

BUDGET CONCEPT SUMMARY CHART

June 30, 2010

Budget Items	2011/2012				2012/2013			
	Positions	Cost (000's)	Revenues (000's)	Benefit to Cost Ratio	Positions	Cost (000's)	Revenues (000's)	Benefit to Cost Ratio
Permanent Establishment of the Statewide Compliance and Outreach Program (SCOP)								
This proposal requests funding to convert 146.0 limited-term positions to permanent in order to continue the SCOP which was created to identify and register entities who are actively conducting business in California and selling tangible personal property without a seller's permit. This assists in the Legislature's intent to close the \$1.5 billion tax gap without increasing taxes.								
	146.0	\$13.9	\$60	4.3:1	146.0	\$13.9	\$60	4.3:1
Enhancing Tax Compliance								
This proposal seeks expansion of the audit and collection programs as a result of the increasing number of productive audit leads and collection cases that, without increased staffing levels, cannot be addressed. Additionally, these resources will allow participation in the High Intensity Financial Crimes Area Task Force which will also contribute to the collection efforts, further addressing BOE's current \$1 billion accounts receivable.								
	143.8	\$14.2	\$62.7	4.4:1	150.1	\$13.4	\$65.5	4.9:1
Board of Equalization Facilities								
This proposal requests funding to relocate the BOE Headquarters and San Diego District Office. This will allow BOE to meet its business operational needs, protect the health and safety of employees, avoid or reduce additional repair costs, and provide Department of General Services the authority to sell, lease or otherwise dispose of the building.								
	N/A	\$29.7	N/A		N/A	\$18.5	N/A	
	289.8	\$57.8	\$122.7		296.1	\$45.8	\$125.5	

Fiscal Year [2011-12]

TITLE OF PROPOSAL

Permanent Establishment of the Statewide Compliance and Outreach Program (SCOP)

DIVISION PRIORITY NUMBER

PROGRAM IMPACTED

SUTD

SUMMARY OF REQUEST *(including impact if request denied)*

This request addresses the \$1.5 billion tax gap by permanently establishing SCOP. Based on the lessons learned from the pilot, this proposal requests \$13.9 million (M) General Fund and the conversion of 146.0 limited term (LT) positions to permanent. Establishing SCOP permanently is expected to generate \$60M in sales & use tax revenue annually at a benefit to cost ratio of 4.3 to 1. During the pilot phase of SCOP a non-compliance rate of 3.77% was identified. This non-compliance rate is expected to be a statewide, on-going trend. Thus, the permanent establishment of SCOP is essential in the Board of Equalization's (BOE) efforts to fully serve the needs of business owners and perform the necessary registration, audit, compliance, and enforcement functions. These functions are critical to reducing the tax gap and ensuring a level playing field for all taxpayers. Approval of this concept will allow BOE to continue to proactively address this segment of the growing tax gap and generate additional State revenue without increasing taxes.

BACKGROUND/HISTORY

SCOP funding was approved in fiscal year (FY) 2008-09 as a three-year pilot, providing LT positions to address a component of the tax gap by identifying and registering entities who are actively engaged in business in California and selling tangible personal property without a seller's permit. SCOP established seven teams throughout California (Oakland, Sacramento, San Jose, Van Nuys, Norwalk, Irvine and Riverside). Due to the hiring freeze which delayed implementation, the phasing in of staff, and the training required, SCOP did not become fully functional until FY 2009-10. As a result, the program generated \$19.1M in revenue during the initial year. For FY 2009-10, SCOP is projected to generate over \$53M in revenue. Based on the data collected during the pilot, SCOP is expected to provide the State with an estimated \$60M in on-going revenue. This amount is less than originally projected, but is a direct result of the average time per inspection being higher than originally anticipated; thus, the number of SCOP visits and benefit/cost ratio are lower.

STATE LEVEL CONSIDERATIONS *(including impact to other departments)*

This proposal addresses the Legislature's intent to close the tax gap and is consistent with BOE's Strategic Plan. Specifically, this proposal conforms to four of the five BOE Strategic Plan Goals: Maximize voluntary compliance in BOE's programs, improve the efficiency of BOE's tax and fee programs, improve the BOE's organizational efficiency, and create an expanded and responsive infrastructure. Thus, this proposal meets the BOE's purpose of ensuring it identifies and analyzes areas of non-compliance and implements approaches to efficiently administer the sales and use tax program. SCOP promotes cooperative working relationships with district staff, other departments within BOE, other governmental agencies, and stakeholder organizations through the sharing and analysis of data and resources. BOE is working to expand our partnerships with the Economic Employment Enforcement Coalition (EEEC), Franchise Tax Board, and other jurisdictions, including the business licensing divisions within each California city.

