

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

TUESDAY, MARCH 7, 2023

1:30 PM – STATE CAPITOL, ROOM 447

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## VOTE-ONLY CALENDAR

### 7730 FRANCHISE TAX BOARD

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#### VOTE-ONLY ISSUE 1: HIGH-SPEED PRINTER REFRESH

The Governor's budget includes \$2,199,000 (General Fund) and \$33,000 (special funds) in 2023-24 and 2024-25; \$99,000 (General Fund) and \$2,000 (special funds) in 2025-26, and ongoing, for the Franchise Tax Board (FTB) to replace two high-speed print systems and software that FTB uses to print FTB's notices, bills, and correspondence. The print system and software must be replaced because they will reach end of life (EOL) on December 31, 2024.

#### BACKGROUND

To administer filing, accounts receivable, audit, and non-tax programs, FTB uses a full-service data center, which includes extensive 24x7x365 printing operations using high-speed, industrial print systems. FTB also prints notices for the collection of monies on behalf of other departments, such as FTB's Court Ordered Debt (COD) program and the Department of Motor Vehicles (DMV) and provides emergency backup print services for the State Controller's Office (SCO). While FTB has implemented many paperless options, FTB continues to provide printed notices, bills, and correspondence to California taxpayers and customers. These printed documents, which are subsequently mailed, help FTB deliver its products and services to California taxpayers and generate revenue for the State of California.

FTB's Print Operations Unit prints over 20 million notices, bills, and correspondence consisting of more than 76.5 million pages annually. Recently, with the implementation of programs like Health Care Mandate (HCM) and CalSavers the number of forms printed has increased from 1,200 to over 2,700 and the number of logical pages printed has increased from 45.3 million to 76.5 million.

FTB must replace its high-speed print systems due to EOL. FTB requests funding in 2023-24 to begin the replacement process prior to EOL. This early process allows FTB to install the new print systems with minimal risks to FTB's printing abilities for notices, (including bills and correspondence). This replacement will also protect against the negative impact of aging equipment and provide capability for increasing workloads.

#### STAFF COMMENTS

Staff has no concerns.

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**Staff Recommendation: Approve as Budgeted.**

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**0870 OFFICE OF TAX APPEALS**

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**VOTE-ONLY ISSUE 2: ADDITIONAL STAFFING RESOURCES**

The Governor's budget OTA requests \$435,000 ongoing (General Fund) and permanent position authority for two positions in the Hearings Section of the Legal Division to fulfill requirements set forth in SB 189 (Chapter 48, Statutes of 2022) and address additional workload at the Office of Tax Appeals (OTA).

**BACKGROUND**

The OTA is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). Panels comprised of Administrative Law Judges (ALJs) hear and decide cases brought to OTA. SB 189, approved as part of the 2022-23 Budget Act, expands eligibility for serving on appeals panels and hearing and deciding tax appeals, to include certain other tax professionals, specifically Program Specialists (Franchise Tax Board series) and Business Taxes Specialists (California Department of Tax and Fee Administration series). The requested additional positions and funding will allow OTA to fulfill the requirements of SB 189 and address a workload increase.

**STAFF COMMENTS**

Staff has no concerns; this change was part of the 2022 Budget Act.

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**Staff Recommendation: Approve as budgeted.**

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## ITEMS TO BE HEARD

### 7730 FRANCHISE TAX BOARD

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The Governor's budget includes \$1.19 billion for the Franchise Tax Board (FTB) in 2023-24, a decrease of \$68.9 million from the current year. The main funding source of FTB's budget is General Fund for a total of \$1.15 billion with the remaining sources coming from special funds. The Governor's budget includes 6,782.6 positions for 2023-24, a decrease of 20.2 positions from the current year.

FTB is responsible for collecting personal income tax and corporation tax revenue; operating various collection programs, and conducting field audits for the Fair Political Practices Commission.

#### ISSUE 1: UPDATE ON IRS TAX RELIEF FOR VICTIMS OF SEVERE WINTER STORMS, FLOODING, AND MUDSLIDES IN CALIFORNIA

The Franchise Tax Board will provide an update on the IRS Tax Relief announcement to extend filing deadlines for victims of severe winter storms, flooding, and mudslides in California.

#### PANEL

- Jeanne Harriman, Chief Financial Officer, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Colby White, Department of Finance

#### BACKGROUND

On January 10, 2023, the Internal Revenue Service (IRS) announced it had extended the filings and payment deadlines for victims of severe winter storms, flooding, and mudslides in California from April 18, 2023, to May 15, 2023. Subsequently, the IRS announced on February 23, 2023, that it further extended the deadlines from May 15, 2023, to October 16, 2023. On March 2, 2023, California announced that it had aligned its filing deadlines consistent with the IRS for Californians impacted by December and January winter storms.

California individuals and businesses impacted by the 2022-23 winter storms and live in 51 of the 58 counties covered by the announcement qualify for an extension to file and pay taxes until October 16, 2023.

This includes:

- Individual tax returns and payments due on April 18, 2023 and May 15, 2023.
- Business entity tax returns and payments due on March 15, 2023 and May 15, 2023.
- Quarterly estimated tax payments due January 17, 2023, April 18, 2023, June 15, 2023, and September 15, 2023.
- Pass-through entity elective tax payments due January 15, 2023.

<b>STAFF COMMENTS</b>
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The Subcommittee may wish to ask the Department of Finance how this delay will impact the Budget process.

