# SENATE OFFICE OF OVERSIGHT AND OUTCOMES

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## Furloughs, Budget Cuts Disrupt Tax Collection

SACRAMENTO—Every dollar California saves by furloughing workers at the Franchise Tax Board costs $7 in tax money that workers are not on the job to collect, according to a report released today by the Senate Office of Oversight and Outcomes.

The tax revenue loss would erode by nearly a third the $1.66 billion general fund savings the administration of Gov. Arnold Schwarzenegger expects from a 17-month-long, three-days-per-month furlough program.

The Senate Office of Oversight and Outcomes report examines the effect of furloughs on the Franchise Tax Board and the effect of budget cuts in lieu of furloughs at California's other major tax-collection agency, the Board of Equalization. Budget cuts at the Board of Equalization also have hampered tax collection, but to a lesser degree than furloughs at the Franchise Tax Board: For every dollar cut in lieu of furloughs, the Board of Equalization expects to lose $6.36 in tax revenue.

The report, "Furloughs at the Franchise Tax Board: Loss is Seven Times Greater than the Savings," is available here.

The report also examines how California's constitutional officers saved as much money as they would have under mandatory furloughs without cutting the pay of their employees. Many supervisors in the constitutional offices, which have not been subject to furloughs, said unallocated budget cuts allowed them to better protect public services than would have been possible with mandatory furloughs.

After a year of treating California's tax agencies no differently than state agencies that do not generate revenue, the governor proposes to restore and bolster tax board funding in the coming fiscal year. He has not, however, ended furloughs at the Franchise Tax Board in the current fiscal year, which ends July 1.

Among the findings of the Senate oversight office report:

- Furloughs and budget cuts have hamstrung the tax-collection agencies at the same time a bad economy has driven up tax debts in California. Taxes owed the Franchise Tax Board by businesses have increased 43% since 2007, for example, and individual tax debts are up 25%. An estimated $1.54 billion is owed the Board of Equalization, up from $1 billion two years ago.

- As a result of furloughs, people who call the Franchise Tax Board because they have been notified they owe taxes do not usually reach a live worker – an impediment that slows early resolution of tax debts.
- Giving Franchise Tax Board employees the freedom to work on their furlough days and accrue time off has not minimized tax losses as much as the administration had hoped. Despite working under a so-called "self-directed" furlough policy, Franchise Tax Board employees used 87% of the furlough time they earned between February 2009 and January 2010, which curtailed collection of taxes.
- The effects of furloughs will linger for years at the Franchise Tax Board as employees use up hundreds of thousands of accrued vacation hours. In the past year, they have tended to use furlough time off and bank vacation days.
- So far, the effect of furloughs on tax revenue has been masked by money flowing in from audits begun more than a year ago at the Franchise Tax Board. Similarly, less tax money will be collected by the state for a year or two after furloughs end in July, because fewer audits are launched while furloughs are in effect.
- None of the constitutional officers used mandatory furloughs to achieve budget cuts imposed by the Schwarzenegger administration. Many dismissed mandatory furloughs as too disruptive.

The Senate oversight office report is the fourth and final in a series examining the implications of furloughs. The governor ordered most state workers to take two unpaid days off work starting in February 2009 as the state faced a severe cash shortage. A third unpaid day was added in July.

Previous furlough reports documented future liabilities in round-the-clock institutions such as prisons, deterioration of service at the Department of Motor Vehicles and the benefits and salaries lost in federally-funded assistance programs.

The non-partisan oversight office was created in 2008 by Senate President pro Tem Darrell Steinberg (D-Sacramento) to bolster the Senate's ability to gauge government performance.