

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0860	Department State Board of Equalization	Priority No. 2
Budget Request Name 0860-402-BCP-DP-2016-MR		Program 0570650-PREPAID MOBILE TELEPHONY SERVICES SURCHARGE 0570500-EMERGENCY TELEPHONE USERS SURCHARGE	Subprogram

Budget Request Description
 AB 1717 Prepaid Mobile Telephony Services (MTS) Surcharge

Budget Request Summary

The Board of Equalization (BOE) requests 3.7 positions and \$1.3 million (Special Funds) in Fiscal Year (FY) 2016-17 and 2.3 positions and \$188,000 in FY 2017-18 and ongoing for the BOE to continue processing mandated workload associated with AB 1717.

AB 1717 enacted the Prepaid Mobile Telephony Services Surcharge Collection Act and the Local Prepaid Mobile Telephony Services Collection Act (Prepaid MTS Collection Acts), which imposed upon each prepaid consumer a prepaid MTS surcharge and local charge to be collected by a seller on each retail transaction involving prepaid mobile telephony services and was effective January 1, 2016. The bill defines "prepaid consumer" to mean a person who purchases prepaid mobile telephony services in a retail transaction.

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 No	Code Section(s) to be Added/Amended/Repealed	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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO <i>B Fleming</i>	Date <i>5/12/2016</i>
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> 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 <i>Steven Mercer</i>	Date <i>5-11-16</i>	Chief, Financial Management Division <i>Julia L. Kelly</i>	Date <i>5-11-16</i>
Deputy Director, Administration <i>Edna Murphy</i>	Date <i>5-12-16</i>	Executive Director <i>Davis Han</i>	Date <i>5/12/16</i>

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA *[Signature]* Date submitted to the Legislature
5/13/16

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A. Budget Request Summary

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AB 1717 enacted the Prepaid Mobile Telephony Services (MTS) Surcharge Collection Act and the Local Prepaid Mobile Telephony Services Collection Act (Prepaid MTS Collection Acts), which imposed upon each prepaid consumer a prepaid MTS surcharge and local charge to be collected by a seller on each retail transaction involving prepaid mobile telephony services was effective January 1, 2016. The bill defines "prepaid consumer" to mean a person who purchases prepaid mobile telephony services in a retail transaction.

These are new and complex programs for the Board of Equalization (BOE) to implement and administer. In addition, the Prepaid MTS Surcharge Fund and the Local Charges for Prepaid MTS Fund are new funds. Without the requested resources, the BOE will not be able to fully implement, and more importantly, continue to maintain the Prepaid MTS Collection Acts and related provisions. The BOE is requesting permanent resources due to ongoing workload and the difficulties in hiring and retaining staff in limited-term positions. Should the bill sunset on January 1, 2020, the BOE will prepare a negative Budget Change Proposal (BCP).

B. Background/History

Current law assesses a number of state surcharges, and taxes on telecommunication services. Telecommunication service providers collect these taxes, fees, and surcharges from their customers and remit them to either the California Public Utilities Commission (CPUC) or the BOE. There are six CPUC-mandated telecommunications end-user surcharges that support various public programs in California. The end-user surcharge amounts are remitted to the CPUC and the rates vary from program to program. Additionally, the CPUC imposes a CPUC User Fee to cover the costs associated with operating the CPUC. Finally, the Emergency Telephone Users Surcharge (911) Act imposes a surcharge on amounts paid by every person in this state for intrastate telecommunication service.

In addition to the state imposed taxes, surcharges, and fees, many local jurisdictions impose a local surcharge on intrastate telephone service. Through December 31, 2015, there were approximately 130 locally imposed intrastate telephone surcharges.

Telecommunication services are sold in multiple ways. Billings by landline carriers and cellular service carriers include separately itemized amounts for the taxes, fees, and surcharges outlined above. These are referred to as post-paid services, as the customer pays for the service received after the service is rendered. However, for prepaid phone service, the customer pays for the service amount in advance. When the service is paid for in advance, the service providers do not know how much of the prepaid amount is for intrastate service as opposed to interstate service or data services. Since the surcharges and taxes only apply to the intrastate amounts and those amounts are not known, it is difficult for the service providers to accurately calculate and report the proper amount subject to the various surcharges and taxes.

The provisions of AB 1717 imposed a new prepaid MTS surcharge and local charge to be administered and collected by the BOE, which was operative January 1, 2016 on the sale of prepaid MTS. The prepaid MTS surcharge and local charges are imposed upon the consumer of prepaid MTS, but are required to be collected by sellers and direct sellers. Since the prepaid MTS surcharge and local charge are assessed as a percentage of the sales price of the prepaid MTS, and a majority of the sellers of prepaid MTS currently hold a seller's permit for making sales of tangible personal property, the new prepaid MTS surcharge and local charge is administered primarily by the Sales and Use Tax and Field Operations Departments in conjunction with the existing sales and use tax program, of which they both administer. Direct sellers are administered by the Special Taxes and Fees Department in conjunction with the existing Emergency Telephone Users Surcharge Program,

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along with the guaranteed funding provision that ensures the existing Emergency Telephone Users Surcharge revenue remains at current levels.

The prepaid MTS surcharge rate is subject to calculation each year by the BOE. The state rate consists of the prepaid 911 Surcharge rate determined by the Office of Emergency Services, plus the CPUC End-User Surcharges, and includes the annual user fee established by the CPUC. The local charge rates are provided by the local jurisdictions to the BOE each year. The BOE is responsible for publishing the combined rate for each jurisdiction by December 1 of each year with the published rates becoming operative April 1 of the following year.

AB 1717 provides for the imposition of the local charge in two different scenarios. The first involves the location of the over-the-counter sale. In this situation, the local charge is based on the rate in effect at the place where the retail over-the-counter sale takes place. The second scenario involves a remote sale. This occurs when the seller is selling prepaid MTS to a person remotely, such as over the Internet. In this situation, the applicable local charge rate is the rate in effect at the customer's known address.

Local jurisdictions may have specific exemptions from the imposition of the local charge on the retail sale of prepaid MTS. For example, a local jurisdiction may provide an exemption for the purchase of prepaid MTS by a senior citizen. For any locally provided exemptions, the seller is required to collect the full amount of the state surcharge and local charge, and the customer is to seek a refund of the local charge directly from the local jurisdiction. State exemptions exist for bad debts and sales to LifeLine customers, sales for resale, credit for charges paid to other states, and certain minimal prepaid MTS amounts sold as a non-itemized bundled price with service.

C. State Level Considerations

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

This proposal is consistent with the BOE's mission to serve the public through fair, effective and efficient tax administration. Specifically, this proposal allows the BOE to fully implement and administer the Prepaid MTS Collection Acts. This proposal is consistent with, and supports, the BOE's strategic plan by maximizing voluntary compliance, investing in a skilled, motivated and diverse workforce, and enhancing the BOE's operational effectiveness.

D. Justification

AB 1717 created an entirely new state surcharge and local charge program that is administered by the BOE and became operative January 1, 2016. The BOE recognizes that there are over 5,000 sellers of prepaid MTS that are required to register with the agency, collect the prepaid MTS surcharge from consumers, and remit the collected amounts directly to the BOE. Currently, of those 5,000 anticipated sellers, 2,640 have come forward and registered with the BOE.

This (new) program is primarily administered by the Sales and Use Tax Department (SUTD) and the Field Operations Department (FOD) for sellers, and the Special Taxes and Fees Department (STFD) for direct sellers. However, the administrative provisions for the prepaid MTS surcharge portion of the program are under the Fee Collection Procedures Law, which does not conform entirely to the administrative provisions found within the Sales and Use Tax Law. Due to these differences, the BOE is required to perform additional functions that impact various phases of the fee payer experience. These additional functions are discussed in detail below.

