

BOE FY 2012/13 SPRING FINANCE LETTERS OVERVIEW
 (as of 01/04/12 - in 000's)

Budget Items		2012/13			2013/14			Benefit/ Cost Ratio
BCPs - Chaptered Bills - Trailer Bills	Positions	Total Cost	Revenue	Benefit/ Cost Ratio	Positions	Total Cost	Revenue	Benefit/ Cost Ratio
SFL #1: Centralized Revenue Opportunity System (CROS) Project	156.7	\$22,402 GF: \$13,669 R: \$7,093 SF: \$1,640	\$38,754	1.7:1	242.1	\$43,345 GF: \$25,970 R: \$13,500 SF: \$3,875	\$66,529	1.5:1
SFL #2: Department of Justice (DOJ) Billable Services Budget Augmentation	0.0	\$678 GF \$678	\$37,000	54.5:1	0.0	\$678 GF \$678	\$37,000	54.5:1
TOTAL	156.7	\$ 23,080	\$ 75,754		242.1	\$ 44,023	\$ 103,529	

DRAFT

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 05/11)

Fiscal Year 2012-13	SFL No. 1	Org. Code 0860	Department State Board of Equalization	Priority No. 1
Program All Programs			Element ALL	Component

Proposal Title
 Centralized Revenue Opportunity System (CROS) Project

Proposal Summary

On September 7, 2011, the Board of Equalization (BOE) received formal approval for the CROS Feasibility Study Report (FSR) (Project Number 0860-094). This is the first proposal to request resources to implement the CROS Project. Additional Budget Change Proposals (BCP) will be submitted once a technology solution has been approved for implementation and needed resources are identified.

BOE requests \$22,402,000 (\$13,669,000 General Fund (GF), \$1,640,000 Special Funds (SF), and \$7,093,000 Reimbursement) and 156.7 positions in FY 2012-13 and \$43,345,000 (\$25,970,000 GF, \$3,875,000 SF, and \$13,500,000 Reimbursement) and 242.1 positions in FY 2013-14 to implement the CROS Project, maintain the current legacy systems during the procurement phases of CROS, mitigate risk by addressing data conversion and external interfaces immediately, and enhancing audit, collection, Statewide Compliance and Outreach Program (SCOP), offers in compromise (OIC) and settlement activities. By accelerating efforts which were originally considered within the selected vendor's scope, the BOE anticipates reducing the overall cost of the project which will be reflected in a Special Project Report once the vendor has been selected. This proposal will generate revenues of approximately \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14 and ongoing.

Requires Legislation <input type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, or previously by the Department of Finance.

FSR SPR Project No. 086-094 Date: 9/7/11

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.

Prepared By	Date	Reviewed By	Date
Department Director	Date	Agency Secretary	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
------	-----------------------------------

STATE BOARD OF EQUALIZATION

Fiscal Year 2012-13

Centralized Revenue Opportunity System (CROS) Project

A. Proposal Summary

On September 7, 2011, the Board of Equalization (BOE) received formal approval for the CROS Feasibility Study Report (FSR) (Project Number 0860-094). This is the first proposal to request resources to implement the CROS Project. Additional Budget Change Proposals (BCP) will be submitted once a technology solution has been approved for implementation and needed resources are identified.

BOE requests \$22,402,000 (\$13,669,000 General Fund (GF), \$1,640,000 Special Funds (SF), and \$7,093,000 Reimbursement) and 156.7 positions in FY 2012-13 and \$43,345,000 (\$25,970,000 GF, \$3,875,000 SF, and \$13,500,000 Reimbursement) and 242.1 positions in FY 2013-14 to implement the CROS Project, maintain the current legacy systems during the procurement phases of CROS, mitigate risk by addressing data conversion and external interfaces immediately, and enhancing audit, collection, Statewide Compliance and Outreach Program (SCOP), offers in compromise (OIC) and settlement activities. By accelerating efforts which were originally considered within the selected vendor's scope, the BOE anticipates reducing the overall cost of the project which will be reflected in a Special Project Report once the vendor has been selected. This proposal will generate revenues of approximately \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14 and ongoing.

B. Background/History

The CROS Project will create an expanded and responsive tax infrastructure by moving to a functional organization structure and creating a tax and fee payer-centric automation system as outlined in the approved FSR.

Freezing Existing Systems – Impractical

The approved FSR timeline anticipated BOE redirecting resources for the project until FY 2013-14. In addition, many of the technical resources needed for CROS were anticipated to be redirected based on the assumption that BOE would freeze changes to the existing legacy systems while CROS was being brought up. This strategy has been deemed impractical given BOE's tax/fee mandates and the amount of projected system down time. Manual workarounds have and will continue to increase costs while waiting for a new system to be developed. This critical change in project assumption recognizes the past 3 year trend in the number of legislative mandates BOE has been required to implement.

In addition, when comparing the BOE IT organization to other revenue generating agencies, the ratio of BOE IT staff to program staff is significantly lower. Redirecting BOE's internal IT resources to support CROS would be extremely difficult.

Lessons Learned – Other State IT Projects

When the BOE analyzed other enterprise projects in the state, staff identified two areas in particular that posed significant risk: data conversion and external interfaces. As IT leaders throughout state government and in the IT community would attest, numerous IT modernization efforts suffer as a result of inadequate focus in these areas. BOE has determined that mitigating these risks for the CROS project immediately is the most effective way to move forward for the following reasons:

- Avoid increased manual workarounds that increase operating expenses
- Accelerates the revenue stream of the project and/or reduce expenditures at the end of the project

This strategy includes bringing resources/positions to the project earlier to focus on cleansing and synthesizing data from multiple legacy assets in preparation for data conversion; and establishing a Managed File Transfer (MFT) solution that streamlines data sharing with external partners.

