resolution

To manage and control the workload, tickets will need to be maintained through the help desk software.

The estimated annual workload hours for this position are the following:

Third Level Network connectivity	500 hours
Third Level Servers/Apps/Security/MAC	800 hours
Third Level PCs & Peripherals	400 hours
Third Level Help Desk Resolution	<u>200</u> hours
Total Sr ISA hours	<u>1,900</u> hours

Total Sr ISA positions = 1.1 (using 1800 hours per position).

California Department of Food and Agriculture (CDFA) Interagency Agreement.

Of the \$3,292,000 two-year cost, \$455,000 is included to fund an interagency agreement with CDFA for two-years for their personnel services and operating expense and equipment. These positions will 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 will forward copies of pertinent motor carrier documents (leads) to the BOE for review and possible investigation.

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 1 - Implement a two-year pilot identifying tax leads at one border agriculture inspection location and at California Highway Patrol inspection stations. (Continued)

Pros:

- Potential revenue increase of \$16.3 million for increased tax gap enforcement through tax lead identification at a border station.
- 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.

Cons:

- Increases program cost by \$1,638,000 in FY 2006-07 and \$1,650,000 in FY 2007-08.
- Adds administrative burden to existing support units to support and maintain staff.

Alternative 2 – Implement a two-year pilot identifying tax leads at two border locations and at California Highway Patrol inspection stations.

- \$3,276,000 to fund 36.0 two-year, limited-term positions and related resources in FY 2006-07 and \$3,300,000 in FY 2007-08 to detect, investigate, assess, and collect unpaid taxes during the two-year pilot.
- The above costs include \$500,000 for FY 2006-07 and \$410,000 for FY 2007-08 for an interagency agreement with CDFA for the two-year pilot. CDFA has indicated that, without a staff augmentation, they cannot redirect staff to identify tax leads as it would jeopardize pest exclusion; a risk to California Agriculture they are not willing to take.

This funding is estimated to generate additional sales and use tax revenues of \$14.86 million for the last ten months of FY 2006-07 and \$17.82 million for FY 2007-08 at an estimated benefit-to-cost ratio 5.4 to 1. The first year of the pilot includes a start-up process that will delay the initial flow of revenue in the first year until the pilot is fully operational.

Pros:

- Potential revenue increase of \$32.68 million.
- Allows BOE to increase the focus on tax gap enforcement within the BOE.
- Costs less than a statewide program.

Cons:

- Increases program cost by nearly \$3.3 million in FY 2006-07 and \$3.3 million in FY 2007-08.
- Creates a greater administrative burden to hire a larger number of staff, train and house them immediately.

D. Justification/Analysis of All Feasible Alternatives (Continued)

Alternative 3 - Maintain current operations.

This alternative continues the current process of identifying tax leads at CHP locations only occasionally as a by-product of the fuel tax licensing enforcement process. This alternative further delays our ability to eliminate the tax advantages out-of-state retailers have over in-state retailers. SUTD's ability to ensure that all in-state businesses selling taxable items are properly registered will remain at the current limited level.

Pros:

- No additional staff or additional costs.

Cons:

- Lost revenue due to not increasing enforcement activities.
- Potential increase in growth of tax gap.
- More California licensed taxpayers could go out of business because they cannot compete with out-of-state businesses.

E. Timetable

BOE proposes implementation effective July 1, 2006.

The chart below provides a projected timeline to integrate this BCP.

Timeline Chart for BCP 2c

April - June 2006	July – September 2006	October – December 2006
<p>Infrastructure</p> <ul style="list-style-type: none"> • Work on getting infrastructure in place (PC's, phones, printers, cubicles, etc) for staff. <p>Hire Staff</p> <ul style="list-style-type: none"> • Order lists and certs for available positions. 	<p>Hire Staff</p> <ul style="list-style-type: none"> • Hire remaining balance of staff with funding in August, September, or October with appropriate start dates. <p>Training/Communications</p> <ul style="list-style-type: none"> • Train Board staff. • Train CDFA staff. • Develop communication systems for better internal and external exchanges. <p>Processes</p> <ul style="list-style-type: none"> • Develop program functionality for audit and compliance elements. • Develop exchange of information agreement with CDFA. • Evaluate leads from CDFA for training purposes and effectiveness relating to maximizing revenue potential. 	<p>Hiring Staff</p> <ul style="list-style-type: none"> • Staffing requirements fulfilled. <p>Training/Communications</p> <ul style="list-style-type: none"> • Continue needed training of staff. • Assure communication links are effective. <p>Processes</p> <ul style="list-style-type: none"> • Evaluate and assure development of audit program element. • Evaluate and assure development of compliance program element. <p>Reports/Data Evaluation</p> <ul style="list-style-type: none"> • Prepare management reports.

E. Timetable (Continued)

January – March 2007	April – December 2007	January - March 2007
<p>Training/Communications</p> <ul style="list-style-type: none"> • Ensure all needed staff training is provided. <p>Processes</p> <ul style="list-style-type: none"> • Complete audit program elements by staff taking the appropriate actions. • Complete compliance program elements by staff taking the appropriate actions. <p>Reports/Data Evaluation</p> <ul style="list-style-type: none"> • Prepare a status report for management regarding October through December 2006. • Prepare a status report for management regarding January through March 2007. 	<p>Processes</p> <ul style="list-style-type: none"> • Continue to complete the identified program functions and associated tasks for audit and compliance staff. <p>Reports/ Data Evaluation</p> <ul style="list-style-type: none"> • Prepare management reports for quarterly periods within the stated time period (2nd Quarter 2007 – 4th Quarter 2007). 	<p>Reports/ Data Evaluation</p> <ul style="list-style-type: none"> • Evaluation and report due to the Deputy Director.

