

Issue Paper Number **16-13**



- ☒ Board Meeting
- ☐ Business Taxes Committee
- ☐ Customer Services and Administrative Efficiency Committee
- ☐ Legislative Committee
- ☐ Property Tax Committee
- ☐ Other

Cash Payment Acceptance Alternatives

I. Issue

What alternatives are available for the Board of Equalization (BOE) to accept cash payments from taxpayers?

II. Alternatives

- Accept Cash Payments at Banks
- Create Tax Service Centers at Existing Government Buildings
- Create BOE offsite Cash Acceptance Facilities at Strategic Locations
- Install Cash Acceptance Systems at BOE Offices
- Follow the Established "No Cash" Policy

III. Background

On February 3, 2014, the BOE issued a "No Cash" policy memo that provided an exemption for taxpayers who demonstrated that the policy would pose a hardship if they were unable to pay in cash. The policy specified that district offices would review the exemption request and, if approved, coordinate a date and time to collect cash payments from taxpayers. The policy also specified that those payment times should be early in the day to provide adequate time to process the funds. Although BOE has a "No Cash" policy, some district offices continue to receive cash transactions due to this exemption.

To address safety concerns related to large cash payments in BOE offices, staff representing all impacted BOE departments met to develop security enhancements for accepting cash payments. As a result, these services and improvements were implemented:

- Privacy/security screens were purchased and installed in offices that requested them to block the line of sight between the public cashier window and the staff cashier window.
- Physical Security Branch provided an analysis of BOE offices' security cameras, particularly those handling the largest amounts of cash. Sites were visited, additional cameras were installed, and existing cameras were upgraded.
- Human Resources Division worked with employee unions to approve additional cameras in BOE offices.
- Physical Security Branch executed CHP Contract 2015-4018 to provide protective services to offices accepting large cash tax payments.

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- Developed various methods to accept cash to reduce security risks by enabling offices to plan for additional security measures.
- Prepared and issued Request for Information (RFI) on cash acceptance systems. Six vendors responded, but the solutions presented did not meet the BOE's needs.
- Purchased new currency counters for five offices that demonstrated a need due to cash volume. These currency counters have the capabilities of those used by banks to assure accurate counting and detect counterfeit currency.

Despite security enhancements and processing improvements, the risk to BOE employees, taxpayers and the public still exists. This issue is further exacerbated by the passage of Proposition 64 in November 2016, which legalizes the sale of recreational cannabis in California beginning January 1, 2018.

As of November 2016, eight states legalized recreational marijuana use, and 28 have some form of legalized use. BOE staff researched states that previously approved recreational cannabis to identify methods for accepting cash payments. Oregon, Washington and Colorado approved recreational marijuana use, and each developed various methods of addressing the vast amount of cash payments made by the cannabis industry. For example, Oregon taxpayers must register as a "Marijuana Tax Collector," make an appointment, and have a completed voucher that matches their exact payment. Oregon has one cash acceptance location for the entire state. The location has two armed security guards, cameras throughout the building, a bullet-resistant glass cashiering window, and a pass-through cash box. According to an article dated April 20, 2016, by the Associated Press entitled "Collecting on Cannabis: How Oregon pot dealers pay taxes," Oregon has spent approximately \$3.5 million, of which a large portion was to retrofit space in their existing Salem headquarters. The remainder is ongoing costs for staffing, security, and armored car service. Colorado also has one location in the state that accepts cash payments. Taxpayers arrive at the location and are escorted into a secure building by guards. Washington accepts cash payments at all revenue offices, with appointments encouraged for payments of \$20,000 or more. Washington also retrofitted its offices with enhanced security and uses a dual safe, combination and key, to protect cash assets. However, Washington is still concerned with safety and has now passed legislation designed to force the cannabis industry to pay their taxes by means other than cash.

IV. Discussion

Until the federal government changes its stance on bank reporting obligations, the BOE along with other California state agencies, must address the acceptance of large amounts of cash payments to ensure taxpayers are in compliance with their reporting and payment obligations. Below are alternatives for consideration by the Board. Given the differing needs of BOE taxpayers, and to ensure the safety of BOE employees and the public, it is anticipated that more than one alternative may be considered to provide taxpayers with cash payment options throughout the state.

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V. Alternative-1

A. Description of Alternative-Accept Cash Payments at Banks

Taxpayers would contact BOE staff who would coordinate with the bank representative to schedule an appointment for onsite cash exchanges for direct deposit into BOE's account.

The cost of this alternative would be staff time and travel to local banks. The assigned staff is expected to be a Business Taxes Compliance Specialist. It is anticipated that statewide the BOE would initially use 10 such staff for this function. The annual cost per position is \$98,000 per year, if staff performed this function 20% to 50% of the time, the estimated cost including travel would be approximately \$20,000 to \$50,000 per employee, or \$200,000 to \$500,000 statewide.

