

**Alcoholic Beverage Tax Program Workload
BCP No. 4**

Purpose:

BOE requests new funding to support and maintain an efficient and adequate level necessary to conduct the ongoing workload for the Alcoholic Beverage Tax program. This workload includes: auditing, screening, processing tax returns, issuing refunds, and collecting taxes in a timely manner to protect the annual revenue.

	<u>FY 2007-08</u>	<u>FY 2008-09</u>
Expenditures:	\$304,000 (New) (\$304,000 General Fund)	\$272,000 (New) (\$272,000 General Fund)
Positions:	3.0 (New) (2.8 PYs)	3.0 (New) (2.8 PYs)

Background:

- The Alcoholic Beverage Tax is imposed on the sale, distribution, or importation of beer, wine, and distilled spirits sold in this state.
- As a result of mandatory staff reductions during the most recent State budget crisis, and the reduction of program staff in prior years, the BOE is no longer adequately staffed to meet the ongoing workload of this program in order to protect the \$314 million in annual revenue collected and deposited to the State's General Fund.
- This proposal requests funding to establish 3.0 permanent, full-time positions and related resources to adequately staff the Alcoholic Beverage Program.
- Restoration of positions will allow the BOE to efficiently and effectively audit, screen accounts, process tax returns, issue refunds, and collect taxes in a timely manner, and collect an additional \$1,530,246 in annual revenue.
- Provides a program benefit-to-cost ratio of 5.6 to 1.

Justification:

- If resources are not provided, not only will the additional revenue of \$1,530,246 not be collected but the estimated revenue base of \$314 million will also be at risk of decreasing.
- Restores positions that were originally approved and authorized to administer the collection of revenue for the General Fund

**STATE BOARD OF EQUALIZATION
FISCAL YEAR 2007-08
BCP NO. 4**

TITLE OF PROPOSED CHANGE:

Alcoholic Beverage Tax Program Workload

SUMMARY OF PROPOSED CHANGES:

This proposal requests 3.0 permanent, full-time positions and \$304,000 (General Fund) in FY 2007-08 and \$272,000 (General Fund) in FY 2008-09 and ongoing. This proposal addresses the restoration of resources to maintain an efficient and adequate level necessary to conduct field audits, program screenings, tax return processing, issue refunds, and to collect the alcohol beverage tax in a timely manner.

BOE anticipates that the restoration of the resources will increase revenues by an estimated \$1,530,246 beginning in FY 2007-08. Therefore, this represents a program benefit-to-cost ratio of 5.6 to 1.

State Board of Equalization

Alcoholic Beverage Tax Program

ALCOHOLIC BEVERAGE TAX PROGRAM WORKLOAD

Fiscal Year 2007-08

A. Nature of Request

This proposal requests funding to establish 3.0 permanent, full-time positions plus resources for a resource restoration within the Alcoholic Beverage Tax Program administered by the State Board of Equalization (BOE). As a result of mandatory staff reductions during the most recent State budget crisis, and the reduction of program staff in prior years, current staff cannot adequately meet the ongoing workload of the program in order to protect the \$314 million annual revenue collected and deposited into the General Fund.

Approval of these positions will allow the BOE to restore its ability to maintain an efficient and adequate level necessary to conduct field audits, program screenings, tax return processing, issue refunds, and to collect the alcohol beverage tax in a timely manner.

The cost is \$304,000 in FY 2007-08 and \$272,000 in FY 2008-09 and ongoing. It is anticipated that the additional positions will increase revenues by an estimated \$1,530,246 beginning in Fiscal Year 2007-08. This represents an ongoing program benefit-to-cost ratio of 5.6 to 1.

B. Background/History

In accordance with section 32220 of the Alcoholic Beverage Tax Law, the BOE collects the excise tax and surtax on alcoholic beverages and deposits the revenue into the General Fund. The law authorizes the BOE to be reimbursed with revenues from the General Fund for the administration, enforcement, and collection activities associated with the Alcoholic Beverage Tax Program.