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**Staff Recommendation: This item is for information only.**

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<b>ISSUE 2: UPDATE ON THE MIDDLE CLASS TAX REBATE</b>
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The Franchise Tax Board will provide an update on the Middle Class Tax Rebate.

<b>PANEL</b>
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- Jeanne Harriman, Chief Financial Officer, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

<b>BACKGROUND</b>
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**Middle Class Tax Rebate.** The 2022 Budget Act established the Better for Families Act, to provide approximately \$9.5 billion of payments to low-income and middle-income Californians in order to provide financial relief for economic disruptions resulting from the COVID-19 emergency, such as the financial burdens of inflation and increasing costs for gas, groceries, and other necessities.

As a result of the Better for Families Act, the FTB implemented the Middle Class Tax Rebates (MCTR) program in the fall of 2021. Tax filers are eligible for credits of \$350, \$250, or \$200 per individual filer (each person will get the credit if they file jointly), depending on the amount of taxable income (up to \$250,000 for individuals and \$500,000 for joint filers) and those with dependents are eligible for an additional credit.

The FTB has completed distributing almost all first-time payments under the MCTR program and is now working on reissuing cards that were lost, never received, or had a malfunction or fraud event occur.

Payments distributed to date:

Method	Volume	Value
Direct Deposits	7.2 million	\$4,000,000,000
Debit Cards	9.6 million	\$5,200,000,000
	<b>16.8 million</b>	<b>\$9,200,000,000</b>

The FTB contracted with the Money Network to distribute the debit cards portion of the program.

Of the 9.6 million debit cards issued:

- On average across the State, 80 percent have been activated for a total value of \$4.2 billion.
- 36 percent of activated cards have a zero balance and Californian's have expended \$1.5 billion.

**Current FTB Actions.**

- Reminder letters will be mailed March – May to all those who have not yet activated their cards asking them to please activate their card.
- FTB is working on tools to assist legislative district staff in working with taxpayers on eligibility questions and tips on how to navigate Money Network’s customer service channels.
- Awaiting guidance from the IRS as to whether they will require the filing of an amended return by taxpayers that filed prior to the IRS indicating they would not challenge the reporting of the MCTR payment on their tax return.

**Fraud.** The FTB notes that the program is still performing at a fraud rate substantially less than acceptable program metrics at 1 percent. This 1 percent was identified as an industry average associated with potential debit card fraud in programs comparable to the MCTR program. Both the FTB and Money Network continue to work to assist customers that need assistance with potential fraudulent actions against their cards. To protect themselves and begin the process, individuals who suspect fraud need to file a claim with Money Network. Resolution of investigations can take between 45 – 90 days.

**Assessment of Fees.** There is a network of banks and ATMs where recipients can withdraw funds without fees.

While this information was made available since the issuance of the cards, consumers experienced confusion. The FTB and Money Network worked closely with VISA and the California’s Bankers Association to re-distribute instructions to banks on how to negotiate these cards without fees.

**Customer Support Services.** Californian’s needing assistance with their debit card can find it challenging at time to obtain assistance needed. As a result, FTB requested the following changes that were able to be implemented by their implementation partner Money Network.

- Additional staff were hired or redirected to support the MCTR call center.
- Queue size was increased from 149 to 199 individuals, allowing more people to get into the call center for assistance.
- Changes to the prioritization of calls have been changed to prioritize calls for activation issues and reports related to potential fraud.
- Sent notification to all agents to engage in refresher training to ensure consistent messaging and service levels are attained.

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**Staff Recommendation: This item is for information only.**

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**ISSUE 3: STUDENT LOAN FORGIVENESS INCOME TAX EXEMPTION**

The Governor proposes trailer bill language to exclude from state taxable income qualified student loan debt that is discharged under President Biden's 2022 federal student loan debt relief plan, which is currently being considered in a case before the U.S. Supreme Court. Both Speaker Rendon and Pro Tem Atkins have indicated that they support similar tax relief, and bills have been introduced in both houses to accomplish that goal.

**PANEL**

- Denis Armstrong, Legislative Services Bureau, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Robin Finnestead, Department of Finance

**BACKGROUND**

As a general rule, a discharge of indebtedness counts as income and may be taxable under income tax laws. Federal and state laws, however, have included exclusions for specific types of student loan debt relief in the past. For example, pursuant to Section 17132.11(b) of the Revenue and Taxation Code, student loan debt cancelled or repaid under certain federally-administered income-based repayment programs is excluded from taxable income for specified periods before January 1, 2022.

On August 24, 2022, President Biden announced that his administration would cancel up to \$20,000 in debt for eligible Pell Grant recipients and up to \$10,000 for other borrowers. According to the White House, 3.5 million California borrowers were eligible for student debt relief under the program, and 2.3 million of the likely eligible borrowers received a Pell Grant. According to the Institute for College Access and Success, over half of these borrowers are under the age of 35. The President's 2022 relief plan currently is on hold, pending disposition of a case that recently was heard by the U.S. Supreme Court.

The Governor's proposed trailer bill would exclude from California gross income any amount of qualified student loan debt discharged under the President's 2022 debt relief plan. Two budget committee bills in print (Assembly Bill 35 and Senate Bill 220) would conform state tax law, for taxable years 2021 through 2025, to federal tax law amendments on student loan discharges included in the American Rescue Plan Act of 2021. The budget committee bills, therefore, would provide state tax relief for debt discharged under the President's 2022 plan, as well as other, small eligible debt relief programs prior to the President's plan and any eligible debt relief programs implemented in or before 2025.