Although this program is primarily administered by the SUTD and the FOD, it is a new surcharge program that impacts all functions of tax administration including registration, return processing, collections, audits, appeals, refunds, and the various support functions. Significant resources are

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needed to fully implement and administer this new state surcharge and local charge program. These additional resources are critical so the administration of the current sales and use tax program is not adversely impacted and General Fund revenues are not jeopardized. The following outlines the various areas that are and/or will be impacted along with an explanation of the efforts that are necessary to fully implement and administer this new state surcharge and local charge.

Registration

The BOE utilizes an online web-based registration system. Fee payers registering with the BOE utilize the registration system by answering a series of questions about their business operations so they may receive all of the permits and licenses necessary for their business. The registration system requires programming to include the additional questions necessary to properly identify sellers of prepaid MTS and code accounts properly so the fee payer will receive the proper schedules for reporting prepaid MTS surcharge and local charge amounts collected. The BOE was granted some permanent and limited-term staff for this component in BCP 0860-001-BCP-BR-2015-A1.

Many sellers of prepaid MTS are already registered with the BOE for sales and use tax purposes. However, there are businesses that are not currently registered with the BOE as they do not sell tangible personal property, but they do sell prepaid MTS. The BOE must create and distribute materials to potential sellers of prepaid MTS so that they may register as required by law. A business that is not currently registered with the BOE must utilize the online registration tool to register for an account so they may report the prepaid MTS surcharge and local charge. Failure to properly register a seller of prepaid MTS extinguishes the ability to properly collect, and most importantly, remit the surcharge and local charge.

Return Processing

Extensive programming to the Integrated Revenue Information System (IRIS) and mid-tier applications is required. The prepaid MTS surcharge will be reported on a separate return. This requires creation and maintenance of a new e-file return for sellers of prepaid MTS to allow for the reporting of prepaid MTS surcharges and local charges collected. Since the rate is subject to change biannually in January (statewide rate) and April (local rate), ongoing programming is necessary to revise the return to accommodate a new rate each year. Testing of the revised return is necessary to be performed annually to verify that the revised return functions properly. The programming necessary for reporting of the local charge rates will be extensive due to the numerous jurisdictions that impose a local prepaid MTS charge (at this time, there are a total of 118 local jurisdictions with contracts with the BOE to impose their local prepaid MTS charge). In addition to reporting the prepaid MTS surcharge and local charge, sellers will be permitted to claim exemptions for bad debts and sales to LifeLine eligible customers. As the prepaid MTS surcharge and local charge rates are not fixed, and change annually, the bad debt provisions will require extensive programming to allow for claiming of bad debts at numerous historical rates (both state and local) on an ongoing basis. The prepaid MTS surcharge and local charge also allows sellers to retain two percent (2%) of the prepaid MTS surcharge and local charge collected for administration. Programming is necessary to accommodate and maintain this provision. The BOE was granted staff for this component in BCP 0860-001-BCP-BR-2015-A1.

As with any new tax or fee program, it is anticipated that fee payers will need assistance when registering, filing returns, making payments, performing account maintenance and will additionally have questions concerning the application of the surcharge on various transactions. Therefore, call center staff are necessary to handle the increased volume of phone calls and email questions from fee payers requiring assistance to comply with the provisions of this new law.

The prepaid MTS surcharge is deposited in the Prepaid MTS Surcharge Fund, which was created by AB 1717. Amounts deposited include all surcharge amounts, interest, penalties, and other amounts collected, less payments of refunds and reimbursement to the BOE for administration and collection expenses. Money in the MTS Surcharge Fund is deposited as follows:

- The prepaid 911 surcharge portion of the prepaid MTS surcharge is deposited into the Prepaid MTS 911 Account (created by AB 1717).

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- The CPUC surcharge portion of the prepaid MTS surcharge is deposited into the Prepaid MTS PUC Account (created by AB 1717).

In addition to the new sellers' requirement under the prepaid MTS surcharge, AB 1717 also created a new reporting group called direct sellers. AB 1717 defines direct sellers and requires direct sellers to utilize an alternative reporting method of the prepaid MTS surcharge and local charge. Direct sellers are required to remit that portion of the prepaid MTS surcharge to the BOE that consists of the prepaid 911 surcharge that is due in lieu of the Emergency Telephone Users Surcharge Act. Direct sellers are required to remit the CPUC portion of the prepaid MTS charge directly to the CPUC and the local MTS surcharge to the local agency imposing the charge.

The passage of AB 1717 also created the Local Charges for Prepaid MTS Fund in the State Treasury. All local charges imposed and collected by the BOE are held in trust for the local jurisdiction. Local charges consist of all surcharges, interest, penalties, and other amounts collected by the BOE, less any refunds and reimbursement to the BOE for expenses to administer and collect the local charges. The local charges are then distributed to the local jurisdictions on a quarterly basis along with a statement showing the amounts paid and withheld.

To ensure 911 Surcharge revenues, which are collected from all telecommunication service suppliers and prepaid MTS providers for deposit into the State Emergency Telephone Number Account (SETNA) are not adversely impacted by the provisions of the Prepaid MTS Surcharge Collection Act, there is a guaranteed funding provision. For each fiscal year beginning with FY 2016-17 and ending with FY 2018-19, the BOE's STFD is required, on or before November 1, to calculate the total prepaid MTS surcharge portion collected in the prior fiscal year for the 911 emergency telephone users surcharge less the BOE expenses incurred for administration of the program. If the resulting calculation is less than \$9.9 million, the BOE's STFD must impose the amount of the deficiency on each prepaid MTS provider or direct seller on a pro rata basis. This provision is known and referred to as the guaranteed funding provision in this document.

Collections

Since the prepaid MTS surcharge and local charge represents new liabilities for fee payers, prior experience shows having new surcharges due results in new delinquencies from fee payers. These delinquencies require staff time to perform collection activities to collect the prepaid MTS surcharge and local charge amounts due. The prepaid MTS surcharge is administered under the Fee Collection Procedures Law. There are some differences between the administrative provisions in the Fee Collection Procedures Law and the Sales and Use Tax Law. For example, the Fee Collection Procedure Law does not allow for revocation or suspension of a permit for failure to comply as does the Sales and Use Tax Law. Due to the differences between the administrative provisions, additional programming and staff time is critically necessary to ensure each collection activity for each liability is performed consistent with the applicable administrative provisions.

Since the Prepaid MTS Surcharge Act includes a guaranteed funding provision to ensure prepaid 911 surcharge revenues less expenses related to the prepaid 911 surcharge portion of the prepaid MTS surcharge do not fall below \$9.9 million, the BOE's STFD is required to issue a billing to each prepaid MTS provider or direct seller when the threshold is not met. The BOE's STFD staff is required to calculate the deficiency and determine the pro rata share attributable to each prepaid MTS provider or direct seller. This annual function requires staff time to perform the necessary calculations and programming of a new billing to issue the necessary determinations. Since these amounts are to be assessed by the BOE rather than self-assessed by the prepaid MTS providers, these billed liabilities are subject to appeal as well as collection activities to gain compliance. This request includes resources for the BOE to perform collection activities (see workload detail section).

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Online Payment Plans

When tax and fee payers cannot pay their final liability in full, the BOE offers them the ability to satisfy their liability in the form of a payment plan (in other words, in installments). This service is available on the BOE's website, and those tax and fee payers wishing to enter into a payment plan must submit their request online. Tax and fee payers meeting certain criteria are automatically approved. Accounts that are not auto-approved are routed to, and contacted by, a BOE staff member.

The online payment plan system will need to be programmed to allow prepaid MTS fee payers the ability to pay their liability in installments should they not be able to pay their liability in full at the time their return is due. The system will also need to be modified to allow for proper routing to BOE staff for those accounts that are not auto-approved. This request includes resources for the BOE to build the online payment plan system (see workload detail section).