The BOE was last authorized to increase staff in the Alcoholic Beverage Tax Program under Budget Change Proposal (BCP) No. 5 (Alcoholic Beverage Tax Rate Increase) for (Fiscal Year) FY 1992-93. Under BCP No. 5, the Excise Taxes and Fees Division (ETFD) received 13.0 positions, plus resources, in order to adequately implement the provisions of Assembly Bill 30 (Chapter 86 Statutes of 1991). Assembly Bill 30 (AB 30) imposed additional surtaxes on the sale or possession of beer, wine, sparkling wine, hard cider, and distilled spirits. These authorized positions, and other program resources, have been fully utilized by the BOE to collect taxes for the General Fund under the provisions of AB 30.

B. Background/History (Continued)

Since implementing the provisions of AB 30 in 1992, the ETFD has lost a number of authorized audit and compliance program positions, due to budgetary reductions, including tax auditors, tax technicians and student assistants, while the workload in the program continued to increase.

As a direct result of State budget cuts in the Governor's FY 2002-03 budget, the BOE lost a total of 146 staff positions in BCP No. 11, FY 2002-03, which included 2.0 Alcoholic Beverage Tax Program positions (1.0 Tax Technician II and 1.0 Office Assistant). This represented approximately 12.93 percent staff reduction in the Alcoholic Beverage Tax Program.

The loss of authorized alcohol program positions has greatly reduced the BOE's ability to effectively and efficiently administer the Alcoholic Beverage Tax Program. For example, the program currently lacks a senior lead auditor to work on the most complex field and office audits of distilled spirit accounts and beer manufacturers. In addition, the loss of positions since FY 2002-03 has resulted in the elimination of audit screenings used to verify the correct reporting of alcohol tax revenues and also used by staff in the audit selection process. This has significantly diminished BOE's ability to identify problem accounts and productive audit leads.

Current staff resources in other program areas are fully utilized and can not be redirected to work in the alcohol program. Therefore, the BOE has a critical need to restore its ability to maintain an efficient and effective system to register, process returns, and collect alcohol taxes for disbursement to the General Fund in a timely manner.

C. State Level Consideration

This proposal conforms to BOE's strategic plan mission statement to serve the public through fair, effective, and efficient tax administration. In addition, the proposal supports BOE's strategic plan, Issue 2, Strategy 3, to identify and analyze areas of noncompliance and develop approaches to address targeted problem areas.

In addition, this proposal allows the BOE to comply with the provisions of the California Alcoholic Beverage Tax Laws, which require the BOE to assess and collect excise taxes as are, or may be imposed by the Legislature on account of the manufacturer, importation and sale of alcoholic beverages in this State.

Pursuant to the Department of Finance's Budget Letter 06-04 ("2007-08 Budget Preparation Guidelines"), this proposal recognizes the Administration's policy "to continue to contain the growth in authorized positions."

D. Justification/Analysis of All Feasible Alternatives

Alternative 1 - Approve budget augmentation for 3.0 staff positions and related resources on a permanent basis for the Alcoholic Beverage Tax Program.

The BOE requests funding and authority to establish 3.0 positions and related resources, beginning July 1, 2007, in order to restore resources this program has lost in the past. This restoration will increase program efficiency and effectiveness with processing new and ongoing workload in the Alcoholic Beverage Tax Program. This alternative would provide the program with critical permanent staff to conduct the program's workload, which would then protect the state's tax revenue base.

The following staff is requested:

ETFD Compliance Section

The establishment of 1.0 permanent Tax Technician III position is requested to handle delays in processing ongoing workloads related to tax return processing, initiating refunds, adjusting incorrect payments, clearing delinquencies and working on accounts receivable collection cases.