While no detailed revenue estimate is available, staff expects that these measures could potentially relieve at least hundreds of millions of dollars of state tax liability for former borrowers, assuming that the Biden plan is allowed to be implemented by the U.S. Supreme Court. Note that state budget revenue estimates have never assumed any income tax revenues as a result of the President's 2022 student loan debt relief plan. Therefore, this measure would not negatively affect the state budget situation as projected by both the administration and the LAO.

<b>STAFF COMMENTS</b>
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The subcommittee may wish to discuss the merits of early action (that is, before June enactment of the 2023-24 state budget) to approve trailer bill language in order to provide certainty to borrowers while they await the U.S. Supreme Court decision. Should the court allow the Biden plan to proceed, affected Californians will want quick answers on how state tax law will regard the debt relief.

The subcommittee may wish to ask the following:

- Why does the Governor's trailer bill avoid full conformity with the American Rescue Plan Act's student loan debt relief tax provisions?
- Does the administration have more precise estimates of the amount of potential taxes that would be eliminated under the trailer bill proposal (while recognizing that these revenues have never been included in state budget estimates)?
- Does the Franchise Tax Board have a contingency plan for addressing borrower questions in the weeks after any Supreme Court decision allowing the Biden plan to be implemented?

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**Staff Recommendation: Hold Open.**

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**ISSUE 4: ENTERPRISE DATA TO REVENUE PROJECT 2**

The Governor's budget requests \$135 million (General Fund) and the full time equivalent of 41.0 permanent positions, and 31.0 limited-term positions for the FTB for the third-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan.

**PANEL**

- Jeanne Harriman, Chief Financial Officer, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

In 2007, the staff created a 30 year three-phased modernization strategy for FTB's information technology systems. The primary objective of this strategy addresses refreshing FTB's aging legacy systems, while also taking the opportunity to further advance FTB's strategic goals using the latest technologies and industry best business practices.

Phase 1 of FTB's TSM effort, the Enterprise Data to Revenue (EDR) project, was completed in 2016. The EDR project was successful and began to address business problems for FTB's Return Filing and Return Validation programs (specifically in the application of modeling and case management) and built the foundation for the next two phases of the TSM effort. This phase included Imaging, Data Capture, CM, Return Processing, Modeling, Taxpayer Folder, and MyFTB. The EDR project resulted in an enterprise data, modeling, CM platform and infrastructure with common services that can be expanded across the enterprise.

Phase 2 of the TSM effort is the EDR2 project, which began in 2021. This project as proposed and approved builds on the enterprise data, modeling, CM platform and infrastructure provided by EDR by expanding the enterprise CM and modeling to other BSOs including Audit, Legal, FE, and Underpayment. Phase 2 also expands the functionality for the Taxpayer Folder and MyFTB in addition to positioning FTB to decommission multiple legacy systems.

The EDR2 project plans to achieve the following objectives in 2023-24:

- Utilize the new data analytic tools to support the development of new work including functionality for models, treatment paths, and data visualization (reports and dashboards)
- Perform data analysis and clean-up of the PASS application data prior to the conversion of the data into the EDR2 case management platform

- Analyze and resolve issues with collection cases that will not convert in an automated fashion prior to contractor's automated conversion from the PIT collection legacy to new system
- Enhance the ability to successfully select best value cases for compliance efforts and complete quality cases efficiently
- Ensure new data fields can be captured from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules which will result in increased revenue
- Develop and implement Training and Organizational Change Management activities to support FTB enterprise including the field offices who will utilize the systems impacted by the EDR2 project implementation and changes
- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions
- Fully implement Automated Audit, Professional Audit and Legal Case Management solution
- Enhance the capabilities of the previously implemented solution that is used by the Underpayment BSOW to identify available assets to levy during the Personal Income Tax involuntary collection cycle
- Implement self-services, including allowing customers to respond to various notices without a MyFTB account and allowing Withholding Agents to file various information returns online
- Implement the Enterprise Knowledge Library (EKL) framework to allow for the various enterprise procedure and manuals to be transitioned to this new tool and make certain reference materials available to external customers for self-service purposes
- Continue design and development of deliverables to be implemented in future years, including self-services and additional case management solutions

FTB notes that this request is funding for the 2023-24 fiscal year and that a BCP will be submitted each year to cover the costs of the project. According to the FTB, the total cost of EDR2 is estimated to be just over \$750 million and will ensure continued collection of over \$4 billion in annual revenues. After full implementation, the project is projected to bring in additional new revenues of \$300 million annually.

The most recent CDT's Independent Project Oversight Report, completed in December of 2021, notes that the project is on track and performing as expected and does not identify any needed corrective actions at this point.

<b>STAFF COMMENTS</b>
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The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

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**Staff Recommendation: Hold Open**

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**ISSUE 5: TECHNOLOGY EXPANSION FOR BUSINESS ENTITIES REFUNDABLE CREDIT**

The Governor's budget includes \$4.5 million (General Fund) and 2 two-year limited term positions and 5.0 permanent positions in 2023-24; \$1 million (General Fund) in 2024-25; \$753,000 (General Fund) in 2025-26, and ongoing for FTB to expand the tax systems necessary to support refundable credits for Business Entities (BE).

**PANEL**

- Thi Luong, Financial Management Bureau, Franchise Tax Board
- Brian Uhler, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

Currently, FTB's BE accounting system, filing process rules, reconciliation tasks, and forms/efile schematics only allow for a business entity to receive a refund for payments they have made, such as an estimate payment or tax payment. These payments are made directly to FTB and are recognized by the Accounting and Return Analysis (RA) systems as the only refundable credit type.

