

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 07/14)

Fiscal Year 2016-17	Business Unit 0860	Department State Board of Equalization	Priority No. 3
Budget Request Name 0860-003-BR-2016-GB		Program 0570250 – TRANSPORTATION FUND TAX	Subprogram

Budget Request Description
 Joint Operations Center - Ensuring Fuel Tax Compliance

Budget Request Summary

The Board of Equalization (BOE) requests \$296,000 (Federal Funds) in Fiscal Year (FY) 2016-17 and ongoing to permanently establish 2.0 expiring limited term (LT) positions ((1.0 Business Taxes Specialist I (BTS I) and 1.0 Business Taxes Specialist II (BTS II)), for continued participation in the Joint Operations Center (JOC) for the National Fuel Compliance Project. Participation in the JOC project has allowed the BOE to leverage state and federal resources to identify evasion, non-reporting and under-reporting. The two positions are set to expire on June 30, 2016 and approval of this proposal will allow the BOE to continue partnership with the federal government and the JOC.

The BOE anticipates an estimated \$1.0 million in revenue from JOC audit leads and investigations.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Budget Officer	Date	Chief, Financial Management Division	Date
Deputy Director, Administration	Date	Executive Director	Date

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Technology Agency

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
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Analysis of Problem

A. Budget Request Summary

The Board of Equalization (BOE) requests \$296,000 (Federal Funds) in Fiscal Year (FY) 2016-17 and ongoing to permanently establish 2.0 expiring limited term (LT) positions ((1.0 Business Taxes Specialist I (BTS I) and 1.0 Business Taxes Specialist II (BTS II)), for continued participation in the Joint Operations Center (JOC) for the National Fuel Compliance Project. The two positions are set to expire on June 30, 2016. Funding for the two positions is from federal project grant money allocated to the participating states. On-going funding of \$100,000 per federal fiscal year has been secured through September 30, 2016, with similar allocations planned for future years. In addition, prior unspent project grant allocations in excess of \$900,000 are available to California and may be used to fully fund the positions. Participation in the JOC project has allowed the BOE to leverage federal resources to identify evasion, non-reporting and under-reporting. Approval of this proposal will allow the BOE to continue the partnership established over the years with the federal government and the growing list of participating states.

The BOE anticipates an estimated \$1.0 million annually in revenue from JOC audit leads and investigations.

B. Background/History

The BOE initially received resources through FY 2007-08 (BCP No. 10) to assist with development and implementation of the JOC project. Due to several implementation delays including lengthy background checks required for the BOE auditors, as well as the time required to format data, the project remained in the development/implementation phase. These positions were subsequently extended in FY 2010-11 (BCP No. 5) for a 3-year limited term in order to transition from the development/implementation phase to the operational phase. During the 2013-14 (BCP No. 3) budget process, the BOE received limited term funding of 2.0 positions that are set to expire on June 30, 2016. Approval of this proposal will allow the BOE to continue its partnership with the federal government and participating states.

The JOC project combines staff, data, and expertise from both federal and state governments to effectively identify fuel taxes under-reporting, non-reporting and trends leading to evasion. These pooled resources provide benefits to both state and federal fuel tax compliance efforts. Combining federal and state government staff's skills and abilities increases each participant's ability to address fuel tax compliance issues more effectively.

The JOC project has established a National Data Center in the Washington D.C. area. The National Data Center is receiving and combining data sets, which continue to increase with the addition of each new state government, from federal, state and third party sources. Sophisticated analytical tools are applied to the data sets to identify anomalies, inconsistencies and omissions in the data, and generate leads for JOC audit teams to follow-up on in the field. There are currently 9 states participating in the JOC.

Now that the National Data Center is operational, the JOC audit teams, combining state and federal resources to conduct joint audits and investigations, are being formed and are receiving cross-training to be able to work at both the state and federal level.