This alternative is considered a short-term solution because banks reserve the right to discontinue the service at any time.

B. Pros of Alternative

- No limit on transaction amounts
- No limit on the number of appointments provided they are made with the bank in advance
- Reduces the risk of theft or robbery at BOE offices
- Bank branches have established security measures
- Reduces cash handling in BOE offices
- Minimizes the need for enhanced security at BOE offices, savings thousands of dollars in retrofitting costs
- Reduces need for on-site CHP security and possible savings of up to \$105,000 in annual CHP costs allocated to BOE offices
- Minimal cost to BOE

C. Cons of Alternative

- Banks willing to accept payment at branches consider this a temporary solution, which they may stop at any time
- Reduces the level of service BOE provides taxpayers at its office locations
- Requires BOE offices to devise and facilitate an appointment system with the taxpayer and bank
- Requires BOE staff time to meet taxpayers at banks
- Taxpayers may be late or not arrive, which may result in delays at the bank if the transaction is not handled timely
- Still puts BOE employees involved in the transaction at risk

D. Statutory or Regulatory Change for Alternative

- None

E. Operational Impact of Alternative

- Periodic redirection of staff to offsite locations
- Risk still exists for employees involved in the payment receipt process

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F. Administrative Impact of Alternative

1. Cost Impact

\$200,000 to \$500,000 annually for staffing and related travel expenses

2. Revenue Impact

Unknown

G. Taxpayer/Customer Impact of Alternative

Improved customer service as it provides multiple locations for cash acceptance, but also requires coordination with banks, taxpayers and BOE staff to set appointment times and locations.

H. Critical Time Frames of Alternative

No critical time frames, but would require time to coordinate appointments statewide.

VI. Alternative-2

A. Description of Alternative-Create Tax Service Centers at Existing Government Buildings

The BOE would partner with other federal, state or local agencies to provide secure locations in which to accept cash.

B. Pros of Alternative

- Reduces BOE office space footprint
- May reduce facility costs for government agencies by combining services
- May reduce armored car costs by sharing expense with other agencies
- May reduce CHP security cost by sharing expense with other agencies
- Convenient for taxpayers with business transactions at multiple government agencies

C. Cons of Alternative

- May reduce the level of service to taxpayers if fewer locations are available
- Requires multi-agency buy-in and collaboration
- May be difficult to coordinate with other agencies and leasing timelines
- May require staff relocation
- May still require cash acceptance system if armored car pickup cannot meet location needs

D. Statutory or Regulatory Change for Alternative

None

E. Operational Impact of Alternative

- May require staff to work at offsite locations depending on agreements
- Requires collaboration with other agencies
- Still poses a risk to taxpayers and staff at selected locations

F. Administrative Impact of Alternative

1. Cost Impact

Unknown subject to partnership agreements and location/facilities

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2. Revenue Impact

Unknown

G. Taxpayer/Customer Impact of Alternative

May improve customer service due to ability to conduct business with more than one agency

H. Critical Time Frames of Alternative

None, long-term solution requiring collaboration with other agencies

VII. Alternative-3

A. Description of Alternative- Create BOE Offsite Cash Acceptance Facilities at Strategic Locations

Under this alternative, the BOE would construct secure cash acceptance facilities at strategic locations, such as the unoccupied BOE facility in Santa Ana, California. These strategically located offsite offices would be designed with security provisions to mitigate the risk of robbery. Taxpayers would be required to make cash payments at one of these locations. BOE staff would need to perform cashiering functions at these offsite locations. These facilities would have updated security features such as:

- Additional security cameras in hallways, lobby, cashier, and safe / vault area
- Separate, secure entrance for employees
- Double sets of doors (aka mantrap systems) that provide control between one or more areas
- Bank teller windows with bullet-resistant glass and walls which extend to the ceilings
- Intercom system and monitors for communication between cashier staff and taxpayers in the lobby
- Bullet-resistant deposit drop boxes for movement of cash from lobby to cashier room
- Secure cashier room with panic buttons
- High volume cash counting machines
- Separate secure cash storage area
- Multiple large safes for cash storage in a locked area separate from cashier room
- Multiple armored car pick-ups at varying times
- CHP presence during appointments

It is anticipated that assigned staff at these offsite location(s) would consist of four BOE employees supervised by a nearby BOE office: one Business Taxes Specialist I, one Business Taxes Compliance Specialist, and two Tax Technician IIIs.