JUSTIFICATION *(including link to Strategic Plan)*

SCOP is expected to provide the State with an estimated \$60M in on-going revenue. Although the revenue generated is less than originally projected, the additional time spent per inspection has resulted in a higher revenue per inspection than anticipated. Furthermore, a permanent program allows continued communications with California's diverse taxpayer base and provides the information they need to comply with their tax and fee responsibilities. In addition, SCOP will allow BOE to leverage its assets with other governmental agencies, including joint efforts with EEEEC, thus addressing the underground economy by bringing taxpayers into compliance. In addition to the direct cost/benefit of 4.3 to 1, this program also provides a broader voluntary compliance effect that is achieved by having a visible field presence. The permanent establishment of SCOP is critical to BOE's ability to collect additional sales and use tax revenues in an effort to reduce this segment of the tax gap without increasing taxes.

COSTS AND BENEFITS (BUDGET YEAR ONLY – FISCAL YEAR [2011-12])

New funding Continuation Redirection

COST \$ 13.9 million	REVENUE <i>(if applicable)</i> \$ 60 million (estimated)
POSITIONS <i>(if applicable)</i> 146.0 Permanent Full Time	COST SAVINGS <i>(if applicable)</i> \$ Estimated Benefit to Cost Ratio - 4.3:1

PREPARED AND APPROVED

PREPARED BY Karina M. Aguilar	DIVISION CHIEF APPROVAL Stephen Rudd
AUTHOR'S TELEPHONE NUMBER (916) 319-9160	DATE 06/18/2010

ACTION

Concept Approved Request Denied

EXECUTIVE DIRECTOR *(signature)*


Fiscal Year [2011-12]

TITLE OF PROPOSAL

Enhancing Tax Compliance

DIVISION PRIORITY NUMBER

PROGRAM IMPACTED

SUTD/PSTD/Legal

SUMMARY OF REQUEST *(including impact if request denied)*

This proposal seeks expansion of the (instate) audit and (instate/out-of-state) collection programs as a result of the ever growing number of productive audit leads and collection cases that, without increased staffing levels, can not be addressed. Additionally, this proposal requests resources to allow participation in the High Intensity Financial Crimes Area (HIFCA) task force which will enhance collection efforts and returns on audits. This proposal requests \$14.2 million (M) and 143.8 personnel years (PYs) in Fiscal Year (FY) 2011-12 and \$13.4M and 150.1 PYs on-going, beginning FY 2012-13. The Sales and Use Tax Department (SUTD) and Property and Special Taxes Department (PSTD) are continually asked to re-evaluate staffing levels with productivity at a 4:1 ratio or better. This proposal will generate additional revenues of approximately \$62.7M in FY 2011-12 and \$65.5M beginning FY 2012-13, resulting in an on-going benefit to cost ratio of 4.9:1. These resources are critical in order to address this revenue opportunity.

BACKGROUND/HISTORY

With the improvements made to the SUTD and PSTD's audit selection process the number of productive audit leads generated has significantly increased. While resources are directed to the most productive leads, additional audit staff will allow the BOE to address this workload increase and investigate more of the productive leads that otherwise will go unexamined. Additionally, the BOE's number of accounts receivable, as well as the overall balance, continues to increase. The accounts receivable balance is currently over \$1 billion. Augmenting the collection staff allows the BOE to work productive collection cases that currently go unworked or are delayed due to a lack of resources. In addition, an increasing number of tax debtors are located outside of California. Effectively collecting liabilities from these debtors requires assistance from out-of-state attorneys. Participation in HIFCA will further enhance collection efforts and the generation of productive audit leads by identifying hidden assets, unreported income and establishing cash assets.

STATE LEVEL CONSIDERATIONS *(including impact to other departments)*

This proposal is consistent with the BOE's Strategic Plan to maximize voluntary compliance in BOE's tax and fee programs and also supports the intent of the Legislature to increase revenue without raising taxes. Increasing the BOE's ability to work leads as well as an increased audit presence in the field will result in more equitable taxation between noncompliant taxpayers and those taxpayers who voluntarily comply.

JUSTIFICATION *(including link to Strategic Plan)*

The implementation of this proposal allows the BOE to increase the State's GF revenues by providing the necessary resources to investigate the increasing number of productive audit leads and certain selected audits that would otherwise remain unworked as current staffing levels cannot meet the current productive workload demands. This proposal also allows the BOE to pursue collections of the increasing level of accounts receivable. Increasing the number of collector positions allows for an increase in the number of accounts worked. These positions will also support the new liabilities generated by the audit findings. In addition, BOE will enter contractual agreement(s) with out-of-state attorneys to assist in the collection of liabilities from debtors that have moved outside of California or own assets located out-of-state that are not currently being pursued. Having the ability to pursue this sector, once the responsibility of the Attorney General and now BOE's, provides for further collections that without funding would be uncollectible.