Pursuant to the Memorandum of Understanding (MOU), California has committed 2.0 positions to work full-time with the JOC project. The BOE staff has assisted in the development and implementation of the National Data Center, integrating California data into the National Data Center's databases, received training with the analytical software and other tools being employed in the data center, and developed data analytic routines to compare and extract data that may be beneficial to the BOE's

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administration of the state's fuel tax programs. Staff has also received training in federal and other states law and audit techniques, and provided similar training in California law and procedures in preparation for conducting joint audits and examinations.

Resource History
(Dollars in thousands)

Program Budget	2010-11	2011-12	2012-13	2013-14	2014-2015
Authorized Expenditures	\$300	\$300	\$300	\$300	\$300
Actual Expenditures	\$123	\$139	\$136	\$82	
Authorized Positions	2.0	2.0	2.0	2.0	2.0
Filled Positions	2.0	2.0	2.0	2.0	
Vacancies	0.0	0.0	0.0	0.0	

(Dollars in thousands)

Workload Measure	2010-11	2011-12	2012-13	2013-14	2014-15
JOC Leads Billed	\$336	\$7,037	\$68	\$183	\$0*

**Investigations are currently in process involving imported fuel.*

C. State Level Considerations

The BOE collects taxes, fees, and surcharges that provide over 30 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. In FY 2013-14, the BOE administered taxes and fees that produced \$60.4 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes, and collects fees that fund specific programs. More than one million businesses are registered with the agency.

The BOE collects the motor fuel taxes which are deposited in the Motor Vehicle Fuel Account with subsequent transfer to the Transportation Tax Fund and other smaller funds. The bulk of the revenue is used to support the state's transportation system. Approval of this proposal will assist with the analysis of JOC project data and help ensure fuel tax compliance.

In recent years, the motor fuel reporting system at both the state and national level has moved forward rapidly to provide electronic transactions reporting. On a state level, California has developed and is already using systems to receive and analyze California data. This proposal takes advantage of rapidly expanding national fuel tax reporting by providing a national perspective to fuel tax compliance.

Approval of this proposal will also allow the Internal Revenue Service (IRS) to share fuel tax information with California. Other states and the federal government will also benefit from the proposal. The BOE, as a leader in fuel tax administration, can continue to work with these entities to improve fuel tax compliance and to deter tax evasion.

This proposal is consistent with the BOE's mission to serve the public through fair, effective, and efficient tax administration. Specifically, this proposal is consistent with the BOE's Strategic Plan 2010-2015 Goal 2: Maximizing Voluntary Compliance and Goal 4: Enhancing Operational Effectiveness. It is a 100% federally funded project that has directly and indirectly provided additional tax revenues for improvement of California's highway system at no cost to the state.

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D. Justification

Approval of this proposal will result in staff's continued participation in the JOC project which will ensure fuel tax compliance. By continuing participation in the JOC project, California will benefit when staff identifies non-compliance or under-reporting within California and when federal non-compliance is identified. California receives approximately 10% of all federal fuel tax revenues apportioned to the states for transportation projects. The identification of non-compliance on both the state and federal level ensures that the state protects its own revenue base and safeguards the federal fuel tax revenue stream designated for transportation projects.

This proposal will allow staff to continue participation in data analytics under the direction of the National Data Center, and participate in joint audits and examinations resulting from leads generated by the National Data Center. Without these resources, the BOE will not maximize its operational effectiveness or leverage the use of federal funds. Currently, the BOE estimates this proposal will generate an additional \$1 million annually in revenue for the State of California.

If termination of federal funds occurs, the BOE would prepare a negative Budget Change Proposal (BCP).

E. Outcomes and Accountability

Projected Outcomes (Dollars in thousands)

Workload Measure	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
JOC Leads Billed	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000

F. Analysis of All Feasible Alternatives

Alternative 1 - The BOE requests authority to expend \$296,000 in federal funds in FY 2016-17 and on-going¹ to permanently establish 2.0 positions for the JOC project. See Exhibit I (page 7) for workload justification.