Online Relief Requests

Online Relief Requests (ORR) allows tax and fee payers to electronically request extensions for filing returns, requests for relief of various penalties, interest, and the collection cost recovery fee. ORRs are also submitted online via the BOE's website. As such, the BOE's ORR system will require additional programming to accommodate the prepaid MTS fee payer, to allow them the ability to submit their filing extension and relief requests online. This will include both construction and testing of the ORR system to ensure it functions properly. This request includes resources for the BOE to build the ORR system (see workload detail section).

Audits

An audit for prepaid MTS surcharge and local charge may be conducted at the same time as a sales and use tax audit. However, since it is a separate surcharge program, it requires additional staff time to examine transactions subject to prepaid MTS surcharge and local charge to verify surcharge and local charge amounts are reported accurately and requires preparation of a separate audit report. To maintain current audit coverage for existing sales and use tax accounts, additional audit staff is necessary.

As audits are typically conducted on a three-year audit cycle, audit staff can be phased in after the first year of the program. When an account is selected for a sales tax audit, staff can conduct the prepaid MTS audit at the same time even if the prepaid MTS audit would not cover an entire three-year period. It would be more cost effective to conduct an audit for a short period in conjunction with a sales tax audit rather than waiting three full years to conduct an audit of prepaid MTS by itself. AB 1717 currently has a sunset date of January 1, 2020. However, because the statute of limitations allows for audits to be conducted up to three years after the current sunset date, audit staff are required beyond the sunset date. This request includes resources for the BOE to conduct audits (see workload detail section).

Appeals

Audit assessments of the prepaid MTS surcharge and local charge will also result in filing of petitions for redetermination. This will impact all phases of the appeals process resulting in additional workload for staff to process petitions for redetermination, hearing appeals cases, writing summary reports of the hearings, evaluating settlement proposals, considering an offer in compromise, and preparing for and conducting a hearing before the Board Members.

Additionally, as part of the guaranteed funding provisions, the direct sellers or prepaid MTS providers have the option to petition the pro rata share of the deficiency of the guaranteed funding that is attributable to each of them. Since the BOE's STFD is required to impose the deficiency on each prepaid MTS provider or direct seller on a pro rata basis, the BOE's STFD will be required to process any appeals that may arise from these determinations. This raises the potential for multiple appeals being filed on one calculation that could trigger the guaranteed funding calculation being calculated multiple times. This request includes resources for the BOE to process appeals (see workload detail section).

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Refunds

Fee payers that believe they have overpaid the prepaid MTS surcharge are permitted to file a claim for refund. Additionally, since the prepaid MTS surcharge is imposed upon the consumer, a consumer that believes they were overcharged for the prepaid MTS surcharge may also file a claim for refund. Processing and verifying claims for refund results in additional workload for staff. Refunds filed by consumers are more time consuming to process as they require adjustments to amounts reported by sellers. Refunds involving the local charge must be filed with the local jurisdiction. This request includes resources for the BOE to process refunds (see workload detail section).

Distribution of Revenue

The Prepaid MTS Collection Acts created by AB 1717 includes both a state and local component. The state component (prepaid MTS surcharge) is deposited into two different accounts (Prepaid MTS 911 Account and Prepaid MTS PUC Account). The state component of the prepaid MTS surcharge is subject to change every year based on the rate setting provision that allows adjustments for the prepaid 911 Surcharge rate and the CPUC Surcharge rates. Additionally, these amounts require allocation to the two separate fund accounts and are thus very complex. Since complete return data is generally not available until six months after returns are due, payments received are allocated based on statistical factors and calculated based on historical return data. A true-up is then performed after the complete return data is available. Because the rates change annually, calculation of the statistical factors is likely to be inaccurate resulting in additional workload for staff to ensure the proper amount of revenue is allocated to the correct funds.

The Local Prepaid Mobile Telephony Services Collection Act has a large number of jurisdictions that impose a local prepaid MTS charge at various rates. Due to the large number of local jurisdictions imposing a local charge, verification of amounts to distribute and the distribution is time consuming and requires additional resources to ensure amounts are allocated to the correct jurisdiction. This request includes resources for the BOE to verify and distribute revenue (see workload detail section).

Other Administrative Functions

The BOE will have ongoing workload related to calculating the prepaid MTS surcharge and posting the combined prepaid MTS surcharge and local charge amounts by December 15 each year on the BOE website. The prepaid MTS surcharge amount is not fixed and must be calculated annually by the BOE. By November 1 of each year, the BOE must calculate the rate by combining the prepaid 911 surcharge rate with the various CPUC surcharge rates. Additionally, since the BOE will be administering a local charge, by December 1 of each year the BOE must publish the combined rate for each local jurisdiction. As these rates are subject to change every year, the BOE will incur costs associated with calculating the rate for each jurisdiction and publishing this information.

AB 1717 contains a sunset date of January 1, 2020. To assist the Legislature in determining the effectiveness of the Prepaid MTS Collections Acts, the BOE is required to prepare a report no later than July 1, 2017 that identifies actual revenues collected for the calendar year 2016, the number of sellers and direct sellers remitting the prepaid MTS surcharge and local charge, the number of sales locations, and the BOE's actual costs to implement the prepaid MTS surcharge and local charge programs. The report also requires a revised estimate be prepared for 2017-2019 calendar years for anticipated revenues and costs to administer the program.

Due to the complex nature of the prepaid MTS surcharge and local charge, extensive training of staff is necessary. Training is required for staff in all aspects of the administration of this new surcharge program, including registration, return processing, collections, audits, and appeals. This request includes resources for the BOE to address these administrative functions (see workload detail section).

E. Outcomes and Accountability

According to AB 1717, the prepaid MTS surcharge is expected to generate approximately \$51 million annually (\$5 million in new revenue). The local charge is expected to generate \$72 million annually for the local jurisdictions, based on described assumptions (\$36 million in new revenue). These

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revenue amounts are based upon the statutory provisions prior to the small seller exemption of \$15,000 during the previous calendar year commencing on January 1, 2017 and adjusted annually by the Department of Finance. Therefore, it is unknown at this time how much of the revenue may actually be realized if a small seller exemption is established.

Workload Measure	Projected Net Annual Revenue
State Prepaid MTS Surcharge	\$51 million
Local Prepaid MTS Surcharge	\$72 million

F. Analysis of All Feasible Alternatives

Alternative 1 – Provide the requested resources to fully implement the prepaid MTS surcharge program as required by AB 1717.

Pros:

- Provides the necessary resources to fully implement and successfully administer all aspects of the prepaid MTS surcharge program
- Provides funding for all program components including audits, collections, refunds and appeals
- Guarantees and ensures revenues for this program are recognized, determined, collected, allocated, and thus realized

Cons:

- Requires a budget augmentation

Alternative 2 – Provide the requested resources to partially implement the prepaid MTS surcharge program as required by AB 1717, including extension of the current SPA LT positions through October 31, 2016.

Pros:

- Provides resources to implement and administer the prepaid MTS surcharge
- Ensures some of the revenues intended to be collected for this program are realized

Cons:

- Requires a budget augmentation
- Does not provide funding for all administrative functions such as audits, appeals, and collections

Alternative 3 – Do not provide the requested resources.

