Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

### A. GENERAL INFORMATION

1. **Date**
   - 6/9/2022

2. **Department**
   - Franchise Tax Board

3. **Organizational Placement (Division/Branch/Office Name)**
   - Finance & Executive Services/ Economic & Statistical Research Bureau

4. **CEA Position Title**
   - Chief Economist

5. **Summary of proposed position description and how it relates to the program's mission or purpose. (2-3 sentences)**
   - The proposed CEA B (CEA) classification will serve as the Chief Economist for the Franchise Tax Board. In this position, the incumbent will serve as the highest level expert, key policy advisor and technical resource in the most complex tax revenue analyses and studies needed by elected state representatives and their respective fiscal offices for proposed changes to state income tax laws.

6. **Reports to: (Class Title/Level)**
   - CEA (B) Economic & Statistical Research Bureau, Director

7. **Relationship with Department Director (Select one)**
   - [ ] Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
   - [X] Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.
   - *(Explain)*: This position will routinely interact with department executives and is the subject matter expert during legislative policy and budget hearings.

8. **Organizational Level (Select one)**
   - [ ] 1st  [ ] 2nd  [ ] 3rd  [X] 4th  [ ] 5th (mega departments only - 17,001+ allocated positions)
B. SUMMARY OF REQUEST

9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

The proposed CEA B classification will serve as the Department’s Chief Economist and the technical policy advisor for the Economic and Statistical Research Bureau (ESRB). In this role, the incumbent will serve as the highest level expert, and technical resource and be responsible for implementing policies based on that expertise, such as:

(1) The Chief Economist will be responsible for creating and maintaining policies to ensure that the Bureau’s revenue analyses of proposed changes to state income tax laws employ the most appropriate techniques for applying economic theory to the available data. For example, the position will decide which estimates in the economic literature of the elasticity of capital gains will be used in analysis on the tax treatment of those gains.

(2) The Chief Economist will set policy for the metrics used to validate the outputs of the department’s state-of-the-art econometric and micro simulation models for the impact of tax policy.

(3) The Chief Economist will be responsible for determining if proposed department regulations are major or minor. For major regulations, the position will set policy regarding modeling methods to be used in performing the required dynamic economic impact assessments of the proposed regulations.

(4) The Chief Economist will set policy for Bureau staff assigned to provide economic and expert analyses for tax audits, litigation, and other highly sensitive departmental matters. For example the position will determine which methods staff may use when assisting Audit or Legal with transfer pricing cases or complex asset valuations.

(5) The Chief Economist will provide ongoing expert consultation to state fiscal experts in the Legislature and the Administration. With California having the fifth largest economy and the Franchise Tax Board (FTB) collecting 86% of the general fund, the Legislature and Administration must have the utmost trust in the guidance, advice and abilities of the Chief Economist; the consequence of error can be catastrophic. In addition the Chief Economist is a technical advisor to other bureau and departmental managers on economic trends and modeling.
B. SUMMARY OF REQUEST (continued)

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

☐ Program is directly related to department's primary mission and is critical to achieving the department's goals.

☐ Program is indirectly related to department's primary mission.

☐ Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

<table>
<thead>
<tr>
<th>Description:</th>
<th>The department’s mission is to ensure that taxpayers pay the correct amount of tax to fund services important to Californians. The Chief Economist will play a critical role advising and educating the legislature and the Department of Finance so that they can craft tax policies in a way that enables the department to fulfill its mission. The Chief Economist will identify aspects of proposed tax legislation that may adversely affect the department’s ability to ensure that taxpayers pay the correct amount of tax and communicates those concerns to lawmakers. The Chief Economist will participate on department-wide implementation teams that develop new policies and processes for implementing the administration of newly enacted tax laws in ways that support the department’s mission. The Chief Economist will also create and implement policies guiding the production of mandated reports that assist the legislature in its oversight function to ensure that the FTB is fulfilling its mission.</th>
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<td>B. SUMMARY OF REQUEST (continued)</td>
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<td>11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.</td>
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The current Chief Economist position (Administrator IV) was approved for the current incumbent only to allow the department the time and latitude to ascertain if the Administrator IV classification was more suitable than the CEA or an Exempt appointment. When the current incumbent retires, this position will revert back the Administrator III classification. It is anticipated that it will be difficult, if not impossible, to recruit a Chief Economist in the Administrator series as this classification is offered on a promontional basis and generally affords the department the ability to appoint an incumbent that has Franchise Tax Board experience. A CEA position encompasses a vast array of occupational fields and affords the department the ability to appoint an incumbent from outside the department that has an advanced education in economics (preferably a PhD) and extensive knowledge of economic analysis which are not qualifications typically found within the Administrator series.

