

**Colorado River Boundary Commission—Continued
ANALYSIS**

The increase in the 1961-62 budget of \$2,308 (15.9 percent) over 1960-61 is entirely represented by a full year's salary for the executive secretary, which position had not been filled during the current year as of November 15, 1960. *We recommend approval of the amount requested.*

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

ITEM 211 of the Budget Bill

Budget page 540

**FOR SUPPORT OF DEPARTMENT OF ALCOHOLIC BEVERAGE
CONTROL FROM THE GENERAL FUND**

Amount requested	\$3,534,832
Contribution to State Employees' Retirement System	233,676
Total	\$3,768,508
Estimated to be expended in 1960-61 fiscal year	3,717,486
Increase (1.4 percent)	\$51,022
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

The Department of Alcoholic Beverage Control was created, effective January 1, 1955, by an amendment to Section 22 of Article XX of the State Constitution. The appointment of its director by the Governor is subject to confirmation by a majority vote of the Senate.

Liquor control for the State is provided by the department through the licensing and regulation of the manufacture, importation and sale of alcoholic beverages.

Departmental organization includes a headquarters office, plus area, district and branch offices. There is a current authorized staff of 444 positions, of which 244 are Special Investigators, directly engaged in the enforcement of the Alcoholic Beverage Control Act.

The day to day activities of the department may be grouped into the general categories of licensing and enforcement. The licensing function involves the investigation of the proposed premises and surrounding locality, the investigation of the applicant's character and record, the determination of the true ownership of the prospective licensed premises, and the collection of license fees. The enforcement function involves the detection, investigation and prevention of violations of the detailed requirements of the law. Major enforcement attention is given to provisions of the law regarding sales to minors and intoxicated persons, operation of disorderly premises, advertising practices, and wholesale and fair trade practices. A major aspect of the enforcement function is the maintenance of close relationships with local peace officers.

ANALYSIS

Proposed expenditures for the fiscal year 1961-62 total \$3,768,508, which reflects a \$51,022 or 1.4 percent increase over the \$3,717,486 estimated to be expended in 1960-61.

We recommend the budget be approved as submitted.

Department of Alcoholic Beverage Control—Continued

The department plans to continue its present level of services. Merit increases in salaries and wages, plus anticipated increases in rent for several field offices are the major reasons for the 1.4 percent net increase in the proposed budget. Total proposed increases in salaries and wages and operating expenses for the fiscal year 1961-62 are partially offset by a \$45,505 or 75 percent reduction in equipment from 1960-61.

A position classification survey of the Department of Alcoholic Beverage Control was conducted during the 1960-61 budget year by the State Personnel Board. It was determined that 206 Agents should be reclassified as Special Investigators, thus resulting in a one-step pay increase in 1960-61. The reclassification of Agents to Special Investigators is primarily the result of the change in emphasis by the department from the beat patrol type of law enforcement to the investigation of complaints and conditions leading to law violations. In addition, much of the investigatory effort of the department is now directed toward the screening of applicants for licenses in the belief that fewer violations will occur when the active licenses are in the hands of properly qualified licensees.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

ITEM 212 of the Budget Bill

Budget page 542

FOR SUPPORT OF ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD FROM THE GENERAL FUND

Amount requested -----	\$115,945
Contribution to State Employees' Retirement System -----	4,011
Total -----	\$119,956
Estimated to be expended in 1960-61 fiscal year -----	119,841
Increase (0.1 percent) -----	\$115
TOTAL RECOMMENDED REDUCTION -----	\$17,613

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Salaries and wages:			
1 Associate counsel -----	\$11,718	542	64
1 Senior legal stenographer -----	5,095	542	65
Operating expenses:			
General expense -----	800	542	73

GENERAL SUMMARY

The Alcoholic Beverage Control Appeals Board was created in 1954, legal provisions for which are found in Section 22, Article XX of the Constitution. The board consists of three appointed members who serve at the pleasure of the Governor. Its sole function is to hear appeals filed by aggrieved license applicants or holders, resulting from decisions of the Department of Alcoholic Beverage Control "... ordering any penalty assessment, issuing, denying, transferring, suspending or revoking any license for the manufacture, importation, or sale of alcoholic beverages. . . ."

The members of the Alcoholic Beverage Control Appeals Board receive an annual salary of \$13,230. At the present time members are

Alcoholic Beverage Control Appeals Board—Continued

not devoting full time to board activities. The agency, in the fiscal year 1960-61, has an authorized staff consisting of three attorneys, who prepare briefs, write opinions and represent the board in court, and four secretarial and clerical positions.

ANALYSIS

Proposed expenditures for this agency for the fiscal year 1961-62 total \$119,956, which is an increase of 0.1 percent or \$115 from the \$119,841 estimated to be expended in 1960-61.

Salaries and Wages

The same positions are proposed for the 1961-62 fiscal year as were authorized in 1960-61, at a cost of \$95,372, which is \$680 or 0.7 percent higher than the \$94,693 estimated to be expended in the current fiscal year.