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B. Pros of Alternative

- No additional costs for leased space in Santa Ana
- Protection and safeguarding of taxpayers and employees
- Provides a long-term solution

C. Cons of Alternative

- Costs to remediate and remodel existing and/or Santa Ana facility
- Additional resources will be needed to staff the location(s)
- Risk still exists for staff at the cash acceptance office
- Additional leased space needed for locations other than Santa Ana
- May result in sunk cost if federal government loosens banking requirements
- Increases BOE leased space footprint
- May require Budget Change Proposal to cover costs
- Facility may not accommodate cash acceptance system

D. Statutory or Regulatory Change for Alternative

None

E. Operational Impact of Alternative

- Requires staff to work at offsite locations
- May require staff relocation depending on strategic offsite locations
- Still poses a risk to taxpayers and staff at the offsite locations

F. Administrative Impact of Alternative

1. Cost Impact

Estimated one-time remodel fees and equipment costs of \$211,000, and ongoing annual costs ranging from \$245,000 to \$330,000 on-going yearly fees and salary costs, as noted below:

- One-Time Costs:
 - Interior remodel \$145,000
 - Equipment costs \$66,000
 - Cash counting machines \$10,000
- On-Going Annual Costs:
 - CHP Services-\$21,000 to \$106,000 per office (assumes 2-5 days per month)
 - Annual employee salary cost \$224,000

Estimated cost of cash acceptance facilities for other locations may be similar with the additional cost for leased space.

2. Revenue Impact

Unknown

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G. Taxpayer/Customer Impact of Alternative

Provides secure location for taxpayers to make cash payments

H. Critical Time Frames of Alternative

None, long-term solution requiring site study, facility selection, contracts, procurement etc.

VIII. Alternative-4

A. Description of Alternative- Install Cash Acceptance Systems at BOE Offices

The BOE would work in partnership with the State Treasurer's Office (STO) to secure cash acceptance system(s) (safe) through third parties. The safe(s) would be placed in a secure area with security cameras trained on the safe 24/7, accessible only by BOE employees. The third party service provider is responsible for securely transporting cash off-site and monitoring safe activity.

B. Pros of Alternative

- Allows the state to receive same day credit for cash
- BOE is not responsible for the cash after it is deposited into the safe
- Provides reporting mechanism to easily track cash transactions
- Maintains customer service level for BOE taxpayers
- Provides a long-term solution
- Service is all inclusive from equipment to armored car pickup
- Recognizes and rejects counterfeit bills
- STO would facilitate the use of cash acceptance systems with existing state banking agreements
- Provides ability by third party service provider to quickly address safe storage capacity issues and equipment issues through real time monitoring
- Provides the ability to stop the service if federal banking laws change

C. Cons of Alternative

- Does not address risk to employees, taxpayers, and public due to cash acceptance at BOE offices
- May incur additional costs for enhanced security measures and retrofit of offices
- Multiple safes may be required to handle cash volume, creating space limitations
- May not be feasible in all offices due space/structural limitations or facility contract provisions
- May increase risk of robbery as armored car pickup may not be daily
- May require additional costs to insure safes
- Still requires manual cash count with taxpayer prior to deposit
- Requires security camera on the safe which presents labor relations concerns
- Requires secured wireless access system
- May require additional leased space to accommodate safe and/or cash counting room

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D. Statutory or Regulatory Change for Alternative

- None

E. Operational Impact of Alternative

- Employee and public safety risks
- Possible labor relation issues
- Additional staff resources to deposit cash into safe
- May reduce existing workspace to accommodate safe

F. Administrative Impact of Alternative

1. Cost Impact

This alternative has estimated one-time cost of \$60,000 and annual ongoing cost ranging from \$21,000-\$106,000 depending on safe capacity and frequency of CHP services

Estimated costs per office include the following:

- One-Time Costs for unsecure BOE offices total \$60,000
 - Cash counting rooms- \$41,000
 - Security cameras- \$9,000
 - Cash counting machines- \$10,000
- On-Going Annual Costs:
 - CHP Services-\$21,000 to \$106,000 per office (assumes 2-5 days per month)
 - May incur additional charges for leased space to accommodate a cash counting room if needed

2. Revenue Impact

Unknown

G. Taxpayer/Customer Impact of Alternative

Improves customer service by providing convenient payment locations throughout the state

H. Critical Time Frames of Alternative

None, long-term solution requiring time to implement at unsecure locations

IX. Alternative-5

A. Description of Alternative- Follow the Established “No Cash” Policy

Taxpayers qualifying for an exemption will continue to make cash payments in BOE offices

B. Pros of Alternative

- Allows BOE to maintain level of taxpayer service at BOE offices

C Cons of Alternative

- Continues incurring costs of nearly \$75,000 annually for armored car service
- Continues incurring costs of up to \$105,000 annually for CHP services
- Does not fully address security concerns at BOE offices

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D. Statutory or Regulatory Change for Alternative

None

E. Operational Impact of Alternative

None

F. Administrative Impact of Alternative

1. Cost Impact

None

2. Revenue Impact

None

G. Taxpayer/Customer Impact of Alternative

None

H. Critical Time Frames of Alternative

None

Preparer/Reviewer Information

Prepared by: Risk and Audit Oversight Action Committee

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