

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 07/23)

Fiscal Year 2025-26	Business Unit Number 7730	Department Franchise Tax Board
Hyperion Budget Request Name 7730-007-BCP-2025-GB		Relevant Program or Subprogram 6280

Budget Request Title
Field Office Leases

Budget Request Summary

The Franchise Tax Board (FTB) requests \$940,000, in Fiscal Year (FY) 2025-26, \$1,025,000, in FY 2026-27, \$1,114,000 in FY 2027-28, and \$1,206,000 in FY 2028-29, and \$1,303,000 in FY 2029-30 and ongoing to fund increased costs for the Van Nuys, New York, and Houston field office leases to provide adequate office space for staff, storing confidential documents, securing IT equipment, and to meet the needs of health and safety requirements.

Requires Legislation (submit required legislation with the BCP) <input type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language <input type="checkbox"/> N/A	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.

Project No. _____ **Project Approval Document:** _____
Approval Date: _____ **Total Project Cost:** _____

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 Dept. of Technology

Principal Program Budget Analyst	Date submitted to the Legislature
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A. Problem Statement

The FTB Audit Division maintains field offices throughout California and in three out of state locations. The field offices are headquarters for audit staff that perform income tax examinations of individual and business entity taxpayers. The field office locations are generally close to taxpayers' place of business or the most populous area of taxpayers. This enables the field staff to perform their examination in the location where the taxpayers' business operations occur and supporting documents are located. Physical presence in the field allows FTB to conduct its audit program more efficiently by reducing travel costs and allowing in person meetings with taxpayers and onsite visits that facilitate resolutions of more complex examinations.

Three of the field office leases will be expiring before or during FY 2025-26:

- Van Nuys, California - This lease expired on June 30, 2024.
- Manhattan, New York - This lease expires on May 31, 2025.
- Houston, Texas - This lease expires on November 30, 2025.

Van Nuys

The FTB's Van Nuys office is currently located at 15350 Sherman Way, Van Nuys, California. This office is strategically located in this area to serve taxpayers in the Southern California region. The office is 8,774 square feet. Currently 52 audit staff work in this office. The lease expired on June 30, 2024. The lessor notified FTB that they will not renew the current lease. Currently, the lessor has committed to allowing FTB to stay in the current office space on a month-to-month basis until the new space is available.

In 2023, FTB worked with the Department of General Services (DGS) to identify alternative locations to meet the space needs for the Van Nuys location. DGS performed a site search for comparable locations and recommended a location in an adjacent building from the current space. The costs for the new office space exceeds FTBs current budget for the Van Nuys lease.

New York

The New York office has been at 1212 Avenue of the Americas in Manhattan, New York since 1994. FTB has had presence in New York since 1985. The office is centrally located close to large multinational corporate taxpayers headquartered in New York but doing business in California. This office is 11,334 square feet. Currently 105 audit staff work in this office. The lease for the current New York office expires on May 31, 2025. The lessor notified FTB they will not renew the current lease.

In 2022, FTB initiated a request for DGS real estate services to identify comparable offices that met office space needs in the New York vicinity. As a result, a new office space in New York was identified and selected. The costs for the new office space exceeds FTBs current budget for the New York lease.

Houston

FTB began leasing the current office located at 1415 Louisiana Street, in Houston, Texas in May 1995. FTB has had presence in the Houston area since 1982. This office is strategically located in downtown Houston due to the central location to a wide variety of taxpayers headquartered in and around the Texas area. This office is 5,692 square feet. Currently 47 audit staff work in this office. The lease for this office expires on November 30, 2025.

In 2018, FTB initiated a request for DGS real estate services to locate a space that fulfills the square footage needs for FTB operations in Houston. A space was identified in late 2019, however, due to the pandemic, the negotiations were put on hold and a three-year lease extension through November 30, 2023 and a subsequent extension from December 1, 2023 to November 30, 2025 were obtained. DGS resumed the search for an adequate space in 2022. As a result, a new office space in Houston was identified and selected by DGS. The costs for the new office space exceeds FTB's current budget for the Houston lease.

FTB has committed to self-funding for FY 2024-25 but the ability to self-fund ongoing is not feasible absent modifications to our operations. The funding requested in this proposal will cover the increased leasing costs for the Van Nuys, New York, and Houston offices in the amount of \$940,000 in FY 2025-26, \$1,025,000 in FY 2026-27, \$1,114,000 in FY 2027-28, and \$1,206,000 in FY 2028-29, and \$1,303,000 in FY 2029-30 and ongoing.

B. Justification

FTB is responsible for administering the income and franchise tax laws for the State of California.