1 Associate counsel (budget page 542, line 64)----- \$11,718
 1 Senior legal stenographer (budget page 542, line 65)----- 5,095

One associate counsel position was established in the 1959-60 Budget, and has been vacant since December 1959. The position was approved on a permanent basis, even though the major justification for the position was to aid in the reduction of the board's backlog of cases, thus representing work which was nonrecurring in nature.

We recommend the reduction of 1 associate counsel position and 1 senior legal secretary at a savings of \$16,813.

We are recommending that these positions be deleted from the 1961-62 Budget for the following reasons: (1) the backlog has been reduced to a workable level; (2) the existing filled positions are able to handle the present work load; (3) both positions are vacant.

The following table indicates the agency's workload. It also shows the number of legal positions authorized and filled for the given fiscal years.

Fiscal year	Number of attorneys		Appeals received	Appeals decided	Average number of appeals pending
	(auth.)	(filled)			
1956-57 -----	1	1	361	293	129
1957-58 -----	2	1.5	306	293	190
1958-59 -----	2	2	182	285	140
1959-60 -----	3	2.5	186	184	86
1960-61 (est.) --	3	2	180	195	73

The table shows that the total number of appeals received since the fiscal year 1956-57 has decreased by more than 50 percent. It also shows that the actual number of legal positions filled, since 1956-57 have increased at the rate of approximately one-half of one position per year. The average number of appeals pending shows a decline in the backlog of cases from 190 in 1957-58 to an estimated average of 73 for 1960-61. It is obvious that the backlog has been reduced to a workable level, and since the table also indicates that existing personnel are able to handle the current workload, it follows that the vacant positions of associate counsel and senior legal stenographer should be eliminated.

Alcoholic Beverage Control Appeals Board—Continued

The accepted yardstick ratio of attorneys to senior legal secretaries is three attorneys to two legal secretaries. This agency currently has a ratio of three attorneys to three legal secretaries, so the vacant senior legal secretarial position should be eliminated even if the vacant associate counsel position is retained.

Operating Expenses

Proposed operating expenses for the 1961-62 fiscal year total \$20,372 which is a \$655, or 3.1 percent, reduction from the \$21,027 estimated to be expended in 1960-61.

General expense (budget page 542, line 73) ----- \$3,663

General expense includes printing and miscellaneous office expenses.

We recommend that general expense be reduced to \$2,863, which represents a savings of \$800.

Duplicating is an item under general expense, which has been budgeted for \$2,000 for 1961-62. This item varies with the caseload, but has been overestimated in past years. Duplicating was budgeted for \$2,750 in 1959-60, but actual expenditures were \$910. We recommend a reduction of \$800 for duplicating, leaving \$1,200 which would provide an adequate surplus for unexpected expenditures.

CALIFORNIA DISTRICTS SECURITIES COMMISSION

ITEM 213 of the Budget Bill

Budget page 543

FOR SUPPORT OF CALIFORNIA DISTRICTS SECURITIES COMMISSION FROM THE GENERAL FUND

Amount requested	\$64,354
Contribution to State Employees' Retirement System.....	4,843
Total	<u>\$69,197</u>
Estimated to be expended in 1960-61 fiscal year.....	66,535
Increase (4 percent)	<u>\$2,662</u>

TOTAL RECOMMENDED REDUCTION..... None

GENERAL SUMMARY

The California Districts Securities Commission supervises certain fiscal affairs of irrigation and other water districts of the State by investigation of proposed district construction plans and approval of their financing. In addition, the commission reviews periodic financial reports of the districts and provides information to interested parties on their financial condition. The commission is composed of the Attorney General, the Superintendent of Banks, the Director of Water Resources, and two officials or employees of irrigation districts appointed by the Governor. Headquarters and offices are in San Francisco.

ANALYSIS

The proposed 1961-62 budget of the commission shows an increase over estimated 1960-61 expenditures of \$2,662, or 4 percent. While the activity of the commission will remain at substantially the same level with no new positions requested at this time, analysis of the

California Districts Securities Commission—Continued

budget and the operations of the agency raises a basic question of policy.

It is recommended that the Districts Securities Commission provide the Legislature with a thorough justification for continued support of the commission's activities from the General Fund, rather than assessment of the benefitting districts.

In making this recommendation, it is recognized that the commission has been supported from its inception by the General Fund. However, the basic objective of the Districts Securities Commission Act was to help maintain the fiscal integrity and responsibility of certain districts by commission review and approval of proposed construction plans and financial records. The commission contends that its actions benefit the general public by maintenance of the financial integrity of certain subdivisions of the State and protection of the investing public, but the direct benefits are realized by the districts served and the investment houses who rely on the work performed by the commission. Regulatory activity affording protection to the public in the issuance of private securities is financed by fees accruing to the General Fund for support of the Division of Corporations. It would therefore seem consistent to place the activities of the Districts Securities Commission on a similarly self-supporting basis.

