STATE OF CALIFORNIA EDMUND G. BROWN, Governor

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY
1209 EIGHTH ST., SACRAMENTO

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Executive Secretary

December 28, 1964

Honorable Edmund G. Brown
Governor, State of California

Honorable Hugh M. Burns
President pro Tempore, and to Members of the Senate

Honorable Jesse M. Unruh
Speaker, and to Members of the Assembly

Gentlemen:

In recognition of the importance of tax administration to the state government and to the individual taxpayer, the Commission on California State Government Organization and Economy in the spring of this year initiated a comprehensive review of the current organizational status of the State's principal revenue collection agencies. Subsequently in a letter to the Commission in June, Governor Brown stated that, although there had been several major studies of state revenue administration in the past, he believed the time appropriate to consider again the possibility of consolidating all or most revenue collection activities within a single department. Accordingly, the Commission added this important organizational consideration to its study agenda. This letter summarizes the findings and recommendations of that study.

The issue of consolidation of revenue administration in the California State Government is not new; the matter has a long history of continued study. These many studies have been remarkedly consistent in their emphasis on the desirability of consolidating revenue administration in one organizational unit responsible to the State's Chief Executive--the Governor.

One of the first study groups to recommend a tax agency responsible to the Governor was the California Tax Commission authorized by the Legislature in 1927. Since that study, there have been at least 15 separate studies by outside agencies or legislative committees that have recommended some consolidation of the major taxing agencies as a sound organizational objective. In 1955 a subcommittee of the Assembly Interim Committee on Government Organization concluded that:

"California's revenue administration structure should be organized to provide a reasonably efficient, economical, understandable, and responsible vehicle for administering our tax laws. This can be accomplished best by placing the administration of major state taxes in a Department of Revenue headed by a Director appointed by the Governor, confirmed by the State Senate, removable by the Legislature for cause, and, therefore, responsible to the Governor and the Legislature, and through them, to all of the people."

This recommendation was repeated in substantially the same form in 1959 by the Governor's Committee on Organization of State Government and it has been reiterated by the Legislative Analyst in nearly every budget analysis report since 1943.

Current testimony before this Commission, as well as independent staff study, has substantiated the validity of the findings of those many past studies. It is clear that further documentation of the conclusive evidence on record would be repetitious--the logic of a Department of Revenue for California has been very well established. In addition, both the State Controller and the Chairman of the Board of Equalization stated their belief at the Commission hearing on this subject on August 20, 1964 that the unification of revenue collection activities would result in economies and other benefits to the State Government as well as to the individual taxpayer. Clearly, the time has come to set aside those considerations that have blocked constructive action in the past.

The Commission now proposes the establishment of a strong Department of Revenue with a Director appointed by and responsible to the Governor for state tax administration. Thus, the Legislature and in turn the people would be able to focus responsibility for the administration of the major revenue collection activities of the state government (see chart).

The August 19, 1964 proposal to the Commission, prepared by the Department of Finance, has been reviewed as one alternative organizational arrangement of revenue collection activities. The members of the Commission concur unanimously with the goal of consolidating most tax collection functions in one agency and for the provision of an independent tax appeals body. The suggested structural arrangement, however, does not provide an effective answer to one of the major shortcomings of the present unconsolidated revenue agency--that of diffused responsibility for revenue administration. The proposal of the Department of Finance would perpetuate the combination of boards and elective and appointive officials as responsible for the State's revenue collection program. Such a combination has been indicted as inefficient and irresponsive to taxpayers' needs by every previous study.

In the opinion of this Commission, revenue <u>collection</u> is a ministerial act for which responsibility can and should be clearly and definitely established in the executive branch of the state government. Line authority and responsibility for this function, therefore, should be placed with a Director appointed by the Governor who as the executive head of state government is finally responsible under the Constitution for the enforcement of all laws.

The Department of Revenue as proposed by this Commission would succeed to all activities of the Franchise Tax Board and to all non-constitutionally assigned tax collection functions of the State Controller and the Board of Equalization. The revenue collection responsibility of the Department of Motor Vehicles, the Department of Employment, and the Horse Racing Board would remain unaltered. The Board of Equalization responsibility for insurance company tax assessment, alcoholic beverage tax administration, equalization determinations, public utility valuation determinations and assessment standards would also remain unchanged. The proposed organizational arrangement and functional assignment, which in basic concept is neither new nor unusual, is illustrated by the attached chart.

The Commission proposal, which can be implemented without constitutional revision, also calls for the statutory assignment of the tax appeals function to the State Board of Equalization. In this way an independent board of constitutional officers, responsible to the electorate, would serve in the important capacity of hearing appeals related to taxes collected by the proposed Department of Revenue.

We make no recommendations as to the internal structure of the new department. The Director, subject to appropriate legislative approval, should be free to work out the internal details of integration of responsibility and geographic distribution to meet the requirements of effective administration. Commission recommendations relating to inheritance tax administration, however, are contained in a separate communication of this date.

The use of qualified personnel employed on a full-time basis in accordance with Article XXIV of the State Constitution in such matters as the administration of functionally integrated systems of tax appraisals, audits and collections through consolidated field offices and shared housekeeping and staff services will do much toward the effective implementation of a uniform tax collection policy. This Commission is convinced that taxpayer convenience as well as economy and increased efficiency can result from the establishment of Department of Revenue as proposed when organized and operated in accordance with modern revenue management principles.

Respectfully,

Harold Furst

Harold Furst, Chairman
Assemblyman Milton Marks, Vice Chairman *
Assemblyman John T. Knox
Don B. Leiffer
State Senator George Miller, Jr.
Manning J. Post
Richard E. Sherwood
Roy Sorenson
State Senator Vernon L. Sturgeon
Dair Tandy
Frank D. Tellwright

* See statement of Assemblyman Milton Marks attached.

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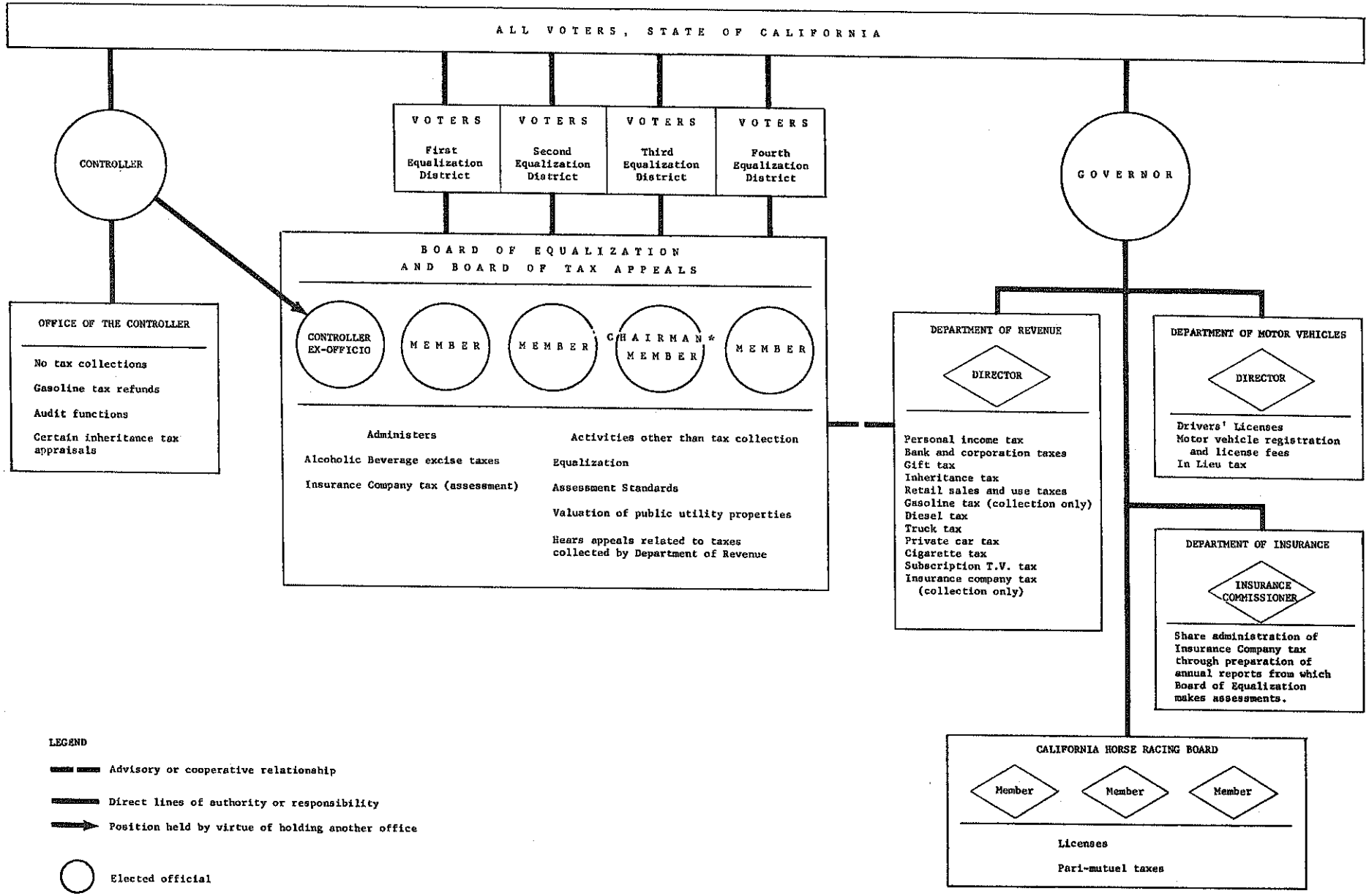
STATEMENT OF ASSEMBLYMAN MILTON MARKS

I have long favored the concept of a consolidation of the revenue collecting agencies of the State of California and have introduced legislation to carry out this purpose. This legislation and alternative proposals relating to this subject are being studied by the Assembly Interim Committee on Government Organization of which I am the Chairman. While I have participated in the discussions of this Commission and support its endorsement of the principle of revenue consolidation, I feel it appropriate to await the January report of our Assembly Committee which might differ in certain particulars, and I am therefore not signing this report at this time.

/s/ Assemblyman Milton Marks, Chairman
Interim Committee on Government
Organization

ORGANIZATION FOR
REVENUE ADMINISTRATION IN CALIFORNIA

AS PROPOSED BY
COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY



* Chairman rotates annually among members.

December, 1964