In an effort to provide early benefits to the State, as part of the data cleansing initiative, BOE has initiated a scanning effort of existing taxpayer files so that data will be available in an electronic format. This will allow BOE's collectors and legal staff to access taxpayer record information faster than the current hard copy files from anywhere in the state and when needed. In addition, BOE will be implementing a 'same day deposit' process that will allow all incoming checks to be scanned and deposited with the State's respective bank partners on day of receipt, reducing float time and increasing interest earned for the State.

Increase Program Area Staff

During the initial procurement phase of the CROS project, we created business program area workgroups to develop current business process flows, document system and business process deficiencies and identify areas for new system and business process improvements. The results of the business workgroups coupled with separate but related analysis showed a need to clean up several business program area backlogs to get ready for the reengineering and implementation of the new system.

The backlog is the result of: 1) Collections - Accounts receivables have increased by 121% over the past 4 years exceeding \$2 Billion, 2) Audits - Approximately 17,600 accounts have the potential to be productive audits, at the margin annually, and only 40% of those are audited with existing resources, 3) SCOP- Over 100,000 new regular seller permits are issued each year with countless other businesses operating without a sellers permit, 4) Settlement and, Offer in Compromise - due to technology limitations (i.e. reliance on paper audit work papers).

Exhibit I provides a listing and a short description for each of the requested positions. It is important to note that support staff related to above mentioned activities are included in this request. Adequate support staff is critical to the success of the early CROS project initiatives and the identified business program activities. In addition to the increased revenue, these efforts are intended to improve the overall success of the CROS project. By increasing staff to levels that more accurately reflect the available workload, vendors will have a more realistic view of BOE activities prior to the new systems implementation.

The implementation of these early efforts allows the BOE to enhance its business programs, resulting in increased revenue prior to the CROS implementation of approximately \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14 and ongoing.

C. State Level Considerations

BOE collects taxes and fees that provide approximately 35.6 percent of the annual revenue for state government and essential funding for counties, cities, and special taxing districts. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs, which, in FY 2009-10, produced \$50.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management.

Consistent with Government Code 19130, BOE is requesting state positions for the CROS Project which will be vital in the procurement, design, and implementation phases of the project. BOE staff will become experts on the technology solution to be implemented, thereby reducing BOE's future reliance on contract staff at the end of the project.

D. Justification

BOE requests resources for CROS implementation and enhanced audit, collection, OIC and settlement activities beginning in FY 2012-13. These resources will help mitigate the significant data

cleansing/conversion and external interface risks identified in other state IT enterprise projects and generate revenue of approximately \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14 and ongoing.

Description	Estimated Revenue
Same Day Deposits	\$1.2 million annual additional interest to State
Enhanced Audit/Collection Activities	\$53.5 million ongoing starting FY 2013/14
SCOP	\$3.8 million annually
Settlements	\$7.6 million accelerated revenue annually
OIC	\$434,500 revenue annually
Total Benefits:	\$66.5 million annually starting FY 2013/14

The benefits of this approach include:

- **Mitigating risk:** Tackling risks early in the project life cycle enables the BOE to more effectively address unanticipated risks that will likely emerge later in the project.
- **Accelerate project progress:** Addressing these areas of risk early on will reduce the overall project schedule once the vendor is on board as data will be better suited for conversion to the new system.
- **Accelerate opportunities for revenue agency data-mining collaboration:** The BOE relies heavily on its ability to mine data within legacy assets and data from external organizations such as Department of Motor Vehicles, Franchise Tax Board, Employment Development Department, and the Internal Revenue Service to ascertain information about taxpayer compliance. Cleansing data now, rather than later, will provide opportunities to identify new areas of information sharing for these agencies and revenue opportunities.
- **Perform work for less than it would cost under the general procurement:** By bringing on resources now for data cleansing and external interface initiatives, BOE will be able to do the work that was originally identified in the proposed vendor scope at a much lower cost, thereby reducing the overall costs of the project.
- **Ensure that qualified resources are engaged to perform data readiness:** The resources requested will be on the CROS Project team working side by side with the selected vendor in systems design and implementation. They will become experts on the implemented solution, thereby reducing BOE's reliance on contract resources at the end of the project.
- **Achieve early revenue:** BOE will streamline the way data are acquired, transformed, cleansed, synthesized, and made available for analytics, which will make current data mining efforts more efficient - leading to revenues being realized sooner from tasks originally identified in the vendor's scope of work. The table below identifies areas of early revenues.

BOE proposes expanding efforts in the areas of audits, collections, SCOP, OIC and settlements to generate approximately \$66.5 million annually in FY 2013-14 and ongoing. The addition of resources in these areas will directly generate revenue. Increasing the number of audit staff will allow a greater number of accounts to be audited, which will decrease the number of errors filed on returns, educate the taxpayers and increase revenues. Increasing the number of collection staff will allow a greater number of accounts with past due liabilities to be more effectively worked and in turn, increase revenue.

The Board is authorized by statute to compromise eligible liabilities for taxpayers unable to pay their tax obligations in full, thus enabling the Board to accelerate revenue in the best interest of the state. OIC specialists evaluate qualified offers from taxpayers who have both closed their businesses and are operating an ongoing business, and have a final tax liability, to determine the minimum acceptable offer amount.

Additionally, the Board is charged by statute, as essential for fiscal purposes, with expeditiously implementing the settlement program. Under the settlement program staff accelerate revenue to the state by negotiating settlements of certain Sales and Use Tax and Special Tax and Fee cases consistent with a reasonable evaluation of the risks and costs of litigating those cases. To be eligible for

this program, cases must be the subject of an appeal, protest or claim for refund pending before the Board.