Alternative 1 requests approval of these positions that will allow permanent participation in the JOC project to ensure fuel tax compliance. Staff will continue to conduct joint audits and investigations. If termination of federal funding occurs, the BOE would prepare a negative Budget Change Proposal (BCP).

Pros:

- No General Fund impact.
- Provides \$296,000 per year in federal funding earmarked for intergovernmental tax compliance initiatives to protect and enhance California highway tax revenue.
- Leverages other state and federal resources to identify evasion, non-reporting and under-reporting of California fuel tax.
- Recovers under-reported fuel taxes for California through the auditing and billing of non-compliant California taxpayers.
- Recovers California's share of federal revenue realized through the auditing and billing of non-compliant federal taxpayers.

¹ BOE has secured annual federal grant funding of \$100,000 per federal fiscal year through September 30, 2016. In addition, BOE has prior unspent project grant allocations in excess of \$900,000.

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- Provides for more efficient management and enforcement of the Motor Vehicle Fuel Tax Law and Diesel Fuel Tax Law and benefits honest taxpayers by providing another mechanism to assist the BOE and the federal government to maintain a level of fuel tax playing field.
- Provides for the early identification of non-compliant taxpayers and newly emerging tax evasion schemes.

Cons:

- Reduces funds available for other intergovernmental compliance proposals received by Federal Highway Administration (FHWA).
- Requires a negative BCP if federal funds are terminated.

Alternative 2 - The BOE requests authority to expend \$296,000 in federal funds in FY 2016-17, FY 2017-18 and FY 2018-19² to continue 2.0 positions on a 3-year limited term basis for the JOC project. See Exhibit I (page 7) for workload justification.

Alternative 2 requests approval of these positions that will allow participation in the JOC project on a 3-year limited term basis to ensure tax compliance. Staff will continue to conduct joint audits and investigations.

Pros:

- No General Fund impact.
- Provides \$296,000 per year in federal funding earmarked for intergovernmental tax compliance initiatives to protect and enhance California highway tax revenue.
- Leverages other state and federal resources to identify evasion, non-reporting and under reporting of California fuel tax.
- Recovers under-reported fuel taxes for California through the auditing and billing of non-compliant California taxpayers.
- Recovers California's share of federal revenue realized through the auditing and billing of non-compliant federal taxpayers.
- Provides for more efficient management and enforcement of the Motor Vehicle Fuel Tax Law and Diesel Fuel Tax Law and benefits honest taxpayers by providing another mechanism to assist the BOE and the federal government to maintain a level fuel tax playing field.
- Provides for the early identification of non-compliant taxpayers and newly emerging tax evasion schemes.

Cons:

- Reduces funds available for other intergovernmental compliance proposals received by Federal Highway Administration (FHWA).
- Requires biennial rotation of fully trained staff in and out of the limited term positions to meet the two-year limitation on limited term assignments.
- Temporarily meets the needs of the JOC project.

Alternative 3 - Do not provide authority to expend \$296,000 in federal funds.

Alternative 3 does not meet the current needs of the JOC project.

Pros:

- No General Fund impact.

² BOE has secured annual federal grant funding of \$100,000 per federal fiscal year through September 30, 2016. In addition, BOE has prior unspent project grant allocations in excess of \$900,000.

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- The FHWA funds currently being received by the BOE can be reallocated by FHWA to other states' intergovernmental compliance proposals received by FHWA.

Cons:

- Eliminates the 2.0 limited term positions for the JOC Project.
- Turns down \$300,000 per year in federal funding earmarked for intergovernmental tax compliance initiatives to protect and enhance California highway tax revenue.
- Does not leverage other state and federal resources to identify evasion, non-reporting and under-reporting of California fuel tax.
- Reduces the state's ability to recover under-reported fuel taxes for California through the auditing and billing of non-compliant California taxpayers.
- Places at risk California's share of federal revenue realized through the auditing and billing of non-compliant federal taxpayers.
- Reduces the ability for the early identification of non-compliant taxpayers or newly emerging fuel tax evasion schemes.
- Does not allow California to benefit from the expertise of other states and the Internal Revenue Service in analyzing data and performing audits.