COSTS AND BENEFITS (BUDGET YEAR ONLY – FISCAL YEAR [2011-12])

 New funding Continuation Redirection

COST \$ FY 2011-12 \$14.2M; FY 2012-13 on-going \$13.4M *	REVENUE <i>(if applicable)</i> \$ \$65.5M on-going (accelerated \$7.4M) Benefit to Cost Ratio 4.9:1.
POSITIONS <i>(if applicable)</i> FY 2011-12 143.8 PYs; FY 2012-13 on-going 150.1 PYs	COST SAVINGS <i>(if applicable)</i> \$ * Ongoing Fund Split: \$9.5M GF, \$1.0M SF, \$3.7M Reimb.

PREPARED AND APPROVED

PREPARED BY

Trista Gonzalez

DIVISION CHIEF APPROVAL

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DATE

06/29/2010

ACTION

 Concept Approved Request Denied
EXECUTIVE DIRECTOR *(signature)*


Fiscal Year [2011-2012]

TITLE OF PROPOSAL

Board of Equalization Facilities

DIVISION PRIORITY NUMBER

PROGRAM IMPACTED

Headquarters/San Diego District Office Programs

SUMMARY OF REQUEST (including impact if request denied)

The Board of Equalization (BOE) requests funding to relocate its Headquarters (HQ) and San Diego (SD) District staff.

The HQ facility is to include a main campus where business efficiencies can be realized and employee health and safety is not impacted by building construction deficiencies. BOE has outgrown the 450 N Street building and needs to relocate to a suitable facility. The SD facility contains hazardous materials, such as asbestos and lead-based paint. There are currently 76 facility-related Worker's Compensation (WC) claims related to the HQ building and 9 WC claims related to the SD building. It is the long-term goal of BOE to operate from one HQ location/campus.

BACKGROUND/HISTORY

The HQ facility has a long list of documented problems, including the discovery of mold and fungal growth in areas throughout the building, which has closed entire floors. Several consultants have reported and identified other problems, including the elevators, which are currently under full renovation and modernization. Since 2005, the facility has been under continuous construction requiring constant employee moves from floor to floor. The current remediation project, scheduled through February 2011, requires relocating full floors of employees to "swing spaces" in order to accommodate construction needs. The HQ facility was estimated at 600 employees over capacity but with the approval of FY09/10 funds, approximately 633 employees were moved to four temporary locations throughout the greater Sacramento area. (Continued to second page.)

STATE LEVEL CONSIDERATIONS (including impact to other departments)

BOE collects over one-third of the state's revenue. If BOE receives funding to relocate to new facilities that will allow the consolidation of all HQ functions where issues of repair and remediation are not constant disruptions, employees can work more efficiently and effectively to meet our core business function of collecting the State of California's revenues.

JUSTIFICATION (including link to Strategic Plan)

This proposal is consistent with the BOE's Strategic Plan:

Goal 3: Improve the BOE's organizational efficiency; and

Goal 5: Foster a skilled, motivated, and diverse workforce by providing a safe and healthy work environment that allows employees to work efficiently and effectively.

COSTS AND BENEFITS (BUDGET YEAR ONLY - FISCAL YEAR)

New funding Continuation Redirection

COST

\$ HQ \$20.9 M/\$11.6 M Ongoing - SD \$8.8 M/\$6.9 M Ongoing

REVENUE (if applicable)

\$ N/A

POSITIONS (if applicable)

N/A

COST SAVINGS (if applicable)

\$ N/A

PREPARED AND APPROVED

PREPARED BY

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Michelle Belmont

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DATE

July 2, 2010

ACTION

Concept Approved Request Denied

EXECUTIVE DIRECTOR (signature)

Antone

REQUEST FOR CONCEPTUAL APPROVAL

Fiscal Year [2011-2012]

BACKGROUND/HISTORY (Continued):

The SD facility was built in the 1970s, using what is now known to be hazardous construction material (asbestos), thereby making modification or repairs difficult, costly, and in some cases, impossible. For example, trips and falls due to aged damaged carpet that has not been replaced have resulted in injuries leading to Worker Compensation claims. In addition to numerous American Disabilities Act compliance issues, the SD facility does not meet either existing seismic safety standards or BOE security standards. Further, the present building management has indicated that the building has been identified as surplus and will be sold; if so, BOE's lease may not be renewed, requiring relocation to another site.