Using statistics from prior tax years, on average 70% of business entities pay only the minimum tax amount annually. In general, tax credits are available to business entities for a variety of reasons; however, with most business entities paying only the minimum tax, many entities cannot take advantage of these available tax credits. Additionally, in recent legislative sessions, it has been desired to provide refundable tax credits to businesses to assist with various challenges businesses have faced but using the tax system to distribute those funds was not feasible or timely. FTB is seeking resources to begin modifying our accounting systems to allow for business entity taxpayers to use refundable type business credits that may be enacted in later years.

FTB notes that a variety of legislative proposals have explored providing refundable tax credits to businesses to assist with various challenges businesses have faced but using the tax system to distribute those funds was not feasible or timely. FTB is seeking resources to begin modifying accounting systems to allow for business entity taxpayers to use refundable type business credits that may be enacted in later years. Approval of this request would put FTB on track to implement this function as of January 1, 2025.

FTB systems will need significant modifications to support the ability of a future refundable (BE) credit. The complexity of these changes is vast and without taking the proper time and care, the entire return processing infrastructure and recording of return filings in FTB's accounting systems could be severely compromised. To ensure the necessary stability and reduce the risk of impacting core tax return processing, FTB is seeking vendor support for the system changes. The primary system that will need modifications

is written in COBOL and limited resources with the requisite skill set exist. This work must be completed by technical experts allowing ample opportunity to thoroughly design, develop and test functional changes. Resources requested will support the vendors with their work and will maintain the programming ongoing.

Of the total, \$2.8 million is the vendor cost for the return analysis system changes and \$569,000 is the vendor cost for accounting system changes. Staff notes that FTB indicates that the costs identified in this request would allow systems to provide refundable business credits, however the adoption of any individual tax policy change that provides these credits would necessitate an additional request to cover the cost of actual implementation.

<b>STAFF COMMENTS</b>
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The Subcommittee may wish to ask FTB the following:

- Is this authority necessary now?
- If this authority is granted for the Film Tax Credit, which would apply to larger businesses not small businesses, how long would FTB need to stand up a program and when?

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**Staff Recommendation: Hold Open.**

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**ISSUE 6: RETURN PROCESSING TECHNOLOGY SUPPORT**

The Governor's budget includes \$4.9 million (General Fund) and \$96,000 special funds for 29.0 permanent positions in 2023-24; and \$4.6 million (General Fund) and \$91,000 (special funds) in 2024-25, and ongoing for FTB to maintain and improve its existing mission-critical applications and return-processing technology support services.

**PANEL**

- Thi Luong, Financial Management Bureau, Franchise Tax Board
- Brian Uhler, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

FTB is responsible for administering the income and franchise tax laws for the State of California. Staff process tax returns and payments, issue refunds to Californians, conduct audits and filing enforcement actions, collect debts owed the state and support numerous service functions allowing for each of these compliance activities to occur. As a result of FTB's efforts, in FY 2021-22, FTB processed more than 22.5 million tax returns, over 10 million payments, responded to more than 2.9 million telephone calls, serviced over 70 million internet contacts, and collected about \$190 billion in revenue, representing approximately 77 percent of California's General Fund revenue.<sup>1</sup> The General Fund is used to fund necessary services for all Californians across the state, including but not limited to education, safety and welfare programs, and law enforcement.

FTB's technology underpins FTB's return-processing and downstream workloads, and many of FTB's processes are automated and rely on technology and technical staff to maintain them. For example, 87 percent of FTB's tax returns are processed through automation, 83 percent of FTB's personal income tax collection accounts are resolved through automated collections, 80 percent of FTB's tax return payments are electronic, and 33 percent of FTB's audit net assessment revenue is achieved through automated audits. The remaining work requires staff intervention, but still requires technology to facilitate resolution. Additionally, FTB's customer self-service channels also rely heavily on technology. Many of these services are available 24 hours a day, 7 days a week.

Over the past several years FTB's Technology Services Division (TSD) has consistently been asked to implement changes and adopt new workloads in support of FTB's return processing through legislative change or change requests. At the same time, FTB must provide ongoing technical maintenance activities to ensure its systems and related infrastructure are on supported versions and contain the latest security patches so that FTB can continue to safeguard taxpayer information and provide timely return-processing services to a variety of key stakeholders (e.g., taxpayers, tax preparers). These factors have contributed to FTB's TSD struggling to effectively support its return-processing

workloads and accomplish all other mandated or necessary workloads, negatively impacting the public services supported by the revenue FTB generates.

As a result, FTB has begun a comprehensive review of resources, both positions and tools, which support FTB technology work for all functions. This proposal focuses on resource gaps impacting FTB's return-processing workloads. As warranted, additional resource gaps may be addressed in other or future year Budget Change Proposals.

FTB requests 29 positions in the following classifications:

- 26 Information Technology Specialist I
- 3 Information Technology Specialist II

With this requested augmentation, FTB will be able to commit resources to address its struggling workloads and reduce the risk of adverse impacts to return-processing workloads, enhance FTB's ability to react to change, make return processing easier, which helps downstream compliance activities, and improves FTB's ability to deliver reliable and sustainable critical technology and customer services in support of its mission.

<b>STAFF COMMENTS</b>
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Staff has no concerns.