G. Implementation Plan

July 2016 and ongoing

- Continue to conduct joint federal/state audits and investigations.
- Track and evaluate program activities and impact of operations.

H. Supplemental Information

None

I. Recommendation

Alternative 1 is recommended.

The BOE requests authority to expend \$296,000 in federal funds per year starting in FY 2016-17 through 2018-19 to continue 2.0 expiring LT positions for an additional 3 years to participate in the JOC project. Approval of this proposal will meet the current needs of the JOC project and increase fuel tax compliance throughout the nation. California will benefit when staff identifies non-compliance within California and when federal non-compliance is identified. California receives approximately 10% of all federal fuel tax revenues apportioned to the states for transportation projects.

Workload Detail for JOC Fuel Tax Compliance

Business Taxes Specialist I (BTS I)

The Business Taxes Specialist I will conduct routine audits and investigations and performs data analysis of JOC audit leads and investigations. The chart below summarizes the workload hours required for the Business Taxes Specialist I position:

Workload Detail					
Classification: Business Taxes Specialist I (BTS I)	Time Measure		On-going Activities		
	Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
	Auditing and Investigation	H	200	6	1,200
	Data Analysis	H	4	100	400
	Other Administrative Duties	H	10	20	200
	Total BTS I Hours				1,800
	Total BTS I Positions Requested (1,800 Hours/Position)				1.0

Business Taxes Specialist II (BTS II)

The Business Taxes Specialist II will conduct complex audits and investigations and performs data analysis of JOC audit leads and investigations. The chart below summarizes the workload hours required for the Business Taxes Specialist II position:

Workload Detail					
Classification: Business Taxes Specialist II (BTS II)	Time Measure		On-going Activities		
	Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
	Complex Auditing and Investigation	H	300	4	1,200
	Data Analysis	H	4	100	400
	Other Administrative Duties	H	10	20	200
	Total BTS II Hours				1,800
	Total BTS II Positions Requested (1,800 Hours/Position)				1.0

Fiscal Summary
(Dollars in thousands)

BCP No. 3	Proposal Title Joint Operations Center - Ensuring Fuel Tax Compliance	Program
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Personal Services	Positions			Dollars		
	CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries and Wages ¹	0.0	2.0	2.0		\$156	\$156
Total Staff Benefits ²					\$71	\$71
Distributed Administration						
Total Personal Services	0.0	2.0	2.0		\$227	\$227

Operating Expenses and Equipment				
General Expense			\$5	\$5
Distributed Administration				
Printing				
Communications			\$2	\$2
Postage				
Travel-In State			\$18	\$18
Travel-Out of State			\$14	\$14
Training			\$2	\$2
Facilities Operations			\$23	\$23
Utilities				
Consulting & Professional Services: Interdepartmental ³				
Consulting & Professional Services: External ³				
Data Center Services			\$5	\$5
Information Technology				
Equipment ³				
Other/Special Items of Expense: ⁴				
Total Operating Expenses and Equipment			\$69	\$69

Total State Operations Expenditures			\$296	\$296
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Fund Source	Item Number					
	Org	Ref	Fund			
General Fund	0860	001	0001			
Special Funds ⁵						
Federal Funds					\$296	\$296
Other Funds (Specify)						
Reimbursements	0860	501	0995			

Total Local Assistance Expenditures						
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Fund Source	Item Number					
	Org	Ref	Fund			
General Fund						
Special Funds ⁵						
Federal Funds						
Other Funds (Specify)						
Reimbursements						

Grand Total, State Operations and Local Assistance					\$296	\$296
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¹ Itemize positions by classification on the Personal Services Detail worksheet.
² Provide benefit detail on the Personal Services Detail worksheet.
³ Provide list on the Supplemental Information worksheet.
⁴ Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.
⁵ Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.