Pros:

- Does not require a budget augmentation

Cons:

- The BOE is unable to fully implement the prepaid MTS surcharge program
- Revenues from the prepaid MTS surcharge are not fully collected and thus not fully realized

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G. Implementation Plan

The following table details the full implementation of this program:

Hire and train new staff	July 2015 (Complete)
Design registration system changes	July 2015 (Complete)
Design system changes to capture fee payer data	July 2015 (Complete)
Design e-file system (seller)	July 2015 (Complete)
Program registration system changes	September 2015 (Complete)
Program system changes to capture fee payer data	September 2015 (Complete)
Program e-file system (seller)	March 2016 (Ongoing)
Design e-file system (direct seller)	July 2015 (Ongoing)
Program e-file system (direct Seller)	October 2016 (Ongoing)
Test registration system changes	November 2015 (Ongoing)
Enter into contracts with local jurisdictions	September 2015 (Ongoing)
Outreach to surcharge fee payers	July 2015 (Ongoing)
Register surcharge payers for program	December 2015 (Ongoing)
Test system changes to capture fee payer data	January 2016
Calculate prepaid MTS surcharge rates	November 2015 (Ongoing)
Test e-file system	February 2016 (Ongoing)
Train all staff	December 2015 (Ongoing)
Post prepaid MTS surcharge rates	December 2015 (Ongoing)
Allocate local prepaid MTS surcharge revenue to local jurisdictions	June 2016 (Ongoing)
Distribute state prepaid MTS surcharge revenue to fund	June 2016 (Ongoing)
Online Relief Requests	June 2017
Online Installment Payment Agreements	June 2017
Collections	June 2017
Audits	June 2017
Appeals	June 2017
Refunds	June 2017
Prepare report to the Legislature	July 2017
Review direct sellers reporting of emergency telephone users surcharge portion of the prepaid MTS surcharge	September 2017 (Ongoing)
Calculate and determine whether the \$9.9 million threshold amount is met	November 2017 (Ongoing)
Calculate deficiencies for each provider	December 2017 (Ongoing)
Send billing notices to deficient service providers	December 2017 (Ongoing)

H. Supplemental Information

N/A

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I. Recommendation

Alternative 1 is recommended to provide the resources necessary to implement this new surcharge program.

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Workload detail for PREPAID MOBILE TELEPHONY SERVICES SURCHARGE PROGRAM

TECHNOLOGY SERVICES DEPARTMENT (TSD)

TSD initially received resources through Fiscal Year (FY) 2015-16 (BCP No. 1) to assist with the development and implementation of the Prepaid Mobile Telephony Services (MTS) Surcharge project. TSD received spending authority for 5.0 1 year limited-term (LT) technology positions, and augmentation of \$1,620,000 for software customization in FY 2015-16. The breakdown of one-time IT project costs for prepaid MTS was based on the assumption that all IT development and implementation work would be completed by June 30, 2016.

In order to provide the system components necessary for fee payers to register their accounts and for the BOE to be in compliance with the requirements of this legislation, TSD and the Program developed the scope and scheduled 5 phases to implement the prepaid MTS program. The scope and schedule were approved by the prepaid MTS Project Steering Committee and the BOE Department Head Committee. This change requires that the BOE extend the project schedule and defer some of the direct seller functionality to October of 2016. Additionally, the project scope has been expanded to include additional functionality in the areas of collections, audits, appeals, and refunds.

To fund these changes, TSD requests to extend (3.0) 1 year limited-term (LT) positions for FY 2016-17 with an expiration date of June 30, 2017 and \$644,300 for contractor services. The contractor services total has been revised to reflect the software customization costs (\$494,300) plus the costs (\$150,000) needed to continue the Independent Verification and Validation (IV&V) consulting services as mandated by the California Department of Technology.

Due to the delay in the schedule and hiring of the contractors, BOE anticipates \$481,964 in savings in 2015-16 to offset the request in 2016-17. Additionally, \$39,176 in savings due to a delay in hiring is anticipated in 2015-16, which will revert to the fund balance.

Original LT One-time IT Positions

TSD received spending authority to fill the following LT positions:

One Time		Classification	BY FY 2015-16	PY Funding per BCP	Unexpended Funds
Unit					
New	BA/EA	Staff Information Systems Analyst	1.0 ^{a/}	\$73,548 ^{b/}	\$200
New	PMO	Staff Information Systems Analyst	1.0 ^{a/}	\$73,548 ^{c/}	\$73,548
New	IRIS	Staff Programmer Analyst	1.0 ^{a/}	\$73,548 ^{b/}	\$18,378
New	IRIS	Staff Programmer Analyst	1.0 ^{a/}	\$73,548 ^{b/}	\$20,598
New	MidTier (eServices)	Staff Programmer Analyst	1.0 ^{a/}	\$73,548 ^{c/}	\$73,548
Total New LT Positions			5.0	\$367,740	\$186,272

a/ 1 year LT effective 07/1/2015 to 06/30/2016

b/ 1 year LT effective 07/1/2015 to 06/30/2016, requesting extension until 06/30/2017

c/ Currently unfilled due to difficulty in hiring staff with JAVA and project management experience on a limited basis. TSD has repeatedly tried to recruit staff in these areas but have not been successful.

Background

Work on the MTS project did not begin until July 1, 2015. Procurements were initiated on July 1, 2015 but there were multiple resources that were not in place in time to begin the necessary work.

Historically, TSD has absorbed much of the workload related with the implementation of new programs. However, in the case of prepaid MTS, this is not possible as the TSD resources are focused on the support of all current workload consisting of legislation/mandates, and

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special/strategic/program area requests. Following are the complex legislation/mandated projects running concurrent to the prepaid MTS Project:

1. Centralized Revenue Opportunity System (CROS) Project
2. Revenue Recovery and Criminal Enforcement (RRaCE) (AB 576)
3. Triple Flip Sunset (AB 92)
4. International Fuel Tax Agreement (IFTA) Return Processing
5. 2015 Electronic Funds Transfer Transition
6. Regional Railroad Accident Preparedness and Immediate Response (RRAPIR)(SB 84)

TSD began requirements gathering on July 1, 2015 and as the requirements were gathered and the complexity of the project was better understood, it was determined that we needed to modify the phases as represented in the Feasibility Study Report (FSR). TSD realized that there were legal implications that drove the need to bring in the schedule for indirect sellers. Specifically, the registration system needed to be implemented in December of 2015 and return processing needed to be implemented in April 2016. These shifts in implementation dates took an already aggressive schedule and compressed it even more. As a result, there was a need to reevaluate the timing for the direct sellers implementation and it was determined that we would move some of that scope to a later timeframe. After having collaborative discussions with the project team and stakeholders, a schedule was presented to the project Steering Committee which deferred some of the direct seller functionality to October 2016. Per the FSR, we were going to implement reporting functionality in September 2016 and some of this functionality will now be incorporated into each phase of the project, adding to the complexity of each phase.

Enhancements to our systems for registration, reporting, collections, refunds, appeals, and posting individual rates on the Internet (PUC surcharges, prepaid 911 surcharge rates, and each of the individual local charges) are now part of Phase 6 in the prepaid MTS project timeline. The key elements are the interfaces between the BOE's mainframe and database systems and the web-based pages used to provide fee payer services.

Analysis of Problem

The following is an overview of the MTS project timeline and scheduled dates:

MTS Project Timeline	Scheduled Dates
Phase 1: Indirect Sellers <ul style="list-style-type: none"> • Registration • Linking of MTS Account and Sales Tax Account • Unapplied Payments Deposited to MTS Account • Reporting 	7/2015-12/2015
Phase 2: Direct Sellers Changes to Paper Return	8/2015-1/2016
Phase 3: Indirect Sellers Return Processing <ul style="list-style-type: none"> • Online Return Processing • Fund Allocations • Payments and Refunds • Reporting 	7/2015-4/2016 (6 weeks earlier than originally planned)
Phase 4: Indirect Sellers Return Processing (formerly part of Phase 3) <ul style="list-style-type: none"> • Reprint Return Utility • History Browse for Prior Returns • Quarterly Reports for FAC • DAS Downloads/Reports • Delinquency Functionality • Warrant Process • Reporting 	7/2015-5/2016
Phase 5: Direct Sellers Online Return Processing (formerly Phase 4)	2/2016-10/2016
Phase 6: Additional functionality <ul style="list-style-type: none"> • Online Relief Request • Online installment payment arrangements • Collections • Audits • Appeals • Refunds 	06/2016-4/2017
Post Implementation Efforts	5/2017-6/2017

Analysis of Problem

Workload Justification

The following table identifies the hours estimated by staff to complete the tasks associated with the additional functionality:

Function	Existing Staff	New Staff	Contractor	Total Hours
Online Services (registration, relief request and installment payment arrangements)		2,220	1,365	3,585
Audits and Appeals		479	718	1,197
Collections		639		639
Total Application Development Hours		3,338	2,083	5,421
Support Units (business requirements, testing, project support)	3,785	1,800	1,660	7,245
Total TSD System Modification	3,785	5,138	3,743*	12,666

* TSD contractor costs that are requested equal \$374,300 (3743 hours estimated at \$100 per hour), which are needed for Phase 6 plus \$120,000 (1,200 hours estimated at \$100 per hour) needed to meet the needs of the original approved scope. Hourly rate is based on current contract proposals.