E. Outcomes and Accountability

Workload Measure	Projected Outcomes	
	2012-13	2013-14
Taxpayer Records Scanned	Approximately 1 million taxpayer records will be scanned	Any new taxpayer records will be scanned
Same Day Deposits	95% of checks will be deposited the same day	95% of checks will be deposited the same day
Data Files Cleansed	Complete 75% data mapping across systems and establish an enterprise-wide data model	Craft 75% or more data conversion scripts
Managed File Transfer	Inventory, analyze, and prioritize 127 or more external interfaces	Implement a solution to manage external interfaces and apply inbound data
Audits Processed	110 additional audits complete	165 additional audits completed
Outreach Visits Performed	9,000	14,500
Projected Permits Issues for Unlicensed Businesses	170	275
Settlements	Use Digital Audit Work Papers to expedite half of the settlement cases submitted (with petitions for redetermination) resulting in up to 50% time reduction to the Settlement process	Use Digital Audit Work Papers to expedite half of the settlement cases submitted (with petitions for redetermination) resulting in up to 50% time reduction to the Settlement process

F. Analysis of All Feasible Alternatives

Alternative 1: Provide funding and positions requested.

Pros:

- Mitigates known risks to the project.
- Estimated revenue of \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14 and ongoing.
- Accelerates project progress.
- Reduces overall project costs.
- Reduces BOE's long term reliance on and costs of contract resources.
- Provides opportunities for data-mining collaboration with other state agencies.

Cons:

- Requires a budget augmentation.

Alternative 2: Provide funding and positions requested on a 2-year LT basis.

Pros:

- Mitigates known risks to the project.
- Estimated revenue of \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14. However, revenue figures may be impacted if activities are delayed due to ability to recruit candidates for limited-term positions.
- Accelerates project progress.
- Reduce overall project costs.
- Provides opportunities for data-mining collaboration with other state agencies.

Cons:

- Requires a budget augmentation.
- It is more difficult to recruit highly qualified IT staff for limited-term positions.
- Requires BOE to rely on external contract resources at the end of the Project, at higher cost than civil servants and with no civil service IT experts immediately available.

Alternative 3: Do not provide funding.

Pros:

- Does not require a budget augmentation.

Cons:

- Increases known risks to the project.
- No early revenue for the State.
- Does not accelerate project progress.
- Increases overall project costs based on reliance on external contract resources.
- Opportunities for data-mining collaboration with other state agencies will be delayed.
- Does not provide state staff to become experts on the implemented solution of the CROS project, thereby increasing risk once implementation has been completed.

G. Implementation Plan

The following table details the initiatives that will take place in FY 2012-13 and FY 2013-14. More detail can be found in the approved FSR.

July 2012- June 2013	July 2013 – June 2014
Hire and train staff	Hire and train staff
Purchase equipment	Purchase equipment
Begin data mapping	Begin data conversion
Inventory and prioritize external interfaces	Implement solution to manage external interfaces and inbound data
Identify accounts for audit	Identify accounts for audit
Release request for proposal (RFP)	Select vendor
Process collections	Process collections
Register new businesses	Register new businesses
Expand outreach and education efforts	Continue outreach and education efforts
Utilize Digital Audit work papers to review settlement and OIC offers	Utilize Digital Audit work papers to review settlement and OIC offers

H. Supplemental Information

- None
 Facility/Capital Costs
 Equipment
 Contracts
 Other _____

I. Recommendation

Alternative I is recommended in order to effectively implement the CROS Project, optimizing opportunities for project success by mitigating risk and allowing BOE to maintain existing legacy systems while CROS is implemented and also results in projected revenue of \$38.8 million in FY 2012-13 and \$66.5 million in FY 2013-14 and ongoing.

Fiscal Summary

(Dollars in thousands)

BCP No. SFL-1	Proposal Title Centralized Revenue Opportunity System	Program
------------------	--	---------

Personal Services	Positions			Dollars		
	CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries and Wages ¹	0.0	156.7	242.1	\$9,397	\$13,887	
Salary Savings	-0.0	--7.7	--12.0	-\$461	-\$685	
Net Total Salaries and Wages	0.0	149.0	230.1	\$8,936	\$13,202	
Total Staff Benefits ²				\$3,414	\$5,045	
Salary Savings				-\$171	-\$252	
Net Total Staff Benefits				\$3,243	\$4,793	
Distributed Administration						
Total Personal Services	0.0	149.0	230.1	\$12,179	\$17,995	

Operating Expenses and Equipment

General Expense				\$3,139	\$1,788	
Distributed Administration						
Printing						
Communications				\$299	\$368	
Postage						
Travel-In State				\$209	\$340	
Travel-Out of State					\$12	
Training				\$335	\$569	
Facilities Operations				\$2,004	\$2,968	
Utilities				\$31	\$47	
Consulting & Professional Services: Interdepartmental ³						
Consulting & Professional Services: External ³				\$2,565	\$13,726	
Data Center Services				\$475	\$1,705	
Information Technology				\$1,167	\$3,828	
Equipment ³						
Other/Special Items of Expense: ⁴						
Total Operating Expenses and Equipment				\$10,224	\$25,351	

Total State Operations Expenditures

Fund Source	Item Number					
	Org	Ref	Fund			
General Fund	0860	001	0001		\$13,669	\$25,970
Special Funds ⁵					\$1,640	\$3,875
Federal Funds						
Other Funds (Specify)						
Reimbursements	0860	001	0995		\$7,093	\$13,500

Total Local Assistance Expenditures

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				\$22,402	\$43,345	
---	--	--	--	-----------------	-----------------	--

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.