FTB staff process tax returns and payments, issue refunds to Californians, conduct audits and filing enforcement actions, collect debts, and supports numerous service functions allowing for each of these compliance activities to occur. As a result of FTB's efforts, in FY 2023-24, FTB received more than 23.8 million tax returns and processed more than 9.3 million payments, responded to more than 2.7 million telephone calls, serviced over 55 million internet contacts, and collected about 162 billion in revenue, representing approximately 78 percent of California's General Fund revenue¹. The General Fund provides funds to maintain and improve essential services for all Californians, including, but not limited to education, safety, welfare programs, and law enforcement.

FTB's Audit Division examines individual and business income tax returns and supports tax compliance initiatives. Each year, the Audit Division generates approximately \$1.5B in revenue for the State of California. Audit staff located in the Van Nuys, New York, and Houston field offices are responsible for examining audits of individuals and business entities, including the largest multistate and multinational corporations that have headquarters in the Southern California, New York, and Texas regions.

Van Nuys

FTB's current Van Nuys office is located at 15350 Sherman Way. Because the current lessor would not renew the lease, FTB worked with DGS to identify a new location for the Van Nuys office. The recommended new location at 15400 Sherman Way, Van Nuys, California was selected because it meets FTB's space needs.

Table 1. Van Nuys: Current vs. New Location (Square Footage and Costs)

Field Office Location	Square Footage	Price/Sq Foot	Annual Cost ²
15350 Sherman Way (Current Location)	8,774	\$2.87	\$302,000
15400 Sherman Way (New Location)	9,172	\$3.50	\$400,000

¹ Revenue figures based on the 2023-24 Cash Report reported in the Department of Finance's July 2024 Finance Bulletin.

² Per Form 10, lease costs are estimated to increase 4% annually.

DGS estimates the move in date to be March 8, 2025 and the lease term is eight years. Ongoing funding is needed to meet the increased lease costs associated with this facility.

New York

FTB’s current New York office is located at 1212 Avenue of the Americas because the current lessor would not renew the lease, FTB worked with DGS to identify a new location for the New York office. The new location at 1180 Avenue of the Americas, 9th Floor, was selected as it meets the required space needs.

Table 2. New York: Current vs. New Location (Square Footage and Costs)

Field Office Location	Square Footage	Price/Sq Foot	Annual Cost ³
1212 Avenue the of Americas (Current Location)	11,334	\$4.85	\$660,000
1180 Avenue of the Americas (New Location)	12,782	\$8.00	\$1,276,000

The additional space requested is to address changes in state and local laws, meet federal standards, and address business operation requirements that have occurred since the existing space was negotiated in 1994.

Per the guidelines for securing tax information outlined by the IRS in Publication 1075, FTB needs dedicated storage space for records containing federal tax information. The existing space does not adequately allow for this requirement, so part of the additional space requested is to properly store records to comply with federal standards.

When the New York Field Office was established, technology was not as prevalent in FTB’s business operations. There was no need for a server room, IT equipment and IT personnel space. However, today, technology is a big component of the Audit Division’s current business operations. The existing space for the New York Office does not meet the size, restricted access, and room separation requirements for IT space as required by FTB’s Policy File 9500 (1205 physical security), CA State Administrative Manual 5300 (SAM 5365 physical security) and IRS Publication 1075 (Section 2.B) on how to secure confidential information (including Federal Tax Information) processed and transmitted by the IT systems. The additional space will allow FTB to meet these policies and procedures.

The increased use of virtual tools in FTB’s business operations has allowed for increased convenience and efficiencies but also means auditors now attend meetings with taxpayers at their desks. This new way of doing business creates the potential for confidential information to be overheard by surrounding peers. The new space will provide a quiet room for confidential meetings to prevent unauthorized disclosures of confidential information for those in the office who do not have the right to know or need to know the information being discussed.

Although FTB has an increased need for space dedicated to these state, local and federal standards, FTB is managing the increase in space with efficiency in business operations thus leading to a minor increase in square footage. The net increase in square

³ Per Form 10, lease costs are estimated to increase 4% annually.

footage requested is the result of using current tools to streamline business operations space offset with local, state and federal standards. In other words, redesigning current existing square footage to efficiently maximize business operations while balancing the need for local, state and federal standards.

Lastly, per FTB Policy File 9002, New York State Division of Labor Standards, and New York City Local Laws 185 and 186, FTB as an employer is required to provide space for lactating employees to privately pump breast milk. FTB will be able to comply with these requirements with the additional space.

DGS estimates the move in date to be May 4, 2025, and the lease term is 12 years. Ongoing funding is needed to meet the increased lease costs associated with this facility.

Houston

FTB’s current Houston office is located at 1415 Louisiana Street, 15th floor. The Houston office lease expired on November 30, 2023; however, the lease was extended from December 1, 2023 to November 30, 2025. DGS worked with FTB to identify a new office space on the 26th floor of the current office location at 1415 Louisiana Street. Relocating allows FTB to address space deficiencies and obtain the critical space needed to secure taxpayer information, comply with FTB’s IT asset security requirements, and conduct business more effectively.