Breakdown of Resources

2.0 Staff Programmer Analyst (SPA) – LT Extension to 06/30/2017

During the 2015/2016 Fiscal Year TSD was approved for two Natural Programmer LT positions. The SPA positions performed mainframe coding and testing of the first four phases of the MTS project. In February of 2016, we began the direct sellers (phase 5) requirements gathering. The complexity of the first five phases has caused the schedule of the entire existing project to extend beyond the June 30, 2016 completion date, with phase 5 scheduled to implement on October 17, 2016. It is critical to the project that the SPA positions be extended as they have been instrumental in completing the project work and the workload entails the SPA needs through the completion of the approved Phase 5.

During the second half of 2016, the LT SPA positions will continue to provide required programming support for all phases of the MTS project previously implemented to ensure that the system changes are functioning properly and the business needs for these two tax programs are met. This will include making system enhancements as needed for the new tax programs to function efficiently. During the second half of 2016, the SPAs will also complete the construction and unit testing of the direct sellers phase 5 of the project and provide system support of these changes while the project goes through formal testing. Additionally, the SPAs will continue to provide this support after the phase 5 implementation during the stabilization period of November and December. Programming efforts for the MTS project include online registration, online return processing, online payments refunds, fund allocations, financial accounting reporting, and delinquency functionality, for indirect sellers and direct sellers tax programs. TSD will also provide functionality for audits, appeals, changes to our collections database, prepaid MTS consumer registration, online relief requests, installment payment agreements, outside agency liability offsets, liens, temporary accounts and electronic return originator capability. The final implementation for the MTS project is scheduled for April 2017 with a 2 month post implementation stabilization period. Therefore, TSD is requesting the extension of 2.0 LT SPA positions through June 30, 2017.

Analysis of Problem

Workload Detail				
Classification: Staff Programmer Analyst (SPA)	Time Measure		New Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Maintenance Request Analysis: System management which includes performance monitoring and tuning, and system and security maintenance	H	4.0	120	480
Design and Documentation: Database management which includes performance monitoring and tuning, data integrity and quality control, upgrades and patches	H	11.0	120	1,320
Construction: Application stabilization which includes application and data fixes, application enhancements, upgrade and patches, and version control	H	15.0	120	1,800
Total SPA hours				3,600
Total SPA Positions Requested (1800 Hours/Position)				2.0

1.0 Staff Information Systems Analyst (SISA) – LT Extension to 06/30/2017

The Staff Information Systems Analyst will continue to provide support to the project during the construction phases. The business analyst assists in the development of use cases and updating the requirement's documentation. During the post implementation, the business analyst will work with the business, developers and develop test use cases. The final implementation is scheduled for April 2017 with 2 month post implementation period. Due to current workload and limited resources, existing staff would not be able to provide this support.

Workload Detail				
Classification: Staff Information Systems Analyst: Business Analyst (SISA)	Time Measure		New Activities	
Activity	M=Minutes H = Hours	Percentage of Time per Activity	Occurrences Per Year	Total Hours
Gather business and technical requirements		40%		720
Document business and technical requirements		40%		720
Leads and facilitates business impact analysis		10%		180
Performs miscellaneous duties as required by management		10%		180
Total SISA hours				1,800
Total SISA Positions Requested (1800 Hours/Position)				1.0

Analysis of Problem

EXTERNAL AFFAIRS

Customer Service Center

The Customer Service Center (CSC) is the primary point of contact for callers with questions regarding over 30 BOE tax and fee programs. Inquiries range from general questions regarding the various programs that the BOE administers, to in-depth questions regarding the BOE's online services and filing/registration assistance. Last year CSC answered over 560,000 phone calls.

1.0 Tax Technician II – New Permanent Position (Start Date 7/1/16)

In less than 5 months, the CSC received more than 6,000 calls concerning MTS. The CSC estimates the MTS program will result in an additional 13,480 calls annually. Of these calls it is estimated that 12,000 will be answered by a CSC Tax Technician. The other 1,480 calls will be handled by a BTR position. In order to handle the increase in call volumes the CSC is requesting 1.0 Tax Technician II (Permanent). The Tax Technician will provide assistance with:

- Filing and Paying the Surcharge
- Registering for MTS
- Provide answers to general questions and to BOE resources
- Assistance with Complex MTS questions
- Explaining multiple rates that are adjusted semi-annually

CSC also analyzed the call duration of the calls that required MTS assistance for the last 5 months, compared to the call center average. The MTS calls take an average of 9 minutes (AVAYA average call length for Dec15, Jan16 and Feb 16).

Workload Detail				
Classification: Tax Technician II (TT II)	Time Measure		On-going Activities	
Activity	M = Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Answer fee payer and public inquiries received on the BOE toll free 800 phone number concerning the new MTS program, regarding registration information and guidance, return filing assistance, MTS rates, MTS notices, and the application of tax.	M	9	12,000	1,800
Total TT II hours				1,800
Total TT II Positions Requested (1,800 Hours/Position)				1.0

Business Taxes Representative (BTR) – 400 Ongoing Temporary Hours

The CSC requests 400 hours annually for the BTR position to provide ongoing training, answer complex fee payer inquiries via phone and email; monitor and assist the services provided by the tax technicians to ensure the information provided to fee payers and the public regarding MTS is accurate and concise. The following is the workload breakdown for the BTR:

- We anticipate the BTR handling 404 MTS emails per year. During the calendar year of 2015, there were a total of 560,967 calls made to the CSC. During that same year there were a total of 16,849 emails received. Applying the total number of emails (16,849) to the total number of calls (560,967) results in an email rate of 3% (16,849/560,967). Applying the email rate of 3% to the total number of anticipated call volume of 13,480 results in a total anticipated email volume of 404 (3% x 13,480). Applying the number of anticipated emails of 404 to the

Analysis of Problem

average 8 minutes it takes to complete one email results in a total number of 54 hours ((404 x 8 minutes = 3,232) minutes/60 minutes = 54)).

- The BTR will provide first level advisory services on the CSC hotline, which routes from a separate assistance line from remote agents and CSC staff. Of the total call volume of 560,967 from calendar 2015, there were a total number of calls that needed assistance of 47,967. Applying the 47,967 assistance-required calls to the total call volume (560,967) results in an 8.55% rate of calls that require assistance (47,967/560,967 = 8.55%). Applying the total number of anticipated calls of 13,480 to the assistance rate of 8.55% results in a total number of anticipated MTS calls of 1,153 (13,480 x 8.55%). Applying the current CSC's call system's (Avaya) average minutes to handle an MTS call for the months of December 2015, January 2016 and February 2016 resulted in 8 minutes per call, results in 154 hours ((1,153 x 8 minutes = 9,224 minutes)/60 minutes = 154 hours).
- The BTR will assist those taxpayers that require more complex issues such as the MTS program as a whole, registration, return filing, MTS rates, and interpreting MTS notices. Of the total 13,480 total calls received, 1,480 will be handled by the BTR. Applying the average call time of 8 minutes per call results in 197 hours ((1,480 x 8 minutes = 11,840 minutes)/60 minutes = 197 hours).