Personal Services Detail
(Whole dollars)

BCP No	Proposal Title						
SFL-1	Centralized Revenue Opportunity System						
Salaries and Wages Detail							
Classification ^{1 2}	Positions			Salary Range	Dollars		
	CY	BY	BY + 1		CY	BY	BY + 1
CROS							
Business Taxes Administrator III (BOE)		1.0	1.0	\$96,492	\$0	\$96,492	\$96,492
C E A		1.0	1.0	\$117,324	\$0	\$117,324	\$117,324
Data Processing Manager III		1.0	1.0	\$92,148	\$0	\$92,148	\$92,148
Staff Services Manager I		1.0	1.0	\$67,236	\$0	\$67,236	\$67,236
Associate Programmer Analyst (Spec)		3.0	3.0	\$63,096	\$0	\$189,288	\$189,288
Senior Programmer Analyst (Spec)		2.0	2.0	\$76,080	\$0	\$152,160	\$152,160
Staff Info Systems Analyst (Spec)		3.0	3.0	\$69,192	\$0	\$207,576	\$207,576
System Software Specialist II (Technical)		1.0	1.0	\$75,948	\$0	\$75,948	\$75,948
System Software Specialist III (Technical)		1.0	1.0	\$84,636	\$0	\$84,636	\$84,636
System Software Specialist III (Technical)		2.0	2.0	\$84,636	\$0	\$169,272	\$169,272
System Software Specialist II (Technical)		1.0	2.0	\$75,948	\$0	\$75,948	\$151,896
System Software Specialist II (Technical)		0.0	1.0	\$75,948	\$0	\$0	\$75,948
System Software Specialist II (Technical)		1.0	2.0	\$75,948	\$0	\$75,948	\$151,896
System Software Specialist III (Technical)		1.0	1.0	\$84,636	\$0	\$84,636	\$84,636
Associate Govt Program Analyst		1.0	1.0	\$58,488	\$0	\$58,488	\$58,488
Business Taxes Representative		2.0	2.0	\$46,656	\$0	\$93,312	\$93,312
Business Taxes Specialist I		3.0	3.0	\$70,824	\$0	\$212,472	\$212,472
Staff Services Manager III		1.0	1.0	\$85,524	\$0	\$85,524	\$85,524
Tax Auditor (BOE)		1.0	1.0	\$48,060	\$0	\$48,060	\$48,060
Business Taxes Specialist II		1.0	1.0	\$76,116	\$0	\$76,116	\$76,116
Business Taxes Specialist II		0.0	0.5	\$76,116	\$0	\$0	\$38,058
Office Technician (Typing)		1.0	1.0	\$35,700	\$0	\$35,700	\$35,700
Associate Tax Auditor (BOE)		4.3	6.6	\$63,096	\$0	\$271,313	\$416,434
Business Taxes Compliance Specialist		4.3	6.6	\$61,416	\$0	\$264,089	\$405,346
Business Taxes Specialist I		7.6	12.3	\$70,824	\$0	\$538,262	\$871,135
System Software Specialist II (Technical)		5.0	5.0	\$75,948	\$0	\$379,740	\$379,740
Sales and Use Tax Department							
Business Taxes Representative		25.0	50.0	\$46,656	\$0	\$1,166,400	\$2,332,800
Tax Auditor (BOE)		10.0	25.0	\$48,060	\$0	\$480,600	\$1,201,500
Business Taxes Administrator I (BOE)		3.0	6.0	\$69,312	\$0	\$207,936	\$415,872
Supervising Tax Auditor I (BOE)		2.0	4.0	\$69,312	\$0	\$138,624	\$277,248
Office Technician (Typing)		8.0	15.0	\$35,700	\$0	\$285,600	\$571,200
Business Taxes Specialist I		1.0	1.0	\$70,824	\$0	\$70,824	\$70,824
Supervising Tax Auditor II (BOE)		0.0	1.0	\$76,116	\$0	\$0	\$76,116
Business Taxes Representative		2.0	5.5	\$46,656	\$0	\$93,312	\$256,608
Business Taxes Compliance Supvr. II		1.0	1.0	\$67,524	\$0	\$67,524	\$67,524
Business Taxes Specialist I		1.0	1.0	\$70,824	\$0	\$70,824	\$70,824
Supervising Tax Auditor II (BOE)		1.0	1.0	\$76,116	\$0	\$76,116	\$76,116
Tax Technician I (BOE)		1.0	1.0	\$31,536	\$0	\$31,536	\$31,536
Tax Technician III (BOE)		1.0	1.0	\$39,240	\$0	\$39,240	\$39,240
Business Taxes Representative		2.0	4.0	\$46,656	\$0	\$93,312	\$186,624
Business Taxes Specialist I		1.0	1.0	\$70,824	\$0	\$70,824	\$70,824
Business Taxes Compliance Supvr. II		1.0	1.0	\$67,524	\$0	\$67,524	\$67,524
Staff Info Systems Analyst (Spec)		1.0	1.0	\$69,192	\$0	\$69,192	\$69,192