Limited recognition of the special nature of the commission's services has already been made by financing one senior engineer position from prorated reimbursements to the commission from the districts. There is no apparent rationale for limiting these reimbursements to one position.

HORSE RACING BOARD

ITEM 214 of the Budget Bill

Budget page 544

**FOR SUPPORT OF HORSE RACING BOARD
FROM THE FAIR AND EXPOSITION FUND**

Amount requested	\$196,762
Contribution to State Employees' Retirement System	10,098
Total	<u>\$206,855</u>
Estimated to be expended in 1960-61 fiscal year	207,480
Decrease (0.3 percent)	<u>\$625</u>
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

The Horse Racing Board regulates horse racing in California by licensing all race meets where there is parimutuel betting and licenses all persons who conduct such meets or participate in them. In addition the board promulgates rules and regulations for the conduct of such meets and of the licensees.

ANALYSIS

The apparent decrease in this budget results from a reduction in the amount requested for temporary help of approximately \$4,000 partially offset by an increase in the equipment request of approximately \$2,500 together with other minor adjustments.

We recommend approval as budgeted.

**Department of Investment
BANKING DEPARTMENT**

ITEM 215 of the Budget Bill

Budget Page 546

**FOR SUPPORT OF BANKING DEPARTMENT
FROM THE BANKING FUND**

Amount requested	\$789,609
Contribution to State Employees' Retirement System.....	52,167
Total	\$841,776
Estimated to be expended in 1960-61 fiscal year.....	821,428
Increase (2.5 percent)	\$20,348
TOTAL RECOMMENDED REDUCTION	\$19,968

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Budget Line</i>
1 Deputy superintendent	\$11,976	546	38
1 Intermediate stenographer-clerk	4,092	546	40
1 Intermediate clerk	3,900	546	40
Total	\$19,968		

GENERAL SUMMARY

In California, as in other states, banking activities are carried on by both national banks and state banks. National banks are chartered by the Comptroller of the Currency of the United States, are required to be members of the Federal Reserve System and to have their deposits insured by the Federal Deposit Insurance Corporation, and are subject to examination and regulations by the federal authorities.

State banks are licensed by the State Banking Department and may become members of the Federal Reserve System, the Federal Deposit Insurance Corporation, or both. State banks are examined annually by the State Banking Department. In addition, we are informed that those which are members of the Federal Reserve System are subject to examination by that agency while those nonmember state banks which have their deposits insured are subject to examination by the Federal Deposit Insurance Corporation. We are also informed that, at present, all state banks of deposit are insured.

According to Federal Deposit Insurance Corporation Report No. 53, total deposits in all banks in California on June 15, 1960, were as follows, in millions of dollars:

	<i>Amount (millions)</i>	<i>Percent</i>
State banks (all insured):		
Member Federal Reserve	\$4,467	19.6
Nonmember Federal Reserve	1,899	8.3
Total	\$6,366	27.9
National banks	16,441	72.1
Total	\$22,807	100.0

Many authorities question the need for a dual banking system and are of the opinion that, because of the role played by banks in relation

Banking Department—Continued

to the control of credit, the banking system can best be supervised exclusively at the national level.

Obviously, if all banks were under national charter, the need for a state banking department would no longer exist.

In any event, it would appear desirable, since all state banks in California are subject to an examination by both state and federal authorities, that every effort be made to eliminate any needless duplication as between the two.

The chief of the State Banking Department is the Superintendent of Banks, who is appointed by the Governor and holds office at the pleasure of the Governor. The principal functions of the department are to license new state banks and branches, to make annual examinations of all state banks at least once in each fiscal year, as required by Section 1900 of the Financial Code, and to liquidate the affairs of state banks when necessary.

The basic workload indicator is the number of banking offices operated by state banks. The annual report of the State Superintendent of Banks for 1959 contains the following information for both state and national banks for the years shown.

Year as of June 30	State banks			National banks		
	Number of banks	Number of branches	Total banking offices	Number of banks	Number of branches	Total banking offices
1945	116	163	279	92	679	771
1950	107	198	305	81	749	830
1955	107	287	394	66	853	919
1958	93	352	445	48	1,044	1,092
1959	92	372	464	42	1,105	1,147

The same report indicates that, on June 30, 1959, the five largest state banks, operating 293 offices accounted for 79 percent of the total deposits in all state banks, while the remaining 87 banks, operating 171 offices, accounted for 21 percent of total deposits. The average deposit per bank in the 87 smaller banks was slightly over \$15 million.

The current authorized staff of the State Banking Department by location and class is as shown below:

Classification	Location		Authorized Total
	San Francisco	Los Angeles	
Superintendent	1	--	1
Chief Deputy Superintendent	1	--	1
Deputy Superintendent	1	--	1
Technician and Clerk	15	3	18
Examiner	37	18	55
	55	21	76

The agency is supported out of the State Banking Fund, which derives its revenue from an annual assessment on all state banks at a rate of not to exceed 0.01 percent of total assets less secured deposits and bills payable.