Workload Detail				
Classification: Business Taxes Representative (BTR)	Time Measure		On-going Activities	
Activity	M = Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Answer fee payer inquiries received by internet email.	M	8	404	54
Provide first level advisory services on the CSC hotline, a separate assistance line (split) for the exclusive use of Remote Agents in other areas of the BOE and CSC staff.	M	8	1,153	154
Answer fee payer and public inquiries received via the BOE toll free 800 phone line, and answer the more complex inquiries concerning the new MTS program, registration information and guidance, provide return filing assistance, MTS rates, MTS notices, and the application of tax thereto.	M	8	1,480	197
Total BTR hours				405
Total BTR Temporary Hours Requested				400

FIELD OPERATIONS DEPARTMENT (FOD)

The FOD's function is to plan, organize, direct, and control all administrative activities and the sales and use tax program functions such as registration, collection and audit for seventeen statewide district field offices, seven branch field offices, and three out-of-state area offices. FOD also formulates, plans, and recommends for approval programs, budgetary matters, personnel issues and organization changes relating to the overall operation of the field offices. FOD will also be charged with these same functions as they relate to prepaid MTS program.

1.0 Business Taxes Representative (BTR) – Field Position – Redirection of an existing position from the Customer Service Center.

The BTRs in the field offices are primarily responsible for initiating contact with tax/fee debtors to collect monies owed the state on mid-level accounts receivable and/or arrange for filing and payment of past due returns. In addition, these positions are responsible for arranging installment payment plans, assisting fee payer with filing returns, and assisting with complex registration issues. BTRs use a wide variety of collection tools and techniques, such as skip tracing, issuing liens on property,

Analysis of Problem

levying bank accounts, and issuing keepers in a fee payer's business location. Based on 2,640 registered MTS fee payers and associated workload details, the department is requesting one BTR. The number of accounts associated with this position is roughly 450. The 450 accounts is comprised of 77 accounts with accounts receivables, 204 accounts with delinquencies, and 169 accounts estimated to need either filing or registration assistance. Refer to Exhibit #1 for details associated with Workload Detail.

Workload Detail				
Classification: Business Taxes Representative (BTR)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Perform collection activities on mid-level new accounts receivables including making field calls to fee payer's business locations	H	6	77	462
Perform collection activities on mid-level aged accounts receivables including making field calls to fee payer's business locations	H	10	51	510
Obtain delinquent returns and payments for new Delinquencies	H	1	204	204
Obtain delinquent returns and payments for aged Delinquencies	H	2.5	77	192.5
Assist fee payers filing their returns	H	0.4	1,020	408
Aid clerical staff with complex registration issues	H	0.25	119	30
Total BTR hours				1,806.5
Total BTR Positions (1,800 Hours/Position)				1.0
Total BTR Positions Requested				1.0

1.0 Associate Tax Auditor (ATA) – Field Position – Redirection of an existing position from the Sales and Use Tax Department

ATAs will be utilized to conduct complex audits, prepare audit reports, and conduct specialized audit procedures and techniques to address the additional workload by the imposition of the new tax/fee based upon 2,640 surcharge payers that are now identified as reporting an additional tax/fee that they were not required to collect and remit prior thereto. Responsibilities include examining fee payers' books and records and determining the appropriate amount due associated with the new tax/fee. ATAs also determine the appropriate test or statistical sampling methodology, prepare audit working papers to support the audit findings and explain the audit findings to the fee payer and the fee payer's representative(s). The ATA is also involved in the appeals process related to audits or field billing orders including petitions for redetermination and hearings. The workload detail uses average audit hours based on historical audit hours for sales and use tax permits and multiples the hours by the number of expected audits to project total auditor hours. The number of expected audits is based on an average of completed audits over a three year period for the sales tax accounts associated with MTS accounts. Sales and Use Tax accounts with MTS accounts will be audited at the same time. This provides a very accurate estimate of our anticipated audit workload. The table below provides the workload detail for these positions.

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Workload Detail				
Classification: Associate Tax Auditor (ATA)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Audit fee payer records and prepare audit reports	H	90*	20	1,800
Total ATA hours				1,800
Total ATA Positions Requested (1,800 Hours/Position)				1.0

*Based on Field Workload Study average mean hours from accounts in BINs 11-20, which are deemed the most productive accounts.

SALES AND USE TAX DEPARTMENT

Tax Policy Division

Data Analysis Section (DAS)

1.0 Business Taxes Specialist I (BTS I) – Redirection of an existing position from the Local Revenue Allocation Unit

The BTS I position will be utilized to design and generate monthly registration and revenue reports for AB 1717. In addition, this position will be responsible for performing data analysis, providing reporting activities related to program performance and preparing reconciliations of return data to assist in identifying discrepancies requiring further review. This position will also create audit leads and identify accounts to be evaluated for audit selection. Refer to Exhibit 2 for details associated with *Workload Detail*.

Workload Detail				
Classification: Business Taxes Specialist I (BTS I)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Report Generation (Revenue And Registration)	H	5	68	340
Audit Selection	H	50	1	50
Audit Discovery	H	20	20	400
Data Analysis & Reconciliations For Review	H	20	20	400
Special Request Reports	H	25	20	500
Data Maintenance	H	10	12	120
Total BTS I hours				1,810
Total BTS I Positions Requested (1,800 Hours/Position)				1.0

Return Analysis Unit

-0.5 Business Taxes Specialist I (BTS I) –

A permanent 1.0 BTS I position was provided as part of the 2015-16 request, but the workload has not yet reached expectations. This position will be reduced to a 0.5 BTS I starting 7/1/16.

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Audit and Information Section (AIS)

Business Taxes Specialist I (BTS I) – 800 Ongoing Temporary Hours (start date 7/1/17)

The BTS I responds routinely to the ongoing most complex written inquiries from surcharge fee payers, district field offices, fee payer representatives, accountants, and attorneys. The BTS I drafts ongoing publications, policies and procedures, and special notices to affected surcharge payers. The BTS I works independently without supervision, implements prepaid MTS rate and program changes, and leads and reviews lower level auditor staff's work for accuracy.

Workload Detail				
Classification: Business Taxes Specialist I (BTS I)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Respond to telephone inquiries from surcharge payers – on going	M	6.5	104	11
Review responses to written inquiries from surcharge payers – on going	H	1	345	345
Respond to inquiries from the district field and Headquarters offices – on going	H	4	48	192
Draft and publish new/updates to special notices, eBlasts, and postcards for ongoing work related to rate changes – on going	H	40	3	120
Draft and publish updates to webpages – on going (as needed)	H	4	6	24
Coordinate/Facilitate status meetings with other BOE units and other agencies – on going	H	3	16	48
Draft and publish updates to publications and forms – on going (as needed)	H	3	20	60
Total BTS I hours				800
Total BTS I Temporary Hours Requested				800

The workload detail above is based on the following calculations:

- Based on the average number of MTS phone calls the BTS I in AIS received between January and February 2016 (16, an average of 2 per week), it is projected that the BTS I will respond to approximately 104 calls in FY 2016-17. Based on Avaya phone reports, it takes 6.5 minutes to respond to a complex telephone inquiry.
- In January and February 2016, AIS received 62 technical inquiries that required written correspondence. This projects to 372 technical inquiries requiring written response in FY 2016-17 and ongoing. These responses are reviewed by the BTS I, which typically takes one hour to review each response.
- Since MTS rates may change twice per year, it is anticipated ongoing workload will be necessary to draft and distribute a special notice twice per year pertaining to rate changes. It is also anticipated a special notice will be required once per year for seller's that qualify under the small seller exemption. Based on average time taken to draft, clear, and distribute similar special notices for sales and use tax rate changes, it is anticipated each notice will require 40 hours of staff time to complete.
- Since MTS rates may change twice per year, it is anticipated that two webpage updates will be needed each year to post the new rates. Since this is a new surcharge program, it is anticipated that four webpage updates will be needed to address industry topics raised by taxpayers and consumers. Similar webpage updates typically take four hours to complete.
- The BTS I will regularly coordinate and facilitate meetings and tasks with other BOE units and other agencies. These meetings often result in follow up action items. Based on similar projects, there should be approximately 16 meetings per year, with each meeting taking three hours to coordinate and facilitate.