Business Taxes Specialist I		1.0	1.0	\$70,824	\$0	\$70,824	\$70,824
Associate Tax Auditor (BOE)		1.0	2.0	\$63,096	\$0	\$63,096	\$126,192
Associate Tax Auditor (BOE)		1.0	3.0	\$63,096	\$0	\$63,096	\$189,288
Tax Auditor (BOE)		1.0	3.0	\$48,060	\$0	\$48,060	\$144,180
Tax Auditor (BOE)		1.0	1.0	\$48,060	\$0	\$48,060	\$48,060
Tax Technician III (BOE)		1.0	1.0	\$39,240	\$0	\$39,240	\$39,240
Supervising Tax Auditor I (BOE)		1.0	1.0	\$69,312	\$0	\$69,312	\$69,312
Business Taxes Administrator I (BOE)		1.0	1.0	\$69,312	\$0	\$69,312	\$69,312
Business Taxes Specialist I		1.0	1.0	\$70,824	\$0	\$70,824	\$70,824
Business Taxes Compliance Specialist		4.0	4.0	\$61,426	\$0	\$245,704	\$245,704
Business Taxes Compliance Specialist		3.0	4.0	\$61,426	\$0	\$184,278	\$245,704
Associate Tax Auditor (BOE)		1.5	2.0	\$63,096	\$0	\$94,644	\$126,192
Tax Technician III (BOE)		1.0	1.0	\$39,240	\$0	\$39,240	\$39,240
Office Technician (Typing)		1.0	1.0	\$35,700	\$0	\$35,700	\$35,700
Legal Department							
Business Taxes Compliance Specialist		1.0	1.0	\$61,416	\$0	\$61,416	\$61,416
Business Taxes Compliance Supvr. II		1.0	1.0	\$67,524	\$0	\$67,524	\$67,524
Business Taxes Representative		1.0	1.0	\$46,656	\$0	\$46,656	\$46,656
Business Taxes Representative		1.0	1.0	\$46,656	\$0	\$46,656	\$46,656
Business Taxes Specialist I		2.0	2.0	\$70,824	\$0	\$141,648	\$141,648
Business Taxes Specialist I		1.0	1.0	\$70,824	\$0	\$70,824	\$70,824
Business Taxes Specialist III		1.0	1.0	\$87,708	\$0	\$87,708	\$87,708
Staff Info Systems Analyst (Spec)		1.0	1.0	\$69,192	\$0	\$69,192	\$69,192
Tax Counsel III (Specialist)		1.0	1.0	\$102,960	\$0	\$102,960	\$102,960
Tax Counsel III (Specialist)		1.0	1.0	\$102,960	\$0	\$102,960	\$102,960
Tax Technician III (BOE)		1.0	1.0	\$39,240	\$0	\$39,240	\$39,240
Business Taxes Specialist II		0.0	0.5	\$76,116	\$0	\$0	\$38,058
Executive Department							
Associate Govt Program Analyst		1.0	1.0	\$58,488	\$0	\$58,488	\$58,488
Business Taxes Specialist I		0.0	1.0	\$70,824	\$0	\$0	\$70,824
Tax Technician I (BOE)		0.0	1.0	\$31,536	\$0	\$0	\$31,536
External Affairs Department							
Audio Visual Specialist		2.0	2.0	\$58,488	\$0	\$116,976	\$116,976
Associate Govt Program Analyst		2.0	2.0	\$58,488	\$0	\$116,976	\$116,976
Administration Department							
Accountant Trainee		1.0	1.5	\$41,952	\$0	\$41,952	\$62,928
Associate Business Management Analyst		1.0	1.5	\$58,488	\$0	\$58,488	\$87,732
Associate Personnel Analyst		0.5	1.0	\$58,488	\$0	\$29,244	\$58,488
Personnel Specialist		1.5	2.0	\$40,020	\$0	\$60,030	\$80,040
Staff Info Systems Analyst (Spec)		1.0	1.5	\$69,192	\$0	\$69,192	\$103,788
Technology Services Department							
System Software Specialist II (Technical)			1.5	\$75,948	\$0	\$113,922	\$189,870
Blanket Funds							
Overtime		0.0	0.0	0.1	0	0	0
Temporary Help		0.0	2.5	3.1	0	172,625	196,152
Total Salaries and Wages ³		0.0	156.7	242.1	\$0	\$9,397,143	\$13,886,825
Staff Benefits Detail					CY	BY	BY + 1
OASDI						718,881	1,062,342
Health/Dental/Vision Insurance						1,244,558	1,839,171
Retirement						1,393,408	2,059,138
Miscellaneous							
Workers' Compensation						5,638	8,332
Industrial Disability Leave						8,082	11,943
Non-Industrial Disability Leave						7,236	10,693
Unemployment Insurance						4,699	6,943
Other						31,574	46,660
Total Staff Benefits ³					\$0	\$3,414,076	\$5,045,222
Grand Total, Personal Services					\$0	\$12,811,219	\$18,932,047