Workload Detail					
Classification	Activity	Time Measure		On-going Activities	
		H = Hours M = Minutes	Time Per Occurrence	Occurrences Per Year	Total Hours (Rounded)
Tax Technician III					
	Verify Returns (quarterly & monthly)	M	2.25	24,303	911
	Revenue Adjustments	M	2.50	5,513	230
	Revenue Moves	M	1.50	91	2
	Effective Date Changes	M	1.0	329	5
	Revenue Type Change	M	2.0	286	10
	Compliance Assessment	M	2.50	33	1
	Initiate Refunds	M	2.50	138	6
	Initiate Notices	M	2.50	1,731	72
	Cancel Notices	M	1.0	227	4
	Payment Actions	M	2.0	1,176	39
	Activity Billings	M	3.0	2,393	120
	Claims for Refund Audit	M	15.0	1,300	325
	Industry Outreach	H	8.0	12	96
	Telephone Advisory (Avg. 25 calls weekly)	M	1.50	1,300	33
	Correspondence (Avg. 15 letters/faxes weekly)	M	2.50	780	33
	Total Hours per year				1887
	Position Needed based on 1,800 hours				1.05
	Total BCP Position Requested (rounded)				1.00
	Overtime Hours				87

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

Alternative 1 - Approve budget augmentation for 3.0 staff positions and related resources on a permanent basis for the Alcoholic Beverage Tax Program. (Continued)

ETFD Audit Section

The establishment of 2.0 permanent positions (1.0 Tax Technician III, and 1.0 Business Taxes Specialist I) to adequately administer the alcoholic beverage tax audit program is needed.

Business Taxes Specialist I (BTS I)

The absence of a BTS I position in the program results in a significant negative impact on not only the number of accounts audited, but also the tax revenue generated in the alcohol program during the past three years. This program requires a senior level staff auditor to audit the large and most complex distilled spirits, beer manufacturers, winegrowers and beer & wine importer accounts. The BTS I position also functions as a program lead with a high level of expertise and provides technical guidance and training to staff in addition to performing field and office audits. The BTS I also evaluates, researches, controls, and corresponds with taxpayers on petitions for redetermination and claims for refund, which may result in additional field work. In addition, the BTS I is the primary auditor of the distilled spirits accounts within the Alcoholic Beverage Tax Program. These audits are more complex and require the use of more sophisticated audit techniques to perform analysis of complex accounting systems, complete inventory reconciliations and track inter-company transactions. The distilled spirits accounts yield approximately 30% of the Alcoholic Beverage Tax program revenue.

During the years 2001 through 2003, on average, 123 audits were conducted yearly in the Alcoholic Beverage Tax program. Since the loss of the BTS I position during FY 2002-03, the average number of audits has dropped to 36 audits per year. The significant decline in the number of audits performed reflects the need for an experienced auditor in this program. During the last five fiscal years, the average dollar value of assessments per audit hour has been \$719 per hour.

The ETFD estimates that the BTS I position will generate approximately \$1,265,440 in deficiency assessment revenue as a result of field audits (\$719 assessment per hour X 1,760 field audit hours) conducted.

Tax Technician III

The Tax Technician III (TT III) position performs critical audit support duties within the distilled spirits program by providing screenings to ensure oversight and reconciliation of the inventory of distilled spirits sold within the State between licensed taxpayers. This position also reviews supplemental forms recording sales and purchases between taxpayers and check to ensure the transaction is properly reported by the seller and purchaser. Furthermore, the TT III position oversees the program-wide reconciliation process of all taxpayers' inventories to account for sales/purchases by way of correspondence with taxpayers in order to facilitate proper reporting.