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**Staff Recommendation: Hold Open.**

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**ISSUE 7: ESSENTIAL SERVICES AND STAKEHOLDER SUPPORT GAPS**

The Governor's budget includes \$2.5 million [\$2.4 million (General Fund) and \$100,000 in (special funds)] for 13 positions for 2023-24 and \$2.4 million [\$2.3 million (General Fund) and \$100,000 (special funds)] for 13 positions in 2024-25 and ongoing to enable the FTB to engage in critical and essential services related to revenue estimating, budgeting, legislative analysis, project oversight, procurement, talent management and ensure compliance with Equal Employment Opportunity Laws.

**PANEL**

- Jeanne Harriman, Chief Financial Officer, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

The FTB has multiple support areas within FTB that supports core services for all of FTB. These business areas provide expertise and services in the areas of procurement, financial and project management, legislation, research, statistics, talent management, planning, and services related to responsibilities under the Equal Employment Opportunity statutory framework. These functions ensure FTB can optimize services provided across the department as well as provide key information and services to external stakeholders such as the Government Operations Agency, Department of Finance, Department of General Services, Department of Technology, the Legislative Analyst Office, the Legislature, and the California Department of Human Resources (CalHR).

**Economic and Statistical Research Activities.** Staff provide services for FTB program areas, statewide policy makers, the public and other stakeholders in order to assess the historical and current impact of tax laws and policies. Staff also develops California revenue impact estimates for proposed legislative changes to the personal income and corporate tax codes, and federal law changes as well as publishes annual reports and information in FTB's Open Data Portal on significant tax expenditures.

**Request:** 1 Permanent Program Specialist III, and funding to cover increased costs for reclassifying an Administrator II position to a CEA B position.

**Financial Management Activities.** Staff are responsible for the formulation, management, and execution of the department's budget, including the accounting function. This bureau establishes budgetary principles, policies, systems, and procedures and assists senior management in managing FTB's budget at both a workload and enterprise perspective to ensure all resources granted FTB are utilized as expected and

at an optimal level. Staff ensure the accurate and systematic accounting for all revenue, expenditures, receipts, disbursements, and property of the State entrusted to and administered by the FTB, coordinate the development of the department's budget and collaborates with external oversight departments soliciting additional resources through Budget Change Proposals, and ensuring FTB has sufficient resources to engage in new legislative programs implemented. Finally, staff documents enterprise workload metrics and leads efforts to understand and act upon this enterprise performance data.

**Request.** 2 Permanent Administrator III Specialists, 1 permanent Administrator IV, and upgrade costs for 3 Associate Operations Specialists to 2 Staff Operation Specialists and 1 Senior Operations Specialist

**Legislative Services.** Staff provides services to ensure that legislation that affects taxpayers and the Department can be administered. Staff responsibilities include providing timely, accurate, and objective bill analyses; engaging in discussions on how operations will be or can be modified for legislative bills, developing and shepherding department legislative proposals through the legislative process; and working collaboratively with the Legislature, the Government Operations Agency, Department of Finance, Legislative Analyst Office and many other external stakeholders.

**Request.** 2 Permanent Program Specialist II, and 1 Permanent Administrator III Specialist

**Planning, Project Oversight & Risk Management Activities.** Staff provide numerous diverse services to FTB and external stakeholders. Staff are responsible for strategic and planning services, functions related to ensuring the department is prepared for actions necessary to ensure continuity of operations in the event of an emergency or catastrophic event, providing project oversight of FTB information technology projects and coordinates with internal and external stakeholders to ensure project success and transparency of efforts occur, and finally, staff lead FTB's risk management program to capture, report, and address risks across the enterprise to ensure that critical program and operational risks are identified early, raised to the right decision makers, and shared timely with key stakeholders as appropriate.

**Request.** 1 Permanent IT Specialist II

**Procurement Activities.** Staff provide enterprise assistance to ensure acquisition of services and products necessary to support FTB business operations. As appropriate, Procurement Bureau staff works closely with external oversight departments to ensure all rules supporting the procurement process are followed and contracts are timely completed. FTB and one other department have the highest level of purchasing delegation authority (Tier 4) from Department of General Services and this level of Purchasing Authority requires a fair level of oversight, including undergoing annual audits.

**Request:** 1 Permanent IT Specialist I, and 1 Permanent Associate Budget Management Analyst, and funding upgrades for four staff members (2 Staff Service Analysts to Associate Budget Management Analyst and 2 IT Associate to 2 IT Specialist I positions)

**Equal Employment Opportunity Office.** The Equal Employment Opportunity Office manages FTB's equal employment opportunity programs in compliance with federal and state laws and regulations, including (but not limited to), Title VII of the Civil Rights Act of 1964, American's with Disabilities Act of 1990, Government Code sections 19700-19706, and the California Fair Employment and Housing Act. Staff also ensure that FTB complies with federal and state employment laws thereby managing and minimizing FTB's exposure and liability related to allegations of unfair employment practices.

**Request:** 2 Permanent Associate Personnel Analyst positions

**Talent Management.** Talent Management is a collaborative, enterprise-wide effort focused on our most valuable resource: FTB employees. Talent Management champions programs and processes that recruit, develop and retain the right employees to meet FTB's business and strategic objectives. Talent Management can increase overall workforce productivity through the improved attraction, retention, and utilization of talent.

**Request:** 1 CEA Position

<b>STAFF COMMENTS</b>
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Staff has no concerns.

