

# Memorandum

**To:** Honorable Jerome E. Horton, Chairman  
Honorable Michelle Steel, Vice Chair  
Honorable Betty T. Yee, First District  
Senator George Runner (Ret.), Second District  
Honorable John Chiang, State Controller

**Date:** May 15, 2012

**From:** Jeffrey L. McGuire, Deputy Director  
for Sales and Use Tax Department (MIC 43)



**Subject: Board Meeting May 30 - May 31, 2012**  
**Item P3- Sales and Use Tax Department's Deputy Director Report**  
**No Cash Pilot Update**

The Sales and Use Tax Department requests the following item(s) be placed on the Board's May 30 – May 31, 2012 Sacramento meeting calendar under "P. Other Administrative Matters."

P. Other Administrative Matters

P3. Sales and Use Tax Deputy Director Report.....Mr. Jeffrey L. McGuire

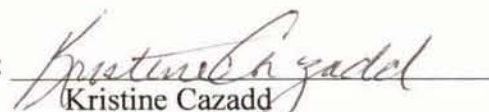
1. **No Cash Pilot Update** – An update on the no cash policy currently being piloted in the Oakland, Ventura and San Diego districts and a discussion regarding whether the pilot should be expanded statewide.

JLM:tf

Attachment

cc: Ms. Regina Evans-Jarrett  
Mr. Joel Angeles  
Mr. Alan LoFaso  
Mr. Sean Wallentine  
Ms. Marcy Jo Mandel

I approve:

  
Kristine Cazadd  
Executive Director

- For Information  
 For Discussion  
 For Decision Making

BOARD OF EQUALIZATION  
**INFORMAL ISSUE PAPER**

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## No Cash Policy

### Issue

Should the Board of Equalization (BOE) implement a no-cash policy in all BOE offices, thereby increasing employee safety, decreasing the risks of receiving counterfeit currency and increasing efficiencies?

### Background

With the expansion of the payment options BOE makes available to taxpayers via our eServices program, it was decided that we should examine the feasibility of not accepting cash in our district offices. The BOE currently accepts the following forms of payment: cash, checks (personal, business, money order, cashier's), credit cards, Automated Clearing House (ACH) Debit, and ACH Credit. During 2010, less than 1% of all payment transactions processed by the BOE were made using cash.<sup>1</sup>

BOE also offers Auto Pay for taxpayers making installment payments on a past due tax liability. Auto Pay is convenient for taxpayers to enroll and have monies debited from their bank account. This decreases payment processing costs for BOE.

### Pilot Project

A pilot project to not accept cash payments was conducted in three district offices and their branches (Oakland, Ventura, and San Diego). The pilot began June 1, 2011 and initially ran for 90 days. Due to its success the pilot continues to run in these offices. On February 2, 2012, six additional district offices were approved to participate in the pilot project. These offices started May 7<sup>th</sup>, 2012.

For the pilot districts the public was informed of the pilot project a month before it began by: placing posters in the affected offices, postings on the BOE website, and verbally by staff in the district offices, Taxpayer Information Section, and Taxpayer Opinion Expert phone line system.

Each office participating in the pilot project created a log of people attempting to pay in cash. This log counted not only the number of people attempting to pay in cash, but those that paid using alternative methods of payment and those that left without making payment. During the pilot, taxpayers attempting to pay with cash were encouraged to pay electronically using our self service terminals (kiosks), credit card, or personal or business check. When taxpayers were unable to pay using one of these methods, the district office provided them with directions to nearby businesses where they were able to convert cash to a cashier's check or money order.

The "How Are We Doing" (HAWD) survey that the district offices use to obtain taxpayer feedback was modified to include a question regarding the no cash policy to determine how many were affected by not accepting cash payments.