In addition to needing the CEA classification for recruitment purposes, the Chief Economist has a new mandatory workload evaluating tax policy required as the result of Section 41 reporting requirements (AB 263) for all tax expenditure bills introduced on or after January 1, 2020. Section 41 requires that all new tax expenditures must specify goals, purposes, and objectives that the tax expenditure will achieve as well as detailed performance indicators, including data collection requirements, to measure whether the tax credit is meeting those goals, purposes, and objectives. Under Section 41, reports evaluating the tax policy are provided to the Legislature so that they can understand whether tax expenditures are providing the intended benefit to the State and its taxpayers. This workload cannot be absorbed by current staff and as a result of this new and significant workload, a budget change proposal was submitted to add staff to the Tax Policy Section beginning in 2022-2023. It is the job of the Chief Economist to oversee this workload and ensure completion of the Section 41 reports and data sharing as required.
C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

The Economic and Statistical Research Bureau is responsible for developing and maintaining the analytic models used by the FTB for estimating the effect of tax law changes on income tax revenues. The Chief Economist will formulate and implement policies in which behavioral reactions to tax law changes will be considered and the methods for estimating those responses. For example, the Chief Economist will interpret the economic literature on changes in the willingness of taxpayers to realize capital gains when the tax rate on that type of income is changed. This interpretation will be the basis for formulation and implementation of policies that FTB revenue analysis will use to reflect the most advanced economic research on that topic. The Chief Economist will also set policy for determining what taxpayers and data to allow into FTB’s Corporation and Personal Income Tax models to ensure that revenue estimates produced using these models are as accurate as possible. These models rely on certain taxpayer data and are given various weights in order to accurately represent the entire population. To ensure an accurate statistical model, the Chief Economist would determine the acceptance of data in cases where not all of a taxpayer’s income is subject to the same apportionment rules and could potentially distort estimates produced by the model. The policies implemented by the Chief Economist will enable FTB to provide the Legislature and the Department of Finance the most accurate possible forecasts of the revenue available to the state under alternative policy options. If these policies are not well designed, the FTB will provide inaccurate forecasts to the state’s budget writers. Depending on the direction of the mistake, this will either result in an unnecessarily large tax burden on Californians or a shortage of state funds that will prevent many Californians from receiving services from the state.

The Chief Economist is the director of the Tax Policy Section responsible for approval criteria related to accruals, forecasting, and revenue estimating of dedicated funds. For example, the FTB is required to report annually the amount of money to be transferred from the state’s General Fund to the Mental Health Services Fund. This tabulation is difficult because tax returns are processed continuously throughout the year. The Chief Economist approves policy on determining when to cut off the gathering of data and report the amount for this fund transfer. To determine the amount of the fund transfer, the Chief Economist makes policy decisions on the treatment of data gleaned from returns that have not yet been fully validated to determine how much additional revenue should be included in the Mental Health Services calculation. If this is not done properly, funds will be mis-allocated between the General Fund and the Mental Health Services Fund. If not enough money is transferred to the Mental Health Services Fund, some Californians who would otherwise have received benefits from that fund will lose out on those services. Conversely, if too much money is transferred to the Mental Health Services Fund, services reliant on the General Fund, such as education, will be curtailed relative to what the law intends.