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

Alternative 1 - Approve budget augmentation for 3.0 staff positions and related resources on a permanent basis for the Alcoholic Beverage Tax Program. (Continued)

The functions performed by the TT III directly impact the administering of the distilled spirits accounts and assists in more productive audits. Through the inventory tracking performed, auditors identify productive leads for audits and reduce the amount of time required to complete the audit. Furthermore, the screenings allow ETFD to increase its office reviews of accounts and, as a result, there are more billings issued for smaller variances disclosed during the reconciliation process. Discrepancies identified through the alcoholic beverage program screening process also reduce the time required to review distilled spirits accounts by approximately 25% by having the inventory discrepancies identified early in the audit process.

Overall, the Tax Technician position provides tangible audit leads generally resulting in liability, facilitates increased review of program accounts, reduces audit time required, thereby increasing dollars per hour. Increased revenue is estimated at \$264,806 based on average annual audit assessments times a 25% increase in productivity by alcoholic beverage audit staff.

Workload Detail					
Classification	Activity	Time Measure		On-going Activities	
		H = Hours M = Minutes	Time Per Occurrence	Occurrence Per Year	Total Hours
Business Taxes Specialist I					
	Field Audits	H	80.0	22	1,760
	Petitions and Claims for Refund	H	5.0	8	40
	Alcohol Screenings	H	4.0	30	120
	Total Hours per year				1,920
	Total Position Needed (1600 hours per Position)				1.20
	Total BCP Position Requested (rounded)				1.00
	Overtime Hours				320
Tax Technician III					
	Reconciliation of Alcohol Screenings	H	3.0	550	1,650
	Correspondence and File Management	H	.50	550	275
	Total Hours per year				1,925
	Total Position Needed (1800 hours per Position)				1.07
	Total BCP Position Requested (rounded)				1.00
	Overtime Hours				125

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

Alternative 1 - Approve budget augmentation for 3.0 staff positions and related resources on a permanent basis for the Alcoholic Beverage Tax Program. (Continued)

Summary of Audit and Compliance Positions requested

			FY 2007-08		FY 2008-09	
			Positions	OT Hours	Positions	OT Hours
Tax Technician III 1/			1.0	87	1.0	87
Tax Technician III 1/			1.0	125	1.0	125
Business Taxes Spec. I 2/			1.0	320	1.0	320
Total Positions/Resources			3.0	532	3.0	532

1/ Position based on 1,800 hours.

2/ Position based on 1,600 hours.

ETFD anticipates that the annual travel costs related to conducting field audit assignments at the taxpayer's premises is approximately \$28,000 annually (20 weeks of travel: 15 weeks of in-state travel at approximately \$1,200 per week and 5 weeks of out-of-state travel at \$2,000 per week).

Pros:

- Restores positions that were originally approved and authorized to administer the collection of revenue for the General Fund.
- Provides the required positions and resources for BOE to more effectively administer the Alcoholic Beverage Tax program.
- Provides the required positions and resources for BOE to more effectively perform critical revenue generating functions.
- Increases protection of annual tax revenue base.
- Increases General Fund revenue by \$1,530,246 annually.

Cons:

- Requires a General Fund budget augmentation to provide resources.

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

Alternative 2 - Approve budget augmentation for 3.0 staff positions and related resources for three-year limited-term.

Pros:

- Allows time to document benefits of having additional staff before committing to permanent establishment.
- Provides adequate level of staff to address immediate workload needs.
- Generates additional revenues for three years.

Cons:

- Meets workload needs temporarily when workload indicators support on-going need.
- Hinders ability to recruit, hire and maintain quality staff because of limited-term condition.

E. Timetable

The BOE requests establishment of the positions beginning July 1, 2007.

July 2007 – June 2008 (Budget Year)	July 2008 – June 2009 (BY plus one)
<ul style="list-style-type: none"> • Hire and train 3.0 additional permanent staff . • Reinstate screening and reconciliation processes for alcohol program. • Review screenings for audit selection. • Assign most difficult accounts for BT I field auditor. • Train compliance position to increase efficiency in return processing, billing adjustments, clearing delinquencies, and processing refunds. 	<ul style="list-style-type: none"> • Increase number of audit screenings and reconciliation process. • Increase number of accounts for audit selection. • Assign most difficult accounts for BTS I field auditor. • Increase efficiency in return processing, billing adjustments, clearing delinquencies, and processing refunds.

