

Add Part 12.5 (commencing with Section 15920) to Division 3 of the Government Code to create the Centralized Intelligence Partnership, a multiagency effort to study the institutional and systemic organizational structure of businesses operating illegally in California, and develop comprehensive strategies to combat the underground economy.

Source: Investigations and Special Operations Division

Existing Law. Various joint agency enforcement efforts have been undertaken to combat the underground economy, including the creation of the Joint Enforcement Strike Force in 1993 (codified in Section 329 of the Unemployment Insurance Code) and the Economic and Employment Enforcement Coalition in 2005. Further, various individual agency efforts such as the Board of Equalization's Statewide Compliance and Outreach Program and the Contractor State License Board's Statewide Investigative Fraud Team have been instituted.

Background. The underground economy is a threat to the health of California's economy, its business community, its workers, consumers, and the stability and fairness of the tax base. While there are several different entities and task forces currently working on various aspects of the underground economy, no one entity is responsible for coordinating these efforts. As a result, there is a lack of synergy in the collection and analysis of data, and in the development of strategic and focused investigation and prosecution efforts.

This Proposal. To meet the need for a dedicated coordinated effort, the formation of a Centralized Intelligence Partnership (CIP) is proposed to serve as a centralized information intake center for the receipt, analysis, gathering, strategic planning and sharing of data related to potential violation of labor, tax and other laws by organized criminal entities and/or serial offenders. CIP shall include the following agencies, boards, departments, and offices: Board of Equalization, Franchise Tax Board, Department of Insurance, Employment Development Department, Department of Justice, Department of Health, Department of Motor Vehicles, Department of Consumer Affairs, and the Department of Industrial Relations. Additionally, other state or local agencies may choose to join and participate in the CIP. An advisory committee comprised of one representative from each of the agencies, boards, departments and offices participating in the CIP shall provide guidance and advise the activities and operations of the CIP. The advisory committee shall coordinate with the California Department of Justice to host the processing center for the CIP. The advisory committee shall meet as needed but at least quarterly to conduct its business.

Given the number of agencies involved, embodying the CIP in statute ensures a dedicated full time staff for this multi-agency undertaking. The initial structure of the CIP is expected to include a core staff of one administrator and four support positions. The core staff will establish and implement the policies and procedures established for CIP by the advisory committee and coordinate the intake, evaluation, strategic planning, processing and referral of leads and data received through a statewide evasion hotline and from other participating agencies. The proposed legislation also explicitly provides

that each participating agency would be required to share confidential and non-confidential data notwithstanding any other provisions of law.

As drafted, the proposal includes legislative intent language that provides that the Legislature will amend this Act to further codify the governance details of the CIP and to determine the appropriate allocation of staffing resources assigned to the CIP by each participating agency.

A collaborative, strategic and focused effort to comprehensively analyze available data and resources to combat the underground economy would create a synergy among the various enforcement agencies and address issues of impacted California industries. This collaborative effort would significantly increase the State's efficiency and effectiveness in recapturing revenue lost to businesses operating illegally in the State of California, thereby contributing to a more robust legitimate economy.

The initial activities of the CIP are expected to increase governmental efficiencies in numerous ways, including, but not limited to:

- Providing global statewide data for analysis, strategic planning and decision making toward combating underground economic activity in California.
- Providing for a central intake process and organizational structure to document, review, evaluate, and add valued data to intake complaints.
- Providing a process to institutionalize on-going collaboration via strategic planning, sharing of complaints and other agency information.
- Assist in the recapture of unreported taxes and assist in the identification of employers exploiting workers and operating illegally.
- Enhance the long-term revenue stream as illegitimate businesses are forced to leave the marketplace.
- Additional efficiencies may be gained as a result of the CIP identification of issues in need of policy, procedural or legislative changes.

Part 12.5 (commencing with Section 15920) is added to Division 3 of the Government Code to read:

SECTION 1. The Legislature finds and declares all of the following:

(a) According to the Employment Development Department's analysis of findings of the Internal Revenue Service, the underground economy in California is estimated to be between \$60 billion and \$140 billion each year.

(b) According to the State Board of Equalization, an average of \$8 billion in owed corporate, personal, and sales and use taxes goes uncollected in California each year, with unreported and underreported economic activity responsible for the vast majority of that total.

(c) The underground economy hurts everyone; tax revenues to support government services are lost, workers are forced to go without basic employment protections, and legitimate businesses are confronted with unfair competition. Furthermore, the presence of the underground economy allows human traffickers to operate and victimize individuals who are trapped into forced labor conditions.

Regrettably, California is reported to be one of the top four human trafficking destination states in the United States.