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<sup>1</sup> Source: 2010 Online Remittance Reports

## Pilot Project Results

Feedback from the administrators/acting administrator of the pilot districts indicated that they were all pleased with the pilot. They believed the no cash policy increased customer service efficiency by reducing wait time at the cashier's window since cashiering staff were not counting and verifying cash payments. The pilot districts also stated that not having to count cash made balancing and transmittal preparation easier and more efficient. They indicated that the cashiers were able to leave by 5 PM in contrast to years past, when cashiers and supervisors have stayed as late as 6:30 PM when problems were encountered with handling cash. There was less likelihood of cashiering overages/shortages, since errors could be easily traced back to check payments. They also suggested we extend the program indefinitely.

Statistics were kept to help evaluate the pilot. The number of cashier transactions in the pilot districts for this three month period was compared to the number of transactions in the same districts during the corresponding three months of the prior year. Further, we made the same comparison for the non-pilot districts. The results were as follows:

<u>Cashier Transactions</u>	<u>Pilot</u>	<u>Non Pilot</u>
Total Cashier Transactions	-9%	-6%
Dishonored Checks	-24%	-39%
Personal Checks	+10%	-10%
Cash	-100%	+7%

Nearly all taxpayers attempting to pay with cash used alternative methods instead:

	<u>Cash Attempts</u>	<u>Alternate Method Used</u>
San Diego District	185	181
Ventura District	350	339
Oakland	167	167

We were unable to identify how the number of credit card transactions completed in the district offices changed during the pilot period because our data capture methods do not identify where a credit card payment was initiated. However, we were able to determine that, statewide, the total number of credit card transactions increased by 6.6%.

Of the 12,000 taxpayers that came to the pilot offices for cashiering services, only 0.6% indicated they were unsatisfied with the pilot based on the modified "How Are We Doing" cards received. The number of unsatisfactory HAWDs decreased during the course of the pilot, 45 in June, 17 in July and 14 in August. Based on these results, it appears that the impact on taxpayers was minimal.

## Potential Economic Impacts

### Potential Additional Revenue

It is anticipated the amount of field staff time required to perform cashiering activities will be reduced. Since cashier positions are staffed at the Tax Technician III classification, surplus cashier staff could be transitioned to collection positions. Currently, there are 31 full time cashiers. Approximately 10 full time cashier positions could be transitioned to perform collections and increase annual revenue by \$2.2 million.<sup>2</sup>

### Potential Cost Savings

BOE's field offices currently utilize an armored car service for retrieving daily bank deposits prepared by field office cashiers and delivering them to the bank. An armored car service is used since the deposits contain cash. Statewide, BOE incurs costs of approximately \$80,000 per year for this service. By ceasing the acceptance of cash payments, the armored car service could be discontinued. Instead, the non-cash payments received by the field offices would be sent daily to the Cashier Section for processing via overnight courier. By taking this approach, costs incurred in using an armored car service could be eliminated.

Eliminating cash will cut some costs and increase others. The state incurs bank charges associated with the daily bank deposits made by the BOE. Based on information provided by the State Treasurer's Office (STO), on a per item basis, the bank charges associated with field office deposits are significantly higher than those made by the Headquarters Cashier Section. The higher bank charges are due to the fact that field offices do not encode the checks and they submit

<sup>2</sup> Source: Sales and Use Tax Department, Collector Marginal Productivity Curve – Fiscal Year 2009-10.

paper deposit slips instead of electronic ones. If all payments received by the field offices were forwarded to the Cashier Section for processing, the bank charges would be reduced by \$50,000 annually.<sup>3</sup>

### **Forgone Interest**

Staff in the Cashier Section would include in their daily deposits all the payments received from the field offices. However, doing this would also delay field office bank deposits by one business day resulting in reduced interest earned by the state. The reduction in interest earned is estimated to be \$15,000 annually<sup>4</sup>.

### **Potential Additional Cost Expenditures**

BOE currently uses Golden State Overnight (GSO) courier service for its daily shipments. GSO charges the BOE based on weight, destination, urgency and if guaranteed mailing is requested. On average, approximately 1,000 checks are received in our district offices each day. If these checks are sent to HQ using GSO, the cost is estimated to increase an additional \$2,000 a year.