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**Staff Recommendation: Hold Open**

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**ISSUE 8: TAX EXPENDITURES REPORT TRAILER BILL LANGUAGE**

The Governor's budget includes trailer bill language that proposes to move the due date of the Tax Expenditure Report (provided by the Department of Finance to the Legislature) from September 15th of each year, to November 1, 2024 and biennially thereafter.

**PANEL**

- Peter Abahazi, Department of Finance
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office

**BACKGROUND**

Government Code Section 13305 requires a Tax Expenditure Report to be issued by the Department of Finance to the legislature by September 15 of every year. Statute requires the following:

- (1) A comprehensive list of tax expenditures exceeding five million dollars (\$5,000,000) in annual cost.
- (2) The statutory authority for each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law.
- (3) A description of the legislative intent for each tax expenditure, if the act adding or amending the expenditure contains legislative findings and declarations of that intent, or that legislative intent is otherwise expressed or specified by that act.
- (4) The sunset date of each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law, if applicable.
- (5) A brief description of the beneficiaries of the credit, deduction, exclusion, exemption, or other tax benefit as provided by state law.
- (6) An estimate or range of estimates for the state and local revenue loss for the current fiscal year and the two subsequent fiscal years. For sales and use tax expenditures, this would include partial year exemptions and all other tax expenditures when the State Board of Equalization has obtained that information.
- (7) For personal income tax expenditures, the number of taxpayers affected and returns filed, as applicable, for the most recent tax year for which full year data is available.

(8) For corporation tax and sales and use tax expenditures, the number of returns filed or business entities affected, as applicable, for the most recent tax year for which full year data is available.

(9) A listing of any comparable federal tax benefit, if any.

(10) A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last report made under this section.

<b>STAFF COMMENTS</b>
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The Department of Finance notes that the requested changes better align with budget workload during the year and that on an annual basis similar information is available from the FTB.

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**Staff Recommendation: Hold Open.**

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**7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION**

The Governor's budget includes \$731.4 million for the California Department of Tax and Fee Administration (CDTFA) in 2023-24, a decrease of \$6 million over the current year. CDTFA is funded through the General Fund (\$484 million) and other special funds. The Governor's budget includes 4556.0 positions for 2023-24 a slight increase of 2.3 positions over the current year.

CDTFA was created in 2017 to assume most of the statutory duties formerly performed by the BOE. The CDTFA administers numerous tax and fee programs, including the Sale and Use Tax, the Cigarette and Tobacco Products Tax Program, and the excise and cultivation taxes for medicinal and recreational cannabis. The CDTFA also administers the alcohol excise tax and the insurance tax pursuant to agreements with the BOE.

**ISSUE 9: CENTRALIZED REVENUE OPPORTUNITY SYSTEM (CROS) MAINTENANCE AND OPERATIONS**

The Governor's budget requests \$8.9 million in 2023-24 and 2024-25 from a variety of fund sources for the Centralized Revenue Opportunity System (CROS) at CDTFA. Of this, \$5.3 million is for contract services for maintenance and operations (M&O), \$2.75 million is for the GenTax Software License and \$850,000 is for operating expenses and equipment (OE&E).

**PANEL**

- Nick Maduros, Director, CDTFA
- Jason Mallet, Chief Financial Officer, CDTFA
- Seth Kerstein, Economist, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

The CDTFA administers California's sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs.

The CROS Project (Feasibility Study Report Project 0860-094) is an information technology modernization effort that has enabled the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues reducing the tax gap.

CROS is a tax collection and distribution information technology system approved in 2011 and designed to improve the efficiency and effectiveness of the CDTFA's operations, expand tax and fee payer services, and enhance the CDTFA's ability to generate increased revenues. On August 30, 2016, the CDTFA completed the CROS Project's

Procurement Phase and signed an agreement with FAST Enterprises Inc. (FAST) to implement its commercial off-the-shelf software solution, GenTax, as the CROS Solution. GenTax is specifically designed for integrated tax administration and provides full functionality for processes such as registration, returns, payments, refunds, collections, revenue accounting, audit, correspondence, imaging, analytics, and workflow.

The first production release, Rollout 2, included the Sales and Use Tax Program and was implemented on May 7, 2018. The second production release, Rollout 3 included Special Taxes (such as Alcoholic Beverages, Cigarette and Tobacco, and Fuel Taxes) and was implemented on August 12, 2019. The final production release, Rollout 4 included all remaining the CDTFA tax programs and was implemented on November 9, 2020.

The CDTFA requests \$8.9 million in 2023-24 and 2024-25 and includes funding for FAST as follows:

- \$5.3 million in 2023-24 and 2024-25 for M&O contract services costs
- \$2.75 million in 2023-24 and 2024-25 for the GenTax Software License Fee

The CDTFA also requests \$850,000 in 2023-24 and 2024-25 for hardware, software, and training resources needed to support CROS operations. Training resources are needed to provide technical training for staff to ensure they gain key skills in new technologies to support CROS.

The current M&O contract is based on two 2-year optional periods for contract services. The first period was executed August 17, 2021, and goes through August 16, 2023, the second period will begin August 17, 2023, through August 16, 2025. Near the end of the term for the current contract, CDTFA and FAST will need to negotiate an ongoing contract to continue the M&O services.

The Software Licensing Agreement is renewed on an annual basis. The renewal cost in 2023-24 and 2024-25 will be \$2.75 million per year. This Software Licensing Contract will remain ongoing at a rate anticipated to increase by 1.5 percent annually, which will be absorbed by savings or funded by future BCP requests.