As of October 19, 1960, the agency reported the following vacant positions:

Banking Department—Continued

Class	Number
Deputy Superintendent of Banks -----	1
Clerical -----	5
Examiner III -----	3
Examiner II -----	3
Examiner I -----	1
Total -----	13

As of June 30, 1960, there were 15 positions including the deputy superintendent, one clerical and 13 examiners which had been continuously vacant since October 1, 1959, and which have been approved for continuance by the Department of Finance, pursuant to Section 20 of the Budget Act of 1960, which provides for the abolishment of such positions unless approved for continuance by the Department of Finance subsequent to July 1, 1960.

We have pointed out in the past that if this agency were a part of an integrated department of investment it would be possible to pool the field examination work of the component units and thus make more effective use of the existing staff. It would also facilitate recruiting and training of new men for field examination work since experience indicates that opportunities for advancement are generally better in large agencies than in small and hence the recruiting problem is less acute because of the greater attractiveness of the jobs.

ANALYSIS

The agency's request for \$841,776 represents an increase of \$20,348, or 2.5 percent over the estimated expenditures during the current year. No new positions are requested for 1961-62, but an evaluation of the justification for retention of currently vacant positions leads us to the conclusion that three such positions can be abolished without limiting operations even should 100 percent occupancy of all other vacant positions be attained.

We recommend elimination of the deputy superintendent position, \$11,976. Budget page 546, line 38.

Our reason for this recommendation is that this position, which is a civil service position, has been continuously vacant since December 31, 1958, a period of approximately two years, an indication to us that the position is not needed for the proper functioning of the agency.

We recommend elimination of one intermediate stenographer-clerk, \$4,092, and one intermediate clerk, \$3,900, or a total of \$7,992, Budget page 546, line 40.

Six of the 18 clerical positions in the agency are assisting those acting in an administrative capacity, while the remaining 12, nine of which were filled on October 19, 1960, represent that portion in support of the examiner staff, which consisted of 48 filled positions on that date. If the ratio of one clerk to 5.33 examiners, which this relationship represents, is applied to the total of 55 examiner positions authorized, the result indicates a need for 10.3 clerks, 1.7 less than authorized. Accordingly, it appears to us that a clerical staff of 10 positions would be adequate for a staff of 55 examiners.

**Department of Investment
DIVISION OF CORPORATIONS**

ITEM 216 of the Budget Bill

Budget page 547

**FOR SUPPORT OF DIVISION OF CORPORATIONS
FROM THE GENERAL FUND**

Amount requested	\$3,047,751
Contribution to State Employees' Retirement System	183,436
Total	\$3,231,187
Estimated to be expended in 1960-61 fiscal year	\$2,445,228
 Increase (32.1 percent)	 \$785,959
TOTAL RECOMMENDED REDUCTION	\$562,068

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget Page Line</i>	
4 Supervising deputy commissioner	\$45,600	548	4
6 Deputy commissioner III	61,572	548	5
5 Deputy commissioner II	37,896	548	6
6 Deputy commissioner I	39,096	548	7
8 Corporation examiner III	64,896	548	8
12 Corporation examiner II	80,064	548	9
10 Auditor I	53,640	548	10
9 Special investigator	51,948	548	11
6 Senior legal stenographer	28,440	548	12
10 Intermediate stenographer-clerk	41,940	548	13
2 Senior typist-clerk	9,024	548	14
10 Intermediate typist-clerk	39,960	548	15
2 Intermediate clerk	7,992	548	16
90	\$562,068		

Plus related operating expense and equipment.

GENERAL SUMMARY

The major responsibilities of the Division of Corporations arise under the provisions of the Corporate Securities Law and involve regulation of the issuance of corporate securities and the licensing and regulation of brokers, agents and investment counsels. The division also has the responsibility under the provisions of various other laws for the licensing and regulation of personal property brokers, small loan brokers, credit unions, industrial loan companies, escrow agents, check sellers and cashers, retirement systems, and trading stamp companies.

The division is headed by the Commissioner of Corporations appointed by the Governor, subject to confirmation by the Senate, and holding office at the pleasure of the Governor.

While the headquarters of the agency is shown as Sacramento in the budget document the headquarters of the present commissioner has been established by the Board of Control as San Francisco for purposes of claiming travel expenses.

The established positions on November 1, 1960, as reported by the agency were distributed, by location and general classification, as follows:

Division of Corporations—Continued

<i>Classification</i>	<i>Sacramento</i>	<i>San Francisco</i>	<i>Los Angeles</i>	<i>San Diego</i>	<i>Total</i>
Commissioner	--	1	--	--	1
Assistant commissioner...	1	1	1	--	3
Special assistant commissioner	--	--	1	--	1
Attorney	8	23	40	3	74
Investigator	2	8	16	1	27
Examiner	15	24	39	5	83
Engineer	--	--	1	--	1
Technician and clerk....	51	44	77	7	179
Total	77	101	175	16	369

While the division is financed by an appropriation from the General Fund, certain revenues are derived in the form of fees from the various agencies and operations which it regulates, as shown on budget page 548, line 78. It also receives direct reimbursements for all or a part of its costs of administration of certain other activities as shown on budget page 548, line 41.