Analysis of Problem

- Similar tax programs generally require creation and updates to various forms and publications about 20 times per year. These typically take an average of three hours to complete for each change.

Associate Tax Auditor (ATA) –1552 Ongoing Temporary Hours (start date 4/1/17)

ATAs will be utilized to respond to telephone and written inquiries from the general public, taxpayers, taxpayer representatives, accountants, or attorneys regarding the more complex issues that arise due to the imposition of the new tax/fee. Responsibilities include examining taxpayers' correspondence, researching the applicable law, and analyzing the BOE account, if applicable, to determine whether the additional new tax/fee applies to a particular transaction. The table below provides the estimate workload for these positions.

Workload Detail				
Classification: Associate Tax Auditor (ATA)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
Respond to telephone inquiries from surcharge payers – ongoing	M	6.5	596	64.6
Respond to written inquiries from surcharge payers - ongoing	H	4	372	1,488
Total ATA hours				1,552.6

The workload detail above is based on the following calculations:

- The ATA's in AIS received 43 complex MTS telephone inquiries in February 2016 (a non-peak filing period). For the 8 monthly non peak filing months, it is projected that an ATA will receive a total of 344 MTS telephone inquiries ($43 \times 8 = 344$). In 2015 for the sales and use tax program, the number of calls received during a peak filing period increased by 46.5 percent based on phone calls received for April and October 2015 (January and July figures were not used as they include yearly filers which tend to call at a greater rate and MTS is a quarterly filing program only). Therefore, it is expected MTS phone calls for the four peak filing months (January, April, July and October) will increase by the same 46.5 percent for a total of 63 calls per month ($43 \times 146.5\% = 63$). This will result in 252 calls during the four peak filing months ($63 \times 4 = 252$). Total MTS calls received for the year is expected to be 596 calls ($344 + 252 = 596$). Based on Avaya phone reports, an average phone call takes 6.5 minutes to respond to.
- AIS received a total of 62 complex written inquiries about MTS for January and February 2016. Based on this volume of inquiries, it is anticipated AIS will receive 372 written inquiries ($62 / 2 = 31$ per month \times 12 months = 372). Based on similar tax program inquiries, it is expected each written inquire will require four hours to complete.

Compliance and Technology Section (CTS)

Business Taxes Specialist I (BTS I) –588 Ongoing Temporary Hours (start date 7/1/17)

CTS manages, evaluates, provides support, advises field staff and management on compliance issues and statewide compliance programs, and implements new and amended legislation. CTS also creates, maintains, and updates the Online Service, such as online filing system, registration, relief requests, payments, online payment plans, and license verification.

The existing 2 Year Limited Term Business Taxes Specialist I (BTS I) will cover the tasks involved with the implementation phase. We respectfully request 588 hours to cover the on-going tasks involved to maintain the prepaid MTS rates changes.

Analysis of Problem

The BTS I in the eServices Unit on an ongoing basis, is responsible for facilitating Joint Application Development (JAD) sessions and developing the business requirements as the threshold amount and new rates change. The BTS I is also responsible for facilitating User Acceptance Testing (UAT), project status meetings, and plays a vital role in the development of training materials. The BTS I develops process maps, updates webpages, coordinate the changes and testing with Direct Transmitters and Electronic Return Originators (EROs), assists with the revision of forms, returns and schedules changes, and the development and implementation of policies regarding collection activities. The hours for assisting staff for questions and/or issues is based upon the amount of staff currently spend on existing online services and/or issues (research and communicating and exploring solutions with the Technology Services Department staff). The hours for ongoing maintenance tasks are based upon the prepaid MTS rate changes occurring twice per year. In the year 2015 704 hours were spent on special taxing jurisdiction implementation rate change tasks.

Workload Detail				
Classification: Business Taxes Specialist I (BTS I)	Time Measure		On-going Activities	
Activity	M=Minutes H = Hours	Time Per Occurrence	Occurrences Per Year	Total Hours
UAT for New Local Charges				
User Acceptance Testing	H	32	2	64
Regression Testing	H	16	2	32
GIS Testing	H	16	2	32
TAC Testing	H	16	2	32
Develop Test Scripts	H	30	2	60
Rate Changes for Online Filing (Mock-ups and Clearance Process)	H	70	2	140
Webpage Rate Changes	H	2	2	4
Project Meetings	H	1	20	20
Researching and Opening HEAT Tickets for Assignments	M	30	20	10
Direct Transmitter/ERO Testing				
Review Test Returns and Resolve any Defects	H	32	2	64
Provide Direct Transmitters/ERO's Screen Shots of New/Updated Pages	H	8	2	16
Request and Review ERO Environment, Tables and Return Addressing	H	12	2	24
Miscellaneous				
Training Liaisons (Develop Presentations, Attend Meetings, Setting Up Training Environment)	H	40	1	40
Assisting Staff on Questions/Issues	M	20	150	50
Total BTS I hours				588

Analysis of Problem

Field Operations Department Collector Workload Detail - Business Taxes Representative

BTR Collection Activities		
Approximate Taxpayers with Fee	2,640	
Estimated % of Accounts with Lower Dollar Receivables Return Periods	<u>15.0%</u>	Collection Staffing Model
Total Estimated Accounts Receivable Periods	396	
Average % of New A/Rs from \$2-\$40K	<u>30%</u>	Collection Staffing Model
Total Accounts with New A/R periods from \$2-\$40K	118.8	
Average hours per New A/R Return Periods	<u>6</u>	Field Workload Study
Total Hours for New A/R periods	712.8	
Average % of Aged A/Rs Return Periods from \$2-\$40K	<u>20%</u>	Collection Staffing Model showed 49%, conservative estimate of 20% used instead
Total Accounts with Aged A/R periods from \$2-\$40K	79.2	
Average hours per Aged A/R	<u>10</u>	
Estimated Total Hours for Aged A/R periods	792	
BTR Collection Activities	1504.8	
Approximate Taxpayers with Fee	2,640	
Estimated % of Delinquency Return Periods	<u>30%</u>	Collection Staffing Model showed 60%, conservative estimate of 30% used
Total Estimated Accounts with Delinquencies	792	
Average % of New Delinquencies	<u>40%</u>	Collection Staffing Model showed 87%, conservative estimate of 40% used
Estimated New Delinquencies	316.8	
Average hours per New Delinquency	<u>0.5</u>	
Total Hours for New Delinquencies	158.4	
Average % of Aged Delinquencies	<u>15.0%</u>	Collection Staffing Model showed 13%, rounded up due to complexity of new program
Estimated Aged Delinquencies	118.8	
Average hours per Aged Delinquency	<u>1.5</u>	
Estimated Total Hours for Ages Delinquencies	178.2	
BTR Delinquency Work Hours	336.6	
Approximate Taxpayers with Fee	2,640	
Estimated # of Taxpayers that will require assistance	<u>15.0%</u>	FY 14/15 Call center total assistance per qtr was 16%
Total Estimated Taxpayers Requiring Assistance	396	
Average number of occurrences per year	<u>4</u>	
Estimated # of Occurrences Assisting Taxpayers	1,584	
Average time spend assisting taxpayers with filing returns	<u>0.4</u>	
Total BTR Hours Assisting Taxpayers	633.6	
Approximate Taxpayers with Fee	2,640	
Estimated % of Taxpayer with Complex Registration Issues	<u>7.0%</u>	Estimate percentage based on complexity of the program
Total Estimated Complex Registration Issues	184.8	
Average time spend assisting clerical staff	<u>0.25</u>	
Total BTR Hours Assisting Clerical staff with Reg Issues	46.2	
Total BTR Hours		2521.2
Total BTR Positions Requested (1,800 Hours/Position)		1.0

Analysis of Problem

Report Generation (revenue & registration) – Data Analysis Section (DAS) anticipates generating reports for *Registration, Revenue, Delinquencies* and *Account Receivable*. The information in Table 1 represents the detail used for the Workload Detail. The *Monthly Occurrences, Quarterly Occurrences,* and *Annual Occurrences* columns are reporting periods and not the number of reports generated. The Hours to Generate column is the average time per Report Type per occurrence for the existing tax programs administered by the BOE. We anticipate the number of hours to generate the existing reports will be similar to creating the reports under the MTS program.