April – June 2008
<p>Processes</p> <ul style="list-style-type: none"> • Continue to complete the identified program functions and associated tasks by staff. <p>Reports</p> <ul style="list-style-type: none"> • Summarize and evaluate data from pilot. • Prepare final Management Report for two-year pilot, Fiscal Year 2006-07 and Fiscal Year 2007-08.

F. Recommendation

Alternative 1 is recommended. This alternative would authorize funding for 18.0 two-year, limited-term positions and related resources to address the tax gap. By providing the resources as identified in Alternative 1, the Sales and Use Tax Department will conduct a two-year 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 \$8.91 million per year once fully trained staff is in operation.

G. Fiscal Detail

See attached "Fiscal Detail" schedules.

STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL--FISCAL DETAIL
 STATE OPERATIONS
 FISCAL YEAR 2006-07
 (Dollars in Thousands)

Title of Proposed Change: AGRICULTURAL INSPECTION STATION TAX LEADS

Program/Element/Component: Program 30/ All Elements, Program 55/All Elements

	PERSONNEL YEARS			CY	BY	BY + 1
	CY	BY	BY + 1			
TOTAL SALARIES AND WAGES <i>_a/</i>		18.0	18.0		\$759	\$845
Salary Savings		-0.9	-0.9		-38	-42
NET TOTAL SALARIES AND WAGES		17.1	17.1		721	803
Staff Benefits <i>_a/</i>					255	284
NET TOTAL SALARIES AND WAGES		17.1	17.1		976	1,087
Distributed Administration <i>_b/</i>					119	120
TOTAL PERSONAL SERVICES		17.1	17.1		\$1,095	\$1,207
OPERATING EXPENSE AND EQUIPMENT						
General Expense					\$69	\$36
Distributed Administration					30	30
Printing						
Communications					16	8
Postage						
Travel--In-State					100	100
Travel--Out-of -State						
Training					13	13
Facilities Operations					51	51
Consulting & Professional Services: Interdepartmental					250	205
Consulting & Professional Services: External						
Stephen P. Teale Data Center						
Data Processing					14	
Equipment						
Other Items of Expense: (Specify Below)						

_a/ See page 16 of 17 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>
TOTAL OPERATING EXPENSE AND EQUIPMENT		\$543	\$443
TOTAL EXPENDITURES (State Operations)		\$1,638	\$1,650

Source of Funds

General Fund	(0001)	\$937	\$948
Special Funds:			
Breast Cancer Fund	(0004)		
State Emergency Telephone	(0022)		
Propane Surcharge Fund	(0051)		
Motor Vehicle Fuel Account	(0061)	196	192
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)	\$505	\$510
Net Total Augmentation (Source of Funds)		\$1,638	\$1,650

DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES

Staff Benefits Detail:	CY	BY	BY + 1
	(Whole Dollars)		
OASDI		\$55,157	\$61,430
Health Insurance		74,883	83,400
Retirement		107,018	119,189
Workers' Compensation		13,699	15,257
Industrial Disability Leave		692	771
Non-Industrial Disability Leave		908	1,012
Unemployment Insurance		627	699
Other		1,889	2,104
TOTAL		\$254,873	\$283,862

Classification	Positions			Salary Range <i>_c/</i>	Amount		
	CY	BY	BY + 1		CY	BY	BY + 1
Sales and Use Tax Department							
Riverside District Office: <i>_d/</i>							
Associate Tax Auditor		2.0	2.0	\$57,096		\$85,644	\$114,192
Business Taxes Administrator I		1.0	1.0	62,748		62,748	62,748
Business Taxes Compliance Specialist		1.0	1.0	57,096		57,096	57,096
Business Taxes Representative		4.0	4.0	39,612		158,448	158,448
Business Taxes Specialist I		1.0	1.0	65,868		49,401	65,868
Office Technician (typing)		1.0	1.0	33,204		33,204	33,204
Tax Auditor		3.0	3.0	43,068		96,903	129,204
Tax Technician III		1.0	1.0	36,480		27,360	36,480
Property and Special Taxes Department							
Fuel Taxes Division: <i>_d/</i>							
Business Taxes Representative			3.0	39,612		118,836	118,836
Administration Department							
Technology Services Division: <i>_d/</i>							
Senior Information Systems Analyst (Spec)		1.0	1.0	68,880		68,880	68,880
TOTAL SALARIES AND WAGES			18.0			\$758,520	\$844,956

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

_d/ All positions are two-year, limited term effective 7-1-06.

SUPPLEMENTAL INFORMATION
 Dollars in Thousands

	<u>Current Year</u>	<u>Budget Year</u>	<u>Budget Year + One</u>
Proposed Equipment:			
	_____	_____	_____
Total	=====	=====	=====
Proposed Contracts:			
	_____	_____	_____
Total	=====	=====	=====
One-Time Costs:			
General Expense		\$33	
Communications		8	
Consulting & Professional Services: Interdepartmental (CDFA)		45	
Data Processing		14	
	_____	_____	_____
Total	=====	\$100 =====	=====
Future Savings:			
N/A			
	_____	_____	_____
Total	=====	=====	=====
Full-Year Cost Adjustments:			
N/A			
	_____	_____	_____
Total	=====	=====	=====