(d) Since the activities of many operating in the underground economy span across multiple jurisdictions, various joint agency enforcement efforts have been undertaken to combat the underground economy, including the creation of the Joint Enforcement Strike Force in 1993 and the Economic and Employment Enforcement Coalition in 2005. Further, various individual agency efforts such as the Board of Equalization's Statewide Compliance and Outreach Program and the Contractor State License Board's Statewide Investigative Fraud Team have been instituted. As such, investigative collaboration among agencies is not a new concept in California. Many collaborative efforts are already under way, in which investigators periodically meet to discuss current investigations, team up to conduct sting operations and collaborate on best practices.

(e) However, despite these significant efforts, California continues to lose billions of dollars in annual revenue due to the underground economy.

(f) Therefore, the Legislature finds and declares that this Act serves to enhance existing efforts to combat the underground economy by institutionalizing collaboration among state agencies through a Centralized Intelligence Partnership (CIP) that acquires relevant data for collaborative data analysis, economic threat assessment, strategic planning, and provides a referral tracking and value added referral disbursement process. This collaborative effort to combat the underground economy will, in turn, further aid the state in its progress towards preventing human trafficking. The Legislature finds a need to comprehensively address the underground economy and capitalize on each agency's enforcement efforts and investigative resources by creating the CIP. A key element of this effort is to authorize and facilitate data and intelligence sharing among the CIP and state agencies. It is the intent of the Legislature in enacting this act to focus on the criminal prosecution of those operating in the underground economy in flagrant violation of law. Businesses who are in compliance with our state employment, safety, licensing and tax laws that are found to have committed minor or inadvertent violations of existing law are to be addressed through other administrative procedures.

(g) It is also the intent of the Legislature to amend this Act to further codify the governance details of the CIP and to determine the appropriate allocation of staffing resources assigned to the CIP by each participating agency.

Part 12.5 (commencing with Section 15920) is added to Division 3 of the Government Code to read:

15920. This part shall be known, and may be cited, as the Centralized Intelligence Partnership Act.

15921. The Centralized Intelligence Partnership is hereby established in state government.

15922. The Centralized Intelligence Partnership shall include the following agencies, boards, departments, and offices:

- (1) State Board of Equalization.
- (2) Franchise Tax Board.
- (3) Department of Insurance.
- (4) Employment Development Department.
- (5) Department of Justice
- (6) Department of Health.
- (7) Department of Motor Vehicles.
- (8) Department of Industrial Relations.
- (9) Department of Consumer Affairs
- (10) Other state or local agencies, boards, departments, and offices may be included in the partnership.

15923(a) An advisory committee comprised of one representative from each of the agencies, boards, departments and offices participating in the Centralized Intelligence Partnership shall provide guidance and advise the activities and operations of the Centralized Intelligence Partnership.

(b) The advisory committee shall coordinate with the California Department of Justice to host the processing center for the Centralized Intelligence Partnership.

(c) The advisory committee shall meet as needed but at least quarterly to conduct its business.

15924. (a) To serve the best interests of the state by combating the underground economy, the Centralized Intelligence Partnership shall be created to combat illegal underground operations. The Centralized Intelligence Partnership will:

(1) Provide a central intake process and organizational structure, with an Administrator and support staff, to document, review and evaluate data and complaints;

(2) Establish a processing center to receive and analyze data, share complaints, research leads, and add lead value from the input of each impacted agency including federal and/or local law enforcement agencies.

(3) Provide participating agencies, as well as non-participating agencies with value added investigative leads where collaboration opportunities exist for felony level criminal investigations, as well as defer to agencies those leads specific to a specific jurisdictional crime and/or civil administrative remedies.

(4) Provide that each participating and non-participating agency shall retain jurisdictional authority over whether to or not to pursue Centralized Intelligence Partnership strategies or collaborative investigative leads based upon the direction of their governing structure or available resources.

(5) Document and provide intake data analysis, analytic data findings, referrals, collaborative opportunities, outcomes, emerging evasion trends, lessons learned, as well as additional enforcement, administrative and legislative opportunities.

(b) The scope of activities and projects undertaken by the Centralized Intelligence Partnership shall be consistent with money available as appropriated by the Legislature.

15925. Notwithstanding any other provision of law, duly authorized representatives of participating agencies shall exchange intelligence, data, documents, information, complaints, or lead referrals, for the purpose of investigating illegal underground operations, with the Centralized Intelligence Partnership and with other duly authorized representatives of participating agencies provided the participating agency agrees to maintain the confidentiality of the all intelligence, data, documents, information, complaints, or lead referrals to the extent required by law.

15926. The Centralized Intelligence Partnership shall annually report on its activities and accomplishments to the Legislature and each participating agency. The first report shall be made no later than July 1, 2014.