Table 3. Houston: Current vs. New Location (Square Footage and Costs)

Field Office Location	Square Footage	Price/Sq Foot	Annual Cost ⁴
1415 Louisiana Street, 15 th Floor (Current Location)	5,692	\$3.28	\$224,000
1415 Louisiana Street, 26 th Floor (New Location)	9,628	\$3.75	\$450,000

The additional space requested is to address staff compaction issues, changes in state requirements, meet federal standards, and address changes in business operation requirements that have occurred since the existing space was negotiated in 1995.

Per the guidelines for securing tax information outlined by the IRS in Publication 1075, FTB needs dedicated storage space for records containing federal tax information. The existing space does not adequately allow for this requirement, so part of the additional space requested is to properly store records to comply with federal standards.

FTB’s existing office does not allow enough space for a secured storage room for IT equipment. FTB designates special security areas for its data centers and IT server rooms located in field offices to meet security requirements set forth in FTB’s Policy File 9500 (1205 physical security), CA State Administrative Manual 5300 (SAM 5365 physical security) and IRS Publication 1075 (Section 2.B) regarding how to secure confidential information (including Federal Tax Information) processed and transmitted by the IT systems. An audit conducted by the FTB Internal Audit Bureau in 2020 recommended establishing a locked environment to store IT assets, including loaner equipment, to meet requirements of FTB

⁴ Per Form 10, lease costs are estimated to increase 4% annually.

Policy File 4601 regarding special security areas. The current Houston office space does not have enough space to meet these requirements.

Additionally, the current office location does not meet evolving business operational needs. The increased use of virtual tools in FTB's business operations has increased efficiencies, but also means auditors now attend meetings with taxpayers and others at their desks in the office. The office has hard-walled offices with 3 to 4 auditors sharing each office. This makes it difficult to conduct confidential/private discussions with taxpayers and staff, and there are no dedicated spaces for audit team collaboration, training, or a lactation/first aid room.

Since the existing Houston office has hard-walled offices, no amount of reconfiguration would free up additional space needed for current operational needs to meet local, state and federal standards. The current square footage is too small to provide the long-needed additional rooms and storage space. The additional space needed for the Houston office is to remedy the lack of rooms they've had and equate them to the standards of all our offices. For example, the New York office needed space to increase the size of their IT equipment room to meet standards, but Houston doesn't have an IT equipment room. It wasn't required when we first occupied the space. Since operational needs have changed, we need to properly outfit the Houston office with adequate space to conduct modern business.

With the additional space, FTB will be able to meet the policies, requirements, and standards needed to operate in today's environment. DGS estimates the move in date to be May 7, 2025, and the lease term is eight years. Ongoing funding is needed to meet the increased lease costs associated with this office space.

C. Departmentwide and Statewide Considerations

FTB's administration of California's income tax laws are facilitated by a committed focus to fulfilling FTB's Strategic Plan. Within the Strategic Plan, FTB's Mission is "to help taxpayers file timely and accurate tax returns and pay the correct amount to fund services important to Californians". To accomplish this mission, FTB established four Strategic Goals and Strategies, and has proven successful by considering them while maintaining FTB's Foundational Principles and Values. This BCP request aligns with FTB's Strategic Goals:

- **Effective Compliance** states, "Fairly administer the law to ensure taxpayers file and pay the correct amount."
- **Operational Excellence** states, "Optimize our processes, products, services and resources to better serve our internal and external customers."

Field offices are strategically located near taxpayers, both within and outside California, to ensure FTB can efficiently and effectively administer the tax code. The new leases will allow FTB to continue working in the established office regions/locations to manage workloads most efficiently. Further, they allow FTB to effectively carry out its fiduciary responsibilities to fairly administer the tax law to ensure taxpayers file and pay the correct amount.

D. Outcomes and Accountability

This proposal will ensure FTB has sufficient office space to meet security and safeguard standards and provide appropriate space for efficient business operations in these offices to administer the income tax laws for the State of California.

The management of resources received from this proposal will be the responsibility of the Chief of Administrative Services Division and the Chief of the Audit Division or their delegates.

The fiscal oversight of the resources is the responsibility of the Chief Financial Officer (CFO).

FTB will continue to carry out its mission in a manner that is fair, equitable, and consistent with the California Taxpayer's Bill of Rights Act.

E. Implementation Plan

March 2025 – New lease for the Van Nuys field office is executed and all staff are relocated to the new location.

May 2025 – New leases for the New York and Houston field offices are executed and all staff are relocated to the new locations.

July 2025 – Funding is approved.

F. Supplemental Information

None.

Pending Board Approval