The following table provides a summary of the remaining tasks of the CROS Project Schedule through the Post Implementation Evaluation Report (PIER) closeout.

Phase	Description	Scheduled Start Date	Implementation Date	Scheduled End Date
M&O Period (Two, 24-month periods)	A 24-month period after Final State Acceptance where the FAST provides the CDTFA services and provide GenTax service package upgrades.	08/17/21	n/a	08/16/23
		08/17/23		08/16/25
Project Closeout	Closing all project phases and producing the Post Implementation Evaluation Report (PIER).	8/17/21	n/a	08/16/23

**STAFF COMMENTS**

The resources requested will provide the appropriate funding to maintain CROS.

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**Staff Recommendation: Hold Open.**

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**ISSUE 10: CALIFORNIA HEALTH CARE, RESEARCH AND PREVENTION TOBACCO TAX OF 2016  
(PROPOSITION 56)**

The 2020-21 Budget Act provided CDTFA with limited-term funding and redirection for 19 positions in the Investigations Section and the Inspections Section. These positions were requested as limited term in order to monitor the workload impact.

The Governor's budget proposes permanent funding of \$2.5 million in 2023-24, and ongoing from the Department of Tax and Fee Administration Subaccount, Tobacco Law Enforcement Account, CA Healthcare, Research and Prevention Tobacco Tax Act of 2016 to fund 16 of 19 positions originally redirected in 2020-21. The remaining three positions will be absorbed by the Department.

**PANEL**

- Jason Mallet, Chief Financial Officer, CDTFA
- Seth Kerstein, Economist, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

The California Health Care, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) increased the excise tax on the distribution of cigarettes by \$2.00 per pack of 20 (from \$0.87 to \$2.87 per pack), and indirectly increased the tobacco products tax rate. Proposition 56 also expanded the definition of taxable tobacco products to include electronic cigarettes. As a result, the CDTFA revenue from cigarette and tobacco products increased from \$1.2 billion in fiscal year 2016-17 to \$2 billion in 2020-21.

The 2020-21 Budget Act provided CDTFA with limited-term funding and redirection for 19 positions in the Investigations Section and the Inspections Section. These positions were requested as limited term in order to monitor the workload impact. Now that the workload is established, CDTFA has determined that ongoing funding is needed for 16 of the 19 positions originally redirected in 2020-21. The remaining 3 positions will be absorbed by the Department. The continuation of these resources will allow CDTFA to address the ongoing workload associated with cigarette and other tobacco products, and enforcement requirements specified in Proposition 56.

The 16 positions include the following:

- Investigations Section: 3 Business Taxes Specialist Is (Felony Investigators); 4 Business Taxes Specialist II (Senior Investigators); 2 Associate Tax Auditors (Assistant Investigators).
- Inspections Section: 5 Business Tax Compliance Specialist (Inspectors); 2 Business Taxes Specialist I (Lead Inspectors).

The Investigations Section and Inspections Section within the Field Operations Division of CDTFA operate under Section 34016, Division 2 of Part 14.5 of the Revenue and Taxation Code, which grants CDTFA authority to conduct inspections and seize products of evidence of non-payment of taxes and fees when discovered. The inspections section has increased its' workload to a three-year cycle, and plans to conduct approximately 11,000 inspections annually. The workload is based on approximately 30,000 retail, distributor, and wholesale cigarette and tobacco products licensed businesses.

<b>STAFF COMMENTS</b>
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The resources are consistent with the request made in the 2020-21 budget.

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**Staff Recommendation: Hold Open.**

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**ISSUE 11: LITHIUM EXTRACTION AND GEOTHERMAL DEVELOPMENT EXCISE TAX**

The Governor's budget includes \$249,000 in 2023-24, \$145,000 in 2024-25, and \$144,000 in 2025-26, and ongoing from the Lithium Extraction Excise Tax Fund for the implementation and administration of the new Lithium Extraction Excise Tax Program (LET) that was established in Chapter 63, of the Statutes of 2022 (SB 125).

**PANEL**

- Jason Mallet, Chief Financial Officer, CDTFA
- Seth Kerstein, Economist, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

Beginning January 1, 2023, the LET law imposes a lithium extraction excise tax upon each metric ton of lithium carbonate extracted from geothermal fluid or any other naturally occurring substance in this state. The LET Law requires producers to register, file tax returns, and remit tax payments to the CDTFA.

In February 2022, the County of Imperial adopted a Lithium Valley Economic Opportunity Investment Plant (Imperial County LVIP) that identifies increased efficiencies and resources needed to encourage the development of a broader clean economy across the state and nationally.

In addition, the California Alternative Energy and Advance Transportation Financing Authority's (CAEATFA) Sales and Use Tax Exclusion (STE) Program will provide incentives to manufacturers and recyclers looking to relocate or expand in California, including companies that manufacture, process, and extract lithium and other rare earth minerals.

SB 125 supports the development of geothermal and lithium extraction facilities in the Salton Sea area. In summary, SB 125 includes:

- A Lithium Extraction Tax that will be imposed on each metric ton of lithium carbonate equivalent extracted from geothermal fluid, rock, mineral, or any other naturally occurring substance in this state.
- Reimbursement to the CDTFA for expenses incurred in the administration and collection of the taxes imposed by SB 125.
- A \$5 million direct appropriation to Imperial County for the development of lithium extraction processing, production, and related manufacturing activities.
- The creation of the California Natural Resources Agency (NRA) Lithium Subaccount within the existing Salton Sea Restoration Fund.