A summary of the actual amounts of these revenues and reimbursements for 1959-60, classified by the law under which they are received, is shown in Table I.

Table I—Revenues and Reimbursements, 1959-60, by Law Under Which Received

<i>Law</i>	<i>Revenues</i>	<i>Reimbursements</i>	<i>Total</i>
Corporate Securities Law.....	\$3,071,021	--	\$3,071,021
Security Owners Protection.....	100	--	100
Credit Union Law.....	110	\$173,360	173,470
Personal Property Brokers Law....	238,400	76,665	315,065
Small Loan Brokers Law.....	2,900	468	3,368
Retirement Systems Law.....	4,250	--	4,250
Check Sellers and Cashers Law....	14,689	7,523	22,212
Escrow Law	46,118	54,448	100,566
Industrial Loan Law.....	--	134,881	134,881
Miscellaneous	3	20	23
Total	\$3,377,591	\$447,365	\$3,824,956

The total revenues, actual and estimated, are in excess of the total expenditures by the agency, for each of the years 1959-60, 1960-61, and 1961-62. We are also informed that revenues, plus the reimbursements, are likewise in excess of the costs of administration for each of the individual programs for each of the years involved.

Table 2 shows the authorized staff of the division in recent years, for permanent positions only, with the increases over each prior year.

Table 2—Authorized Staff, Permanent Positions Only

<i>Fiscal year</i>	<i>Authorized positions</i>	<i>Increases over prior year Number</i>	<i>Percent</i>
1957-58	198	--	--
1958-59	198	--	--
1959-60	318	120	60.6
1960-61	371	53	16.7
1961-62 (requested)	461	90	24.2
Increase since 1958-59.....	198	263	132.8

Division of Corporations—Continued

Chapter 394, Statutes of 1959, which had the support of the Corporation Commissioner, increased the fees for filing applications to sell securities as well as certain other fees paid under the Corporate Securities Law, to the point where the additional revenue provided was more than sufficient to cover the cost of the substantial increase in staff of 120, provided by the 1959 Legislature, and the commissioner took the position that he would not press for the increase without the increase in revenues provided by the increased fees.

Eight positions included in the increase of 120 shown for 1959-60 were included in the budget as originally submitted, and were justified on a workload basis, while the remainder, or 112, were added by the Legislature at the commissioner's request, to increase the level of service.

It was represented by the commissioner at the time that this increase was intended to accomplish the following objectives:

	<i>Man-years</i>
To cut in half the time required to process applications to issue securities	73
To instigate annual examinations of all of the following, which had never been examined and where an examination is discretionary with the commissioner	21
Retirement systems	
Security brokers	
Investment counselors	
To put on basis of 100 percent annual audits the following	12
Annual audit required by law:	
Industrial loan companies	
Personal property brokers	
Small loan brokers	
Credit unions	
Annual audit discretionary with commissioner:	
Check sellers and cashiers	
Escrow agents	
Unallocated clerical	6
Total	112

The increase of 53 granted by the Legislature for 1960-61 was justified on the ground that it was needed to meet increased workload at the improved level of service authorized by the 1959 Legislature.

At the present time it appears that the first objective of the commissioner in requesting the increase in staff in 1959, namely to cut in half the time required to process applications to issue securities, has been achieved, since the review period has been reduced from an average of 7.04 days in 1959, to 3.45 days in 1960, a reduction of 3.59 days. However we noted in the course of our review that the installation of a teletype system has been instrumental in reducing the elapsed time by two days, or over one-half the total reduction.

At the present time, however, the other objective, namely to audit all licensees annually, has not been achieved.

Workload

The workload of the agency is illustrated by the data shown in Table 3, which covers a four-year period from 1958-59 to 1961-62.

Division of Corporations—Continued

The workload indicators in Table 3 are shown in two groups, A, which is in terms of number of items processed or number of actions taken during a year, and B, which is in terms of number of licenses in effect during the year, and is intended as an indication of the field audit workload, since it is the current objective of the agency to audit all of the licensees in group B each year.

It will be noted that, starting with 1959-60, security brokers and investment counsels appear in both groups, as 4 and 5 in group A, and as 8 and 9 in group B. Their inclusion in group A is intended to indicate the workload resulting from the licensing activity since they are licensed under the Corporate Securities Act, while their inclusion in group B is intended to reflect the workload resulting from an annual audit.

Item 1 in group A is the major activity of the agency, since it involves reviewing and taking action on applications for permission to issue securities, and is the most time consuming activity listed in group A.

Item 2 in group A represents the number of orders issued, most of which are in connection with item 1, and in general, is not a time consuming activity.

Items 3, 4, 5, and 6, in group A are licensing operations and are largely clerical in nature.