¹ Use standard abbreviations per the Salaries and Wages Supplement. Show any effective date or limited-term expiration date in parentheses if the position is not proposed for a full year or is not permanent, e.g. (exp 6-30-13) or (eff 1-1-13).

Note: Information provided should appear in the same format as it would on the Changes in Authorized Positions.

² If multiple programs require positions, please include a subheading under the Classification section to identify positions by.

³ Totals must be rounded to the nearest thousand dollars before posting to the Fiscal Summary.

CROS Spring Finance Letter FY 12/13
Workload Justification

EXHIBIT I

Department/Positions	Description	12/13	13/14
CROS Project			
CEA III	Project Director	1.0	1.0
BTA III	Business PM	1.0	1.0
DPM III	Technical PM	1.0	1.0
SSM I	Manages project administrative activities	1.0	1.0
SSS III	Security Tech Lead	1.0	1.0
SSS III	Data architect	2.0	2.0
SSS II	System administrator, infrastructure support, DBA	1.0	1.0
Senior PA	Technical lead over data conversion and interface programmers	2.0	2.0
Associate PA	Data conversion and interface programmers	3.0	3.0
Staff ISA	Data and interface analysts and unit testing	3.0	3.0
SSS III	Infrastructure Architect (server, storage, network)	1.0	1.0
SSS II	Storage Management Lead	1.0	2.0
SSS II	Network lead, monitoring, etc.		1.0
SSS II	Server lead	1.0	2.0
SSM III	Business lead for business requirements, business rules	1.0	1.0
BTS I	RFP requirements, data subject matter expert	3.0	3.0
BTR	RFP requirements, procurement support	2.0	2.0
TA	Compensation model, communication and outreach	1.0	1.0
AGPA	Communication lead, project analytical tasks	1.0	1.0
BTS II	Procurement analyst, contract manager	1.0	1.0
Office Tech (Typing)	Clerical support	1.0	1.0
BTS II	Internal Audit		0.5
BTS I	Intermittent business resources used throughout project	7.6	12.3
ATA	Intermittent business resources used throughout project	4.3	6.6
BTC5	Intermittent business resources used throughout project	4.3	6.6
SSS II	Intermittent technical resources used throughout project	5.0	5.0
Temporary Help	RA- Procurement advisor and liaison with Department of General Services	0.5	0.5
Legal Department		12/13	13/14
BTS I	Prepares recommendations for Executive Management and the Board comprising the final tax liabilities of taxpayers who cannot pay their liabilities in full	2.0	2.0
BTS III	Reviews, analyzes, negotiates, and settles complex disputed audit cases	1.0	1.0
Tax Counsel III	Reviews, analyzes, negotiates, and settles complex disputed legal cases arising from sales and use tax and special taxes and fees liabilities	1.0	1.0
Tax Counsel III	Conducts conferences and drafts decisions	1.0	1.0
BTC5 II	Supervision of staff and prioritization and delegation of work	1.0	1.0
BTR	Review and analyze account records and pending actions to recommend and prepare bankruptcy claims	1.0	1.0
BTC5	Work more difficult tasks involving bankruptcy cases in order to protect State interests	1.0	1.0
TTIII	Address increased workload of requests for advanced collection actions	1.0	1.0
BTR	Address increased workload of requests for advanced collection actions	1.0	1.0
BTS I	Investigate referrals from SUTD for potential felony level sales tax evasion	1.0	1.0
SISA	Technology support related to computer equipment, peripherals, specialized software and licenses, and trouble shooting and problem solving for individual computer users	1.0	1.0
BTS II	Evaluating employee access to data, risk control, and investigate unethical activities		0.5
Sales and Use Tax Department		12/13	13/14
BTR	Collect delinquent sales and use tax liabilities	25.0	50.0
TA	Audit Sales and Use tax accounts	10.0	25.0
BTA I	Supervise new collectors	3.0	6.0
STA I	Supervise new auditors	2.0	4.0
OT	Allow revenue staff to focus on revenue activities	8.0	16.0
BTS I	Address increased workload from new auditors and collectors	1.0	1.0
STA II	Maintain adequate supervision ratio for new and existing staff	0.0	1.0
BTR	Address return errors not currently being handled	2.0	5.5
BTC5 II	Maintain adequate supervision ratio for new and existing staff	1.0	1.0
BTS I	Address workload not currently being handled (Medical Ded.)	1.0	1.0
STA II	Maintain adequate supervision ratio for new and existing staff	1.0	1.0
TT I	Address registration workload not currently being handled	1.0	1.0
TT III	Address billing workload not currently being handled	1.0	1.0
BTR	Collect delinquent use taxes on vehicle, vessel, and aircraft purchases	2.0	4.0
BTS I	Perform lead duties and analyze evidence to make recommendations to grant or deny petitioned cases of vehicles, vessels, and aircraft purchases	1.0	1.0
BTC5 II	Maintain adequate supervision ratio for new and existing staff	1.0	1.0
SISA	Run reports and programs for this function of CUTS	1.0	1.0
BTS I	Screening accounts for district tax billings	1.0	1.0
ATA	Analyze and bill accounts for moderate to complex district taxes	1.0	2.0
ATA	Analyze and bill accounts for moderate to complex district taxes	1.0	3.0
TA	Analyze and bill accounts for non-complex district taxes	1.0	3.0
TA	Analyze and bill accounts for non-complex district taxes	1.0	1.0
TT III	Bill taxpayers for low threshold dollar district taxes	1.0	1.0
STA I	Maintain adequate supervision ratio for new and existing staff	1.0	1.0
BTA I	Directly supervise the field staff in their compliance enhancements	1.0	1.0
BTS I	Review potential underreporting leads and prepare action(s)	1.0	1.0
BTC5	Perform permit and license checks in the field	4.0	4.0
BTC5	Start Date 10/1/12 Perform permit and license checks in the field	3.0	4.0
ATA	Start Date 10/1/12 Conduct audits from permit/license check leads	1.5	2.0
TT III	Conduct & complete registrations for complex tax and fee payers	1.0	1.0
OT	Conduct clerical revenue supporting functions	1.0	1.0
Executive Department		12/13	13/14
AGPA	Review Board meeting material, Public Agenda Notice, Board Meeting Attendance, Transcripts	1.0	1.0
BTS I	Handle increased calls and complaints in the TRA office, Taxpayer Bill of Rights hearings, Board hearings, statutorily required annual report		1.0
TTI	Sets up cases, closes out cases, answers phone calls in TRA office.		1.0
External Affairs Department		12/13	13/14
Audio Visual Specialist	CROS Outreach - gather information from customers, educate customers on CROS implementation.	2.0	2.0
AGPA	CROS Outreach - gather information from customers, educate customers on CROS implementation.	2.0	2.0
Technology Services Department		12/13	13/14
Systems Software Specialist II	Troubleshoot problems, security maintenance, build/test/maintain images	1.5	2.5
Administration Department		12/13	13/14
Accountant Trainee	Process travel advances, process salary warrants, process CalATERS claims	1.0	1.5
ABMA	Space Planning, modular furniture modifications, respond to service requests.	1.0	1.5
SISA	Troubleshoot telecommunications issues, routine services for moves of landlines.	1.0	1.5
Assoc. Personnel Analyst	Employee Performance, Exams, Mgmt. Consultation	0.5	1.0
Personnel Specialist	Attendance/Pay Benefits, Admin Detail, Employee Contact	1.5	2.0
Temporary Help		2.0	2.6
FINANCE LETTER TOTAL		156.7	242.1