- An expanded definition of “mining operations” by the California Department of Conservation’s California Geological Survey to include the extraction of minerals from geothermal resource facilities in this state.
- A requirement for each owner or operator of a mining operation to register for a permit with the CDTFA and pay a lithium extraction excise tax between \$400 to \$800, depending on the producer’s tax bracket, per metric ton of extracted lithium from the date the first extracted metric ton of lithium carbonate in this state occurred. This tax shall be due and payable quarterly, on or before the last day of the month following each calendar quarter.

The CDTFA identified an initial cost of \$1.4 million to implement and administer the LET Program in 2022-23, of which \$1.2 million will fund a contract for software configuration design and changes to the Centralized Revenue Opportunity System (CROS). The balance of the funding provided will fund existing positions for administrative functions associated with implementing the new LET Program.

The following implementation timeline was provided by CDTFA for the LET program.

<b>Activity</b>	<b>Date (Approximate)</b>
Draft detailed implementation plans, work with program to design and build new program and test all aspects.	October 2022 and ongoing
Outreach to new feepayers and public (eblasts, webpage updates, special notices).	November 2022 and ongoing
Perform registration and account maintenance as necessary.	December 2022 and ongoing
Train existing staff. Handle public inquiries.	December 2022 and ongoing
Train staff for program implementation and administration.	December 2022 and ongoing
Obtain registration information from Imperial and Riverside Counties or other agencies as needed.	Ongoing
Respond to inquiries received from feepayers and public, as a result of outreach efforts.	Ongoing
Prepare reports as necessary.	January 2023 and ongoing
First Tax Return and Payment Due.	January 2024
Perform refund (audit staff) activities as necessary.	January 2024 and ongoing
Develop and implement audit program and conduct audits.	January 2024 and ongoing
Process petitions on audit billings.	January 2024 and ongoing
Process returns and payments as necessary.	January 2024 and ongoing
Perform collection activities as necessary.	February 2024 and ongoing

#### **STAFF COMMENTS**

The requested resources are necessary to implement SB 125 of 2022.

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**Staff Recommendation: Hold Open.**

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**ISSUE 12: MENTAL HEALTH – CRISIS HOTLINE**

The Governor's budget includes \$661,000 and 2.5 positions in 2023-24, \$617,000 and 2.5 positions in 2024-25 and ongoing, from the new 988 State Suicide and Behavioral Health Crisis Services Fund for the California Department of Tax and Fee Administration (CDTFA) to address the workload associated with AB 988 Mental Health: 988 Suicide and Crisis Lifeline that was established in Chapter 747, of the Statutes of 2022 (AB 988) and for the ongoing administration of the 911 Surcharge Act.

**PANEL**

- Jason Mallet, Chief Financial Officer, CDTFA
- Seth Kerstein, Economist, Legislative Analyst's Office
- Derk Symons, Principal Program Budget Analyst, Department of Finance

**BACKGROUND**

The CDTFA currently administers the Prepaid Mobile Telephony (MTS) and the Emergency Telephone Users Surcharge programs. Administration of these two programs is split between the Field Operations Division and the Business Tax and Fee Division. These programs are components of the 911 Surcharge Act that funds the State Emergency Telephone Number Account (SETNA). SETNA funds are used to maintain the 911 network system in California that supports delivery of 911 calls to the state's 452 Public Safety Answering Points. California is currently facing a mental health crisis.

Mental illness and suicides have been steadily climbing nationally and currently one in six Californians live with mental illness. The National Suicide Hotline Designation Act (NSHD) of 2020 designated 988 as the new three-digit number for the national suicide prevention and mental health crisis hotline.

AB 988 implements the national 988 system in California so that people experiencing a mental health crisis can receive life-saving care. In summary, AB 988:

- Enacts the Miles Hall Lifeline and Suicide Prevention Act.
- Established the 988 State Mental Health and Crisis Services Fund.
- Creates a 988 surcharge on each access line for each month or partial month for which a service user subscribes with a service supplier.
- Sets the 988 surcharge for 2023 and 2024 calendar year at \$0.08 per access line per month, and beginning January 1, 2025, at an amount no greater than \$0.30 per access line per month.
- Imposes the 988 surcharge on the purchases of prepaid MTS.
- Requires the CDTFA to submit an annual report to the Office of Emergency Services (OES) regarding revenue generated by the 988 surcharge.

- Appropriates \$300,000 in fiscal year 2022-23, to fund the CDTFA's administrative costs for implementing the provisions of the bill.

In conjunction with the current 911 surcharge, beginning January 1, 2023, AB 988 imposes an eight cents (\$0.08) per access line per month on each landline, cell phone line, and Voice over Internet Protocol (VoIP) access line for each month or partial month for which a service user subscribes with a service supplier, and it also imposes the 988 surcharge on purchases of prepaid Mobile Telephony Services (MTS).

The Office of Emergency Services (OES) anticipates approximately \$55.6 million in annual revenue from the monthly surcharge of \$0.08 per access line, to be deposited into the 988 State Mental Health and Crisis Services Special Fund.

<b>STAFF COMMENTS</b>
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The resources requested are higher than the costs included in the Assembly Appropriations analysis that estimates the costs to be 50,000 to \$250,000 in 2023-24, ongoing administrative costs of approximately \$445,000.

The Subcommittee may wish to ask the CDTFA why the costs are different.

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**Staff Recommendation: Hold Open**

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**\*\*\*\* PUBLIC COMMENT \*\*\*\***