### **Summary of Economic Impacts**

Description	Amount
Additional Revenue – Convert 10 Cashier Positions to Collectors	\$2,200,000
Cost Savings – Elimination of Armored Car Service	80,000
Cost Savings – Reduced Bank Charges	50,000
Foregone Interest	-15,000
Additional Costs – Courier Service	-2,000
Total Economic Impact	\$2,313,000

## **Alternatives**

### **Alternative #1:**

Expand the No-Cash Pilot to the remaining BOE public-counter offices.

#### **Pros:**

- Allows for a fuller exploration of impacts on taxpayers and the BOE prior to making this a permanent statewide policy.
- Reduces the risks of receiving counterfeit currency in offices taking part in the pilot project.
- Promotes BOE eServices.
- Simplifies field office cashiering operations in the pilot offices.
- Promotes safety for taxpayers and staff in the pilot offices.
- Reduces the risk of theft and/or robbery in the pilot offices.

#### **Cons:**

- Delays possible additional revenue and cost savings.
- Reduces the payment options BOE provides to its taxpayers in the pilot offices.
- Taxpayers who pay only with cash may not pay.
- Requires outreach to notify taxpayers.
- Requires revisions to BOE publications, notices and forms.

<sup>3</sup> Source: California State Treasurer Office – 2011. Paper deposit slip charge \$1.40 per deposit slip, currency charge \$1.05 for every \$1,000 deposited, coin charge \$11.00 for every \$1,000 deposited and check fee \$0.09 deposited by field offices and \$0.04 per check deposited by HQ Cashier.

<sup>4</sup> Reduction in interest based on Average Daily Deposits in Districts of \$1.9 Million and a three year average of the Pooled Money Investment Account Rate for FY 08-09 through FY 10-11 of 1.129%.

**Alternative #2:**

Immediately implement a No-Cash policy in all the BOE public-counter offices.

**Pros:**

- Potential for increasing revenues by over \$2 million.
- Potential net decrease in operating expenses of \$128,000.
- Reduces the risks of receiving counterfeit currency statewide.
- Promotes BOE eServices.
- Simplifies field office cashing operations statewide.
- Promotes safety for taxpayers and staff statewide.
- Reduces the risk of theft and/or robbery statewide.

**Cons:**

- Less opportunity to explore impacts on taxpayers and the BOE prior to implementation.
- Loss of accrued interest of \$15,000 per year.
- Reduces the payment options BOE provides to its taxpayers.
- Taxpayers that only pay with cash may not pay.
- Requires outreach to notify taxpayers.
- Requires revisions to BOE publications, notices and forms.

**Alternative #3:**

Do not pursue a No-Cash policy and continue accepting cash.

**Pros:**

- Allows taxpayers to continue making cash payments.
- Eliminates the need to expend resources on taxpayer outreach.
- Eliminates need to revise various BOE publications, notices, and forms.
- No loss in accrued interest.
- Avoids additional cost for courier service.

**Cons:**

- Does not generate additional revenue because staff are not redirected to collector positions.
- Continues costly contracts with independent armor car services throughout the state.
- Does not reduce the risks of receiving counterfeit currency.
- Does not promote BOE eServices.
- Fails to simplify field office cashing operations.
- Fails to promote safety for taxpayers and staff.
- Fails to mitigate the risk of theft and/or robbery.

**Recommendation**

Alternative #1 should be selected to further examine the no-cash concept prior to implementing statewide. This alternative allows for a fuller exploration of impacts on taxpayers and the BOE prior to implementing statewide. This approach will have minimal impact on taxpayers since cash payments processed by field offices represent less than 1% of all payments. A majority of taxpayers currently remit payments to the BOE electronically, with eServices participation rate up to nearly 90%. Additionally, the volume of payments received by the field offices is declining.

To inform the tax and fee payers of the new no-cash policy, a public outreach program would be created to notify tax and fee payers well in advance by placing posters in several languages in all public-counter offices, notifying taxpayers via the BOE website, sending a special notice via e-mail and the U.S. Postal Service, and placing an article in the Tax Information Bulletin. The Taxpayer Information Section call center would inform callers of the new policy, and staff in the district offices, especially the cashing staff, would inform the public of the change in policy. Revisions to BOE publications, notices and forms would also be performed.