STATE OF CALIFORNIA
Spring Finance Letter Proposal - Cover Sheet
 DF-46 (REV 05/11)

Fiscal Year 2012-13	SFL No. 2	Org. Code 0860	Department State Board of Equalization	Priority No. 2
Program 15-County Assessment Standards, 30-Sales and Use Tax, and 45-Cigarette and Tobacco Product Tax Programs			Element 15.20, 30.30, 45.30	Component

Proposal Title
Department of Justice (DOJ) Billable Services Budget Augmentation

Proposal Summary

This proposal requests an augmentation of \$678,000 (General Fund) for FY 2012-13 and ongoing to support the Board of Equalization total Department of Justice (DOJ) billable services budget at a \$2.2 million level. The DOJ Legal Services Budget provides critical resources necessary to effectively litigate the growing and increasingly complex tax and fee related damage claims being made against the State of California in lawsuits. BOE estimates that the minimum potential impact on revenues is approximately \$37 million. Successful litigation of several of these cases will also protect California revenues into the future. The potential risk factor for the proposal is approximately 54.5:1.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
---	--

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
---	----------------	------

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, 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

STATE BOARD OF EQUALIZATION

Fiscal Year 2012-13

Department of Justice (DOJ) Billable Services Budget Augmentation

A. Proposal Summary

This proposal requests an augmentation of \$678,000 (General Fund) for FY 2012-13 and ongoing to support the Board of Equalization total Department of Justice (DOJ) billable services budget at a \$2.2 million level. The DOJ Legal Services Budget provides critical resources necessary to effectively litigate the growing and increasingly complex tax and fee related damage claims being made against the State of California in lawsuits. BOE estimates that the minimum potential impact on revenues is approximately \$37 million. Successful litigation of several of these cases will also protect California revenues into the future. The potential risk factor for the proposal is approximately 54.5:1.

B. Background

By statute, the Department of Justice must represent BOE on a majority of cases, unless a conflict of interest is present. BOE is aware of approximately 13 larger cases and 37 ongoing smaller cases that will need to be represented by DOJ in FY 2012-13, including trials in two very significant lawsuits involving tens of millions of dollars. FY 2012-13 will see the beginning of the on-line and out-of-state retailer litigation, which will surface even if federal or state legislation is passed. Resources for DOJ representation in this litigation were not included in BOE's FY 2012-13 Budget Change Proposal per Department of Finance direction.

Under the general direction of the BOE Chief Counsel, BOE's Legal Department furnishes legal services to the elected Board, Executive Director, and the staff of the BOE with respect to the BOE's actions. The Department's Litigation Division advises and represents the BOE in tax and fee litigation. In this capacity, while a Deputy Attorney General generally will be counsel of record, Legal Department attorneys work closely with assigned Deputy Attorney Generals as the tax and substantive law experts in tax refund and other lawsuits in order to ensure that the BOE's positions are accurately and persuasively presented in court while also adequately representing the BOE.

If this augmentation is not provided, BOE believes that there is a substantial likelihood that the DOJ billings will go over budget in FY 2012-13, necessitating a deficiency request.

C. State Level Considerations

The BOE collects taxes and fees that provide approximately 35.6 percent of the annual revenue for state government and essential funding for counties, cities, and special districts. The BOE administers the state's sales and use taxes, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs, which, in FY 2009-10, produced \$50.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management.

D. Justification

The BOE will be requiring increased expenditures of legal fees concerning several complex cases in FY 2012-13 based on information available to BOE at this time including the following:

- A very large consolidated sales and use tax case involving tens of millions of dollars will go to trial, likely requiring two full-time Deputy Attorney Generals a year of preparation.
- Another tax refund matter will be argued in the Supreme Court, requiring substantial preparation time.
- Several other major statewide cases also will be very active, including both state-assessed property tax cases and local tax cases.
- Litigation work as the result of AB 155 involving the on-line and out-of-state retailer nexus issue where at least another \$200 million of annual general tax revenues is at stake.
- The *Nortel* decision will generate additional litigation.

It is important to note that many of the lawsuits pending against the Board do not specify the damages requested; and some of the lawsuits pending have potential precedential impact for the State of California.

The potential minimum revenue at risk is approximately \$37 million. Actual revenues at risk are more likely in the hundreds of millions of dollars. In order to devote the substantial time and resources needed to aggressively defend the state against such lawsuits, BOE is requesting that our DOJ Legal Services Budget for FY 2012-13 be augmented by \$678,000 (GF).

Failure to adequately fund DOJ will result in legal work products that are either untimely or below the highest standards of legal representation, which could result in future tax revenue loss if lawsuits are not aggressively defended. Denial of this proposal will increase the financial risks to the BOE, and to General Fund and Special Funds programs. If funding is not provided, litigation may not occur timely or effectively and/or BOE may be forced to approach DOF with a deficiency request for the additional funding in FY 2012-13. In the event that BOE does not spend its entire DOJ Legal Services Budget, any savings will automatically revert back to the General Fund.

E. Outcomes and Accountability

The Legal Department keeps detailed records of each lawsuit filed against the Board, the attorney or attorneys assigned to each such lawsuit, the damages or refunds sought, and the ultimate outcome of each such lawsuit. Therefore, records will be available on a long-term basis with respect to the number of lawsuits filed against the Board, the number of lawsuits handled by each BOE/DOJ attorney, the amounts of money at issue, and DOJ's success rate in defending the state in these lawsuits. This data will provide full accountability with respect to the funding requested and expenditures incurred for each case.