The Chief Economist is also responsible for setting policy with regard to FTB’s economic analysis of its proposed regulations. If the regulation is determined to be a major regulation, the required analysis is quite detailed. As our Chief Policy maker in economic issues regarding tax administration, the Chief Economist will determine which of many possible approaches that FTB uses in analyzing the economic impact of proposed FTB regulations. For example, to understand the fiscal impact of a regulation on the transfer of tax credits between members of a combined group, the Chief Economist is responsible for determining the proper approach required. In this case, recommending a full dynamic stochastic general equilibrium analysis, requiring the department to purchase third party software specially designed for this type of analysis, at significant expense. With this approach, FTB was able to get this major regulation approved. The Chief Economist position will be responsible for ensuring the integrity of FTB’s economic analysis of proposed regulations, which will enable FTB to provide regulatory guidance to taxpayers, fulfilling FTB’s mission by making it easier for taxpayers to understand and comply with California tax laws.

The Chief Economist may also perform research and submit reports in order to inform lawmakers of important policy issues such as the tax gap, migration of Californians out of state, and the effectiveness of the Top 500 collection program. In addition, he/she provides ongoing expert consultation to state fiscal experts in the Legislature and the Administration advising them on important economic and fiscal policy issues. For example, the chief economist recently updated the Franchise Tax Board’s estimate of the California tax gap. This work involved the determination of which components of federal tax gap estimates apply to California, setting policy for adjustments to the estimates for state-specific policy issues, and framing the discussion of the tax gap in a way that sets realistic expectations as to which components may or may not be mitigated by reasonably low-cost policy changes.
C. ROLE IN POLICY INFLUENCE (continued)

13. What is the CEA position's scope and nature of decision-making authority?

The Chief Economist is responsible for many high-profile and sensitive research and forecasting functions and assembles the information associated with forecasting income tax revenues and estimating California's Tax Gap, which was last estimated at approximately $25 billion in 2021. With the continued interest in tax legislation at the state or federal level, this area is also responsible for determining revenue impacts associated with legislation.

The Chief Economist has the authority to approve economic impact assessments for the Department's proposed regulations. This includes making the determination as to whether a proposed regulation is major or minor, approving the framework for the economic impact assessment and approving documents containing the assessment that are submitted to the Department of Finance. The Chief Economist also has the authority to approve analyses produced by ESRB at the request of FTB Audit to support audits with complex facts and circumstances such as certain transfer pricing and valuation issues. The Chief Economist is the subject matter expert overseeing the development of economic models and techniques used in producing analysis of proposed legislation, inputs into the State’s budgeting process, and other administrative issues. The Chief Economist produces occasional special economic reports and analyses requested of ESRB by FTB’s overseers. The Chief Economist also has the authority to consult with and deliver products to external customers.

14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?

The Chief Economist will develop policy for the methods to be used in FTB revenue analysis. The Chief Economist will monitor developments in professional economics for new analytic and statistical techniques and determine when FTB should adopt those techniques. The Chief Economist will also oversee implementation of revenue analysis policies by monitoring economic research for updates or improvements to key parameters used in approved economic models, such as the best estimates to be used for the elasticity of capital gains realizations with respect to changes in tax laws. The Chief economist will interpret statutory policies such as the determination of amounts to be transferred from the state’s General Fund to special funds. For example, transfers to the Mental Health Services Fund are statutorily based on timely filed original returns; the Chief Economist has the authority to decide which tax returns meet this definition. The Chief economist develops policies for estimating the economic impact of proposed department regulations by maintaining knowledge of the techniques used by the economics profession for estimating economic impacts and determining which approaches are most appropriate to apply to the regulations the department is proposing. The Chief Economist will develop policy for the selection of projects on which FTB will collaborate with external researchers and the scope of any joint research projects FTB may enter into. For example, FTB has engaged external researchers with specialized skills to study the impact of certain tax policy changes on California migration patterns. The Chief Economist was responsible for ensuring that the researchers had skills unavailable at FTB and would produce analysis that was beneficial to FTB and to California policymakers. The Chief Economist also plays a critical role in interpreting FTB policy on how and when to respond to requests for information and analysis from external parties such as elected officials and academic researchers.