Table 1

Report Type	Hours to Generate	Monthly Occurrences	Quarterly Occurrences	Annual Occurrences	Total Occurrences	Hours
Registration	3	12	4	1	17	51
Revenue	6	12	4	1	17	102
Delinquency	5	12	4	1	17	85
Account Receivable	7	12	4	1	17	119
Totals	Ave 5.25	48	16	4	68	357

Audit Selection – Preparation for audit selection involves compiling internal taxpayer data and providing eligible accounts along with the corresponding data to the district offices for selection. The *Time per Occurrence* and *Occurrences per Year* in the Workload Detail is based on the average time utilized associated with distinct functions performed by DAS for audit selection on tax programs administered by the BOE. Audit Selection is generated annually.

Audit Discovery – DAS reviews third party data received from multiple sources and matches BOE account data to the third party sources. The third party data matching process identifies any revenue reporting discrepancies of a registered account. As such, the account may be considered as a potential audit lead due to the discrepancies. The *Time Per Occurrence* is based on the average of 20 hours per business and *Occurrences Per Year* is based on the average number of occurrences per year for tax programs administered by the BOE. Audit Discovery is performed on a variable basis.

Data Analysis & Reconciliation for Review – The 3rd party matching process also identifies entities conducting business in California but are not currently registered for sales and use tax purposes. DAS conducts further analysis and review to determine whether the entity is required to be registered for sales and use tax purposes. *Data Analysis & Reconciliation for Review* is performed on a variable basis. The *Time Per Occurrence* is based on the average of 20 hours per business and *Occurrences Per Year* is based on the average number of occurrences per year for tax programs administered by the BOE.

Special Request Reports – DAS anticipates receiving 1-3 special requests per month from Executive team and Board Members' offices on MTS revenue and registration. This information is based on the average number of special requests and average time to complete the requests received by DAS on a monthly basis. The expectation is a higher number of occurrences (2-3) monthly during the first 1-2 years of the program and 1-2 occurrences monthly thereafter.

Data Maintenance – DAS performs table, script & reporting maintenance of MTS related data. The time per occurrence is based on the average time utilized for the maintenance of tables, procedures, and scripts which support the report and audit functions DAS provides. This maintenance occurs on a monthly basis.

Analysis of Problem

BCP Fiscal Detail Sheet

BCP Title: AB 1717 Prepaid MTS Surcharge

DP Name: 0860-402-BCP-DP-2016-MR

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	3.5	0.5	0.5	0.5	0.5
Positions - Temporary	0.0	0.2	1.8	1.8	1.8	1.8
Total Positions	0.0	3.7	2.3	2.3	2.3	2.3
Salaries and Wages						
Earnings - Permanent	0	221	1	1	1	1
Earnings - Temporary Help	0	10	110	110	110	110
Total Salaries and Wages	\$0	\$231	\$111	\$111	\$111	\$111
Total Staff Benefits	0	194	64	64	64	64
Total Personal Services	\$0	\$425	\$175	\$175	\$175	\$175
Operating Expenses and Equipment						
5301 - General Expense	0	0	1	1	1	1
5304 - Communications	0	5	2	2	2	2
5322 - Training	0	3	0	0	0	0
5324 - Facilities Operation	0	40	7	7	7	7
5340 - Consulting and Professional Services - External	0	644	0	0	0	0
5344 - Consolidated Data Centers	0	121	0	0	0	0
5346 - Information Technology	0	9	1	1	1	1
539X - Other	0	26	2	2	2	2
Total Operating Expenses and Equipment	\$0	\$848	\$13	\$13	\$13	\$13
Total Budget Request	\$0	\$1,273	\$188	\$188	\$188	\$188
Fund Summary						
Fund Source - State Operations						
0022 - State Emergency Telephone Number Account	0	79	12	12	12	12
3251 - Prepaid Mobile Telephony Services Surcharge Fund	0	929	136	136	136	136
3270 - Local Charges for Prepaid Mobile Telephony Service Fund	0	265	40	40	40	40
Total State Operations Expenditures	\$0	\$1,273	\$188	\$188	\$188	\$188
Total All Funds	\$0	\$1,273	\$188	\$188	\$188	\$188

Analysis of Problem

BCP Title: AB 1717 Prepaid MTS Surcharge

DP Name: 0860-402-BCP-DP-2016-MR

Personal Services Details

Positions	Salary Information								
	Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
1312 - Staff Info Sys Analyst (Spec) (Eff. 07-01-2016)				0.0	1.0	0.0	0.0	0.0	0.0
1581 - Staff Programmer Analyst (Spec) (Eff. 07-01-2016)				0.0	2.0	0.0	0.0	0.0	0.0
1974 - Tax Techn II (Eff. 07-01-2016)				0.0	1.0	1.0	1.0	1.0	1.0
4380 - Bus Taxes Spec I (Eff. 07-01-2016)				0.0	-0.5	-0.5	-0.5	-0.5	-0.5
TH00 - Temporary Help (Eff. 07-01-2016)				0.0	0.2	1.8	1.8	1.8	1.8
Total Positions				0.0	3.7	2.3	2.3	2.3	2.3

	CY	BY	BY+1	BY+2	BY+3	BY+4
1312 - Staff Info Sys Analyst (Spec) (Eff. 07-01-2016)	0	73	0	0	0	0
1581 - Staff Programmer Analyst (Spec) (Eff. 07-01-2016)	0	146	0	0	0	0
1974 - Tax Techn II (Eff. 07-01-2016)	0	39	39	39	39	39
4380 - Bus Taxes Spec I (Eff. 07-01-2016)	0	-37	-37	-37	-37	-37
TH00 - Temporary Help (Eff. 07-01-2016)	0	10	110	110	110	110
Total Salaries and Wages	\$0	\$231	\$111	\$111	\$111	\$111

Staff Benefits	CY	BY	BY+1	BY+2	BY+3	BY+4
5150350 - Health Insurance	0	37	18	18	18	18
5150500 - OASDI	0	18	9	9	9	9
5150630 - Retirement - Public Employees - Miscellaneous	0	48	24	24	24	24
5150750 - Vision Care	0	1	0	0	0	0
5150800 - Workers' Compensation	0	1	0	0	0	0
5150900 - Staff Benefits - Other	0	89	13	13	13	13
Total Staff Benefits	\$0	\$194	\$64	\$64	\$64	\$64
Total Personal Services	\$0	\$425	\$175	\$175	\$175	\$175

Program Summary

Program Funding

0570500 - Emergency Telephone Users Surcharge Program	0	79	12	12	12	12
0570650 - Prepaid Mobile Telephony Program	0	1,194	176	176	176	176
Total All Programs	\$0	\$1,273	\$188	\$188	\$188	\$188