F. Analysis of All Feasible Alternatives

Alternative 1 – Augment BOE’s budget by \$678,000, bringing BOE’s total DOJ billable services budget to \$2.2 million to provide DOJ critical resources to effectively litigate on behalf of BOE and the State of California.

This alternative requests a budget augmentation of \$678,000 to properly fund DOJ with the resources to litigate.

Pros:

- Protects an estimated \$37 million in revenues at stake, as well as potentially hundreds of millions in future state and government revenues at risk, due to tax refund and related damage claims filed against the state.
- Mitigates financial risks and/or financial losses to the State’s General Fund.
- Will protect against the significant revenue loss to the State’s General Fund that would occur if these cases are not effectively litigated.
- Significantly reduces the potential for judgments against the BOE and the State of California as a result of an omission or error of fact or law.
- Provides adequate funding to defend costly litigation.
- Prevents the long-term effects of underfunding and resulting BOE requests for deficiency funding on an ongoing basis, which would not be an effective use of BOE and DOF resources.

Cons:

- Requires expenditures of \$678,000 to fund estimated DOJ expenditures.

Alternative 2 – Augment BOE’s budget by \$472,000 to maintain current DOJ funding level of \$1,994,000.

This alternative requests \$472,000 in funding in order to maintain DOJ funding at its current level of \$1,994,000. This puts BOE and DOF at risk of untimely and ineffective litigation, and potentially making a deficiency request to DOF.

Pros:

- No additional funding beyond FY 2011-12 DOJ funding levels is needed.
- Ensures the majority of the litigation work will be funded.

Cons:

- Possible deficiency request if BOE overspends in this category.
- The hours required to litigate these cases could potentially leave BOE with a substantial shortfall in funding necessary to meet current and projected future litigation demands.

Alternative 3 – Do nothing.

BOE’s current budget of \$1,522,000 remains and BOE does not receive additional funding for DOJ litigation work.

Pros:

- No additional funding needed.

- No immediate fiscal impact to General Fund or Special Funded Tax Programs.

Cons:

- Will not protect an estimated \$37 million in revenues at stake, as well as potentially hundreds of millions in future state and government revenues at risk, due to tax refund and related damage claims filed against the state.
- Will not mitigate financial risks and/or financial losses to the State's General Fund.
- Will not protect against the significant revenue loss to the State's General Fund that would occur if these cases are not effectively litigated.
- Will not significantly reduce the potential for judgments against the BOE, and the State of California.
- May result in significant revenue loss to the State's General Fund, as well as Special Funds programs, if these cases are not effectively litigated. If these cases are not adequately defended, sources of future revenue will not be protected, and tax revenue streams may be lost or materially reduced.
- A deficiency request is almost certain.
- The hours required to litigate these cases could potentially leave BOE with a substantial shortfall in funding necessary to meet current and projected future litigation demands.

G. Implementation Plan

Currently BOE is anticipating that 13 larger and 37 smaller cases will go to trial or otherwise be resolved in FY 2012-13. These cases will require the support of DOJ.

H. Supplemental Information

- NONE FACILITY/CAPITAL COSTS EQUIPMENT CONTRACTS
 OTHER

I. Recommendation

Alternative 1 is recommended. This alternative would augment BOE's budget by \$678,000 to fund current DOJ tax refund litigation. By providing these additional resources to fund BOE's contract with DOJ, the state will be able to litigate and protect over \$37 million revenues, as well as potentially hundreds of millions in state and local government tax revenues. Moreover, successfully litigating the cases of the present will also further protect California revenues into the future.

Fiscal Summary
(Dollars in thousands)

SFL No.	Proposal Title	Programs					
2	DOJ Billable Services Budget Augmentation	15-County Assessment Standards, 30-Sales and Use Tax, and 45-Cigarette and Tobacco Product Tax Programs					
Personal Services		Positions			Dollars		
		CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries and Wages ¹		0.0	0.0	0.0			
Salary Savings		-0.0	-0.0	-0.0			
Net Total Salaries and Wages		0.0	0.0	0.0			
Total Staff Benefits ²							
Salary Savings							
Net Total Staff Benefits							
Distributed Administration							
Total Personal Services		0.0	0.0				
Operating Expenses and Equipment							
General Expense							
Distributed Administration							
Printing							
Communications							
Postage							
Travel-In State							
Travel-Out of State							
Training							
Facilities Operations							
Utilities							
Consulting & Professional Services: Interdepartmental ³						\$678	\$678
Consulting & Professional Services: External ³							
Data Center Services							
Information Technology							
Equipment ³							
Other/Special Items of Expense ⁴							
Total Operating Expenses and Equipment						\$678	\$678
Total State Operations Expenditures						\$678	\$678
Fund Source		Item Number					
		Org	Ref	Fund			
General Fund		0860	001	0001		\$678	\$678
Special Funds ⁵							
Federal Funds							
Other Funds (Specify)							
Reimbursements		0860	001	0995			
Total Local Assistance Expenditures							
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						\$678	\$678

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.

Supplemental Information

(Dollars in thousands)

BCP No. 2	Proposal Title DOJ Billable Services Budget Augmentation
--------------	---

Equipment	CY	BY	BY +1
Standard Complement			
Total			

Consulting & Professional Services			
Interdepartmental consulting - DOJ Litigation Services		\$678	\$678
Total		\$678	\$678

Facility/Capital Costs			
Total			

One-Time/Limited-Term Costs Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>						
Description	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
	0.0		0.0		0.0	

Full-Year Cost Adjustment Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>						
<i>Provide the incremental change in dollars and positions by fiscal year.</i>						
Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0		0.0		0.0	

Future Savings Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>						
<i>Specify fiscal year and estimated savings, including any decrease in positions.</i>						
Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
Total	0.0		0.0		0.0	