F. Recommendation

We recommend Alternative 1 to provide the necessary resources on a permanent basis for the BOE to efficiently and effectively administer the Alcoholic Beverage Tax program and collection of taxes for disbursement to the state’s General Fund.

G. Fiscal Detail

See attached “Fiscal Detail” schedule for additional detail.

STATE OF CALIFORNIA
 BUDGET CHANGE PROPOSAL--FISCAL DETAIL
 STATE OPERATIONS
 FISCAL YEAR 2007-08
 (Dollars in Thousands)

Title of Proposed Change: Alcoholic Beverage Tax Program Workload

Program/Element/Component: Alcoholic Beverage Tax Program

	PERSONNEL YEARS			CY	BY	BY + 1
	CY	BY	BY + 1			
TOTAL SALARIES AND WAGES <i>_a/</i>		3.0	3.0		\$160	\$160
Salary Savings		-2	-2		-7	-7
NET TOTAL SALARIES AND WAGES		2.8	2.8		153	153
Staff Benefits <i>_a/</i>					48	48
NET TOTAL SALARIES AND WAGES		2.8	2.8		201	201
Distributed Administration <i>_b/</i>					22	20
TOTAL PERSONAL SERVICES		2.8	2.8		\$223	\$221
OPERATING EXPENSE AND EQUIPMENT						
General Expense					\$30	\$5
Distributed Administration <i>_b/</i>					6	5
Printing						
Communications					4	2
Postage						
Travel--In-State					18	18
Travel--Out-of -State					10	10
Training					2	2
Facilities Operations					9	9
Consulting & Professional Services: Interdepartmental						
Consulting & Professional Services: External						
Stephen P. Teale Data Center						
Data Processing					2	
Equipment						
Other Items of Expense: (Specify Below)						

_a/ See page 11 of 12 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		\$81	\$51
TOTAL EXPENDITURES (State Operations)		\$304	\$272

Source of Funds

General Fund	(0001)	\$304	\$272
Special Funds:			
Breast Cancer Fund	(0004)		
State Emergency Telephone	(0022)		
Propane Surcharge Fund	(0051)		
Motor Vehicle Fuel Account	(0061)		
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)		
Net Total Augmentation (Source of Funds)		\$304	\$272

**DETAIL OF STAFF BENEFITS
AND PERSONAL SERVICES**

Staff Benefits Detail:	CY	BY	BY + 1
	<i>(Whole Dollars)</i>		
OASDI		\$11,705	\$11,705
Health Insurance		13,732	13,732
Retirement		19,625	19,625
Workers' Compensation		2,512	2,512
Industrial Disability Leave		127	127
Non-Industrial Disability Leave		167	167
Unemployment Insurance		115	115
Other		346	346
TOTAL		\$48,329	\$48,329

Classification	Positions			Salary Range <small>_c/</small>	Amount		
	CY	BY	BY + 1		CY	BY	BY + 1
Property & Special Taxes Dept.							
Excise Taxes & Fuels Division							
Business Taxes Specialist I <small>_d/</small>		1.0	1.0	\$65,868		\$65,868	\$65,868
Tax Technician III <small>_d/</small>		2.0	2.0	36,480		72,960	72,960
Blanket Funds:							
Overtime (Various)		(.3)	(.3)			20,780	20,780
Temporary Help							
TOTAL SALARIES AND WAGES		3.0	3.0			\$159,608	\$159,608

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

_d/ Permanent, full-time positions effective July 1, 2007.

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		\$25	
Communications		\$2	
Data Processing		2	
Total		\$29	
Future Savings:			
N/A			
Total			
Full-Year Cost Adjustments:			
N/A			
Total			