Table 3—Workload Indicators, 1958-59 to 1961-62

<i>Indicator</i>	<i>Actual 1958-59</i>	<i>Actual 1959-60</i>	<i>Estimated 1960-61</i>	<i>Proposed 1961-62</i>
A—Permits, licenses and orders processed under Corporate Securities Act:				
1. Permits to issue securities authorized	18,396	20,628	23,928	28,595
2. Escrow and miscellaneous orders issued	13,837	15,854	18,700	22,720
3. Agents to sell securities authorized	9,899	12,312	15,700	20,567
4. Security broker certificates issued	797	897	1,040	1,242
5. Investment counsel certificates issued	134	155	185	226
6. Security owners protection certificates issued	5	4	5	5
Total	<u>43,068</u>	<u>49,850</u>	<u>59,558</u>	<u>73,355</u>
B—Licenses in effect:				
Under various code provisions:				
1. Personal property and small loan brokers	1,005	1,103	1,215	1,335
2. Credit unions	610	603	635	665
3. Industrial loan companies	182	179	185	190
4. Escrow agents	334	350	365	380
5. Check sellers and cashiers	34	28	30	30
6. Retirement systems	203	252	305	365
7. Trading stamp companies	--	--	40	45
Under Corporate Securities Act:				
8. Security brokers	--	897	1,040	1,242
9. Investment counsels	--	155	185	226
Total	<u>2,368</u>	<u>3,567</u>	<u>4,000</u>	<u>4,478</u>
Grand total	<u>45,436</u>	<u>53,417</u>	<u>63,558</u>	<u>77,833</u>

Division of Corporations—Continued

Budget Justification

For the last several years the agency has supported its budget request with a calculation similar to that shown in Table 4, which is a summary of the justification submitted with the 1961-62 budget request.

It will be noted that the workload units in Table 4 are the same as those shown in Table 3 for 1961-62, except that no detail is shown for those in group A.

The required staff is calculated by multiplying the number of workload units shown in column (2) by the average processing time per unit shown in column (3) to obtain the total man hours required, as shown in column (4). These, in turn, are divided by 2,000 hours to arrive at the required staff, as shown in column (5), or a total of 451.7 man years.

Unit times shown in column (3) for retirement systems, security brokers and investment counsels are estimated, while no unit time calculations are made for trading stamp companies or for, C—"administration and not allocated." Unit times shown for all other items are based on actual experience during the six-month period from January 1 to June 30, 1960.

The workload units under group B, licenses in effect, are simply the estimated number of licenses in effect during the year and with two exceptions, 8 and 9, the unit time is intended to include all work performed with respect to a given licensee during the year, including a field audit. As to items 8 and 9 the unit time is that estimated for field audit only, since the licensing activity for these two items is included under group A.

Staff members whose time cannot be allocated directly to any of the workload indicators shown in groups A or B in Table 4, are shown in group C, and consist of administrative and a part of the clerical staff.

The basis for the unit time calculations shown in column 3 of Table 4 for groups A and B are time reports kept by the staff. These are kept only in terms of time spent on activities under a particular law, and are intended primarily for providing the basis for calculating the billings for the various reimbursements shown in Table 1. They do not provide any data as to time spent in processing an individual item of workload, nor do they provide any data as to the time spent on the individual activities in group A, as detailed in Table 3.

Based on available information it appears to us that the major part of this staff time under group A is expended on item 1, "permits to issue securities authorized," which represents processing applications to issue securities, and that the other operations are either relatively simple clerical operations, such as the licensing of agents to sell securities or are related to the major item, such as the issuance of orders, most of which relate directly to an authorization to sell securities.

For this reason, we do not believe that equal weight should be given to all six of these items in estimating manpower requirements, which in effect, is what the agency is doing in the type of calculation used.

In the absence of actual processing times for the individual activities included in group A we believe it would be more realistic to use item 1 as the workload indicator for the entire group and to regard the others as a part of the major item.

Division of Corporations—Continued

Table 4—Calculation of Total Staff Required, 1961-62

Work load indicator (1)	Work load units (2)	Unit time in hours (3)	Total time required Hours	
			(2) × (3) (4)	Man-years (5)
A. Permits, licenses and orders processed under Corporate Securities Act -----	73,355	7.741	567,841	283.9
B. Licenses in effect:				
1. Personal property and small loan brokers -----	1,335	24.893	33,232	16.6
2. Credit unions -----	665	79.000	52,535	26.3
3. Industrial loan companies -----	190	114.111	21,681	10.8
4. Escrow agents -----	380	50.182	19,069	9.5
5. Check sellers and cashiers -----	30	95.900	2,877	1.4
6. Retirement systems -----	365	35.161	12,833	6.4
7. Trading stamp companies -----	45	---	5,000	2.5
8. Security brokers -----	1,242	40.000	49,680	24.9
9. Investment counsels -----	226	12.000	2,712	1.4
Total -----	4,478		199,619	99.8
C. Administration and not allocated--			136,000	68.0
Grand total -----	77,833		903,460	451.7

ANALYSIS

The budget request for 1961-62 proposes a total increase of \$785,959, or 32.1 percent, an analysis of which, by categories, is as follows:

	Estimated expenditures		Increase or (—) decrease	
	1960-61	1961-62	Amount	Percent
Salaries -----	\$2,349,518	\$3,044,637	\$695,119	29.6
Operating expenses -----	401,574	479,577	78,003	19.4
Equipment -----	51,089	76,137	25,048	49.0
Retirement -----	136,247	183,436	47,189	34.6
Gross expenditures ---	\$2,938,428	\$3,783,787	\$845,359	28.8
Reimbursements -----	—493,200	—552,600	—59,400	12.0
Expenditures per budget	\$2,445,228	\$3,231,187	\$785,959	32.1

Of the total increase in salaries of \$695,119 (which accounts for 88.4 percent of the total increase of \$785,959), \$562,068 is for 90 additional positions. Of these 78 are proposed to meet increased workload and maintain the improved level of service authorized by the Legislature in 1959, and the remaining 12 are to intensify the investigative program. The latter 12 positions are as follows:

	Budget		
	Amount	Page	Line
1 Supervising deputy commissioner-----	\$11,400	548	4
1 Deputy commissioner III-----	9,852	548	5
2 Deputy commissioner II-----	14,712	548	6
4 Special investigator-----	23,088	548	11
3 Intermediate stenographer-clerk-----	12,582	548	13
1 Intermediate typist-clerk-----	3,996	548	15
12 Total-----	\$75,630		

Division of Corporations—Continued

We have no disagreement with the basic objectives set forth by the commissioner as justification for the increase granted by the Legislature in 1959. We agree that unnecessary delays in processing applications to issue corporate securities which are to be sold to the general public should be eliminated and we also believe that the public which deals with the various classes of licensees subject to regulation by the commissioner, such as credit unions and industrial loan companies, for example, is entitled to a degree of protection comparable to that accorded the public in its dealings with savings and loan associations, and banks.

However, we believe that all of these objectives can be achieved during 1961-62 without any increase in staff.

We recommend elimination of 90 proposed new positions, \$562,068, budget page 548, lines 4 to 16, detailed as follows:

Class	Number	Amount	Budget	
			Page	Line
Supervising deputy commissioner.....	4	\$45,600	548	4
Deputy commissioner III.....	6	61,572	548	5
Deputy commissioner II.....	5	37,896	548	6
Deputy commissioner I.....	6	39,096	548	7
Corporation examiner III.....	8	64,896	548	8
Corporation examiner II.....	12	80,064	548	9
Auditor I.....	10	53,640	548	10
Special investigator.....	9	51,948	548	11
Senior legal stenographer.....	6	28,440	548	12
Intermediate stenographer-clerk.....	10	41,940	548	13
Senior typist-clerk.....	2	9,024	548	14
Intermediate typist-clerk.....	10	39,960	548	15
Intermediate clerk.....	2	7,992	548	16
Total.....	90	\$562,068		

Related equipment and operating expenses should also be deleted, if this recommendation is adopted. Related equipment totals \$47,931, while related operating expenses, which we have not attempted to identify, would be substantial.

The basis for this recommendation is that the latest information available, that contained in the agency's report to the Governor for November, 1960, indicates that the major item of workload on which the increase in staff was predicated is showing a downward trend, rather than the anticipated upward trend used in the calculations justifying the increase.

This workload item is the processing and issuance of authorizations to issue securities under the Corporate Securities Law, which, with its related activities, accounts for approximately 60 percent of the total staff time at present, and 62.9 percent of the time of the staff requested during 1961-62.

Table 5 shows the number of permits to issue securities which were authorized, by months, from January to November during 1959 and 1960, as shown in the agency's report to the Governor for November, 1960.

Division of Corporations—Continued

Table 5—Permits to Issue Securities Authorized, January to November, 1959 and 1960, and Comparison

<i>Month</i>	<i>1959</i>	<i>1960</i>	<i>Increase or (—) decrease</i>
January -----	1,549	1,401	—148
February -----	1,324	1,477	153
March -----	1,834	2,113	279
April -----	1,949	1,761	—188
May -----	1,827	1,630	—197
June -----	1,892	1,731	—161
Total -----	10,375	10,113	—262
July -----	1,720	1,562	—158
August -----	1,645	1,656	11
September -----	1,704	1,403	—301
October -----	1,976	1,591	—385
November -----	1,548	1,393	—155
Total -----	8,593	7,605	—988

As Table 5 indicates, ever since March, 1960, there has been a decrease in the number of permits issued from those in the corresponding month in the prior year, except for August, and for the five months from July to November, 1960, the decrease has been 988 or 11.5 percent from the corresponding period in 1959.

On the other hand, the agency in its budget request anticipated that the number of permits issued would increase from an actual total in 1959-60 of 20,628 to 23,928 in 1960-61 and 28,595 in 1961-62.

We believe that in view of the downward trend shown in Table 5, as well as the projected trends in the general economy anticipated in the Governor's Budget, it is much more realistic to budget for this activity during 1961-62 at the 1959-60 workload level than to budget on the basis of increased workload.

As indicated in Table 4, the agency is anticipating the need of 283.9 man-years for this activity during 1961-62, predicated on an increase in workload units from the 49,850 shown in Table 3 for 1959-60, to 73,355.

If these requirements are recalculated on the basis of 1959-60 workload a reduction of 91 man-years is indicated as shown in the following:

<i>Basis</i>	<i>Workload units</i>	<i>Unit time in hours</i>	<i>Total time required Hours</i>	<i>Man-years</i>
Workload increase -----	73,355	7.741	567,841	283.9
No increase in workload -----	49,850	7.741	385,889	192.9
Decrease -----	23,505		181,952	91.0

It will be noted that this recommendation is based on the same type of calculation used by the agency in support of its 1961-62 budget request, as summarized in Table 4, since no other type of justification has been presented.

It will also be noted that the effect of our recommendation is to reduce the manpower requested for processing applications to issue securities, by use of what we regard as a more realistic workload estimate in view of current trends, and that it does not affect the manpower requested for the 100 percent annual audit of all licensees.

**Department of Investment
DEPARTMENT OF INSURANCE**

ITEM 217 of the Budget Bill

Budget page 549

**FOR SUPPORT OF DEPARTMENT OF INSURANCE
FROM THE INSURANCE FUND**

Amount requested	\$2,199,356
Contribution to State Employees' Retirement System	146,389
Total	\$2,345,745
Estimated to be expended in 1960-61 fiscal year	2,307,086
 Increase (1.7 percent)	 \$38,659
TOTAL RECOMMENDED REDUCTION	\$22,636

Summary of Recommended Reductions

	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Salaries and wages			
Chief deputy insurance commissioner	\$14,556	549	39
Senior stenographer-clerk	4,740	549	43
Equipment			
Multigraph Model 80	1,200	550	44
Typewriters	2,140	550	44
	\$22,636		

GENERAL SUMMARY

The Department of Insurance licenses all companies, agents, brokers, and solicitors conducting insurance business in the State of California, regulates their activities, and administers other provisions of the Insurance Code. The Insurance Commissioner, appointed by the Governor with the consent of the Senate, for a term of four years, maintains his headquarters office in Los Angeles, for purposes of claiming travel expenses, although headquarters for the department is located in San Francisco.

The agency is supported by an appropriation from the Insurance Fund, revenue for which is derived chiefly from license fees, company examination fees, and the surplus line broker's tax.

Under Chapter 39, Statutes of 1959, the Insurance Commissioner was assigned the major responsibility for collecting the gross premiums tax on insurance companies. Formerly, insurance companies filed returns with the Insurance Commissioner on April 1st, the amount of tax due was then calculated by him and the information transmitted to the Board of Equalization on the following July 1st. The board assessed the tax on August 10th, which was payable to the State Controller not later than November 15th. The 1959 change in the law made the tax virtually self-assessed, since it requires that a remittance, payable to the Insurance Commissioner, shall accompany the return or be paid, not later than June 15, to avoid penalty and interest.

However, since Article XIII, Sec. 14 $\frac{1}{2}$ (h) of the Constitution, provides that the tax "... shall be assessed by the Board of Equalization" the board is still going through the motions of "assessing" the tax in all cases, notwithstanding that at the time the "assessing" takes place a very high percent of the tax so assessed has been correctly computed and paid by the taxpayers themselves.

Department of Insurance—Continued

The Board of Equalization also assesses any deficiencies which have been disclosed by the Insurance Commissioner.

The State Controller collects the deficiencies and also maintains records of all "self-assessments" so that, in effect, three agencies are maintaining what amounts to the same records regarding the insurance tax.

It should be noted that any action taken by either the Board of Equalization or the Controller relating to the assessment or collection of the insurance tax is predicated in the first instance upon information furnished by the Insurance Commissioner.

In view of this we repeat the recommendation made in our 1958-59 Analysis, page 584, that Section 14 $\frac{1}{2}$ (h) of Article XIII of the Constitution be repealed and that appropriate legislation be drafted to place entire responsibility for all phases of administration of the tax on the Insurance Commissioner, except that provision should be made for an administrative appeal from his findings as to tax deficiencies. We believe that the best agency to hear such appeals would be an independent board of tax appeals, but pending the creation of such a board, the Board of Equalization could act in that capacity.

We believe that such a change would not only reduce costs, by the elimination of unnecessary duplication, but would result in a more efficient and businesslike administration of the tax.

At the same time, as we also pointed out in our 1958-59 Analysis, page 584, we believe the Legislature should reconsider the effect of the deduction currently allowed by Article XIII, Section 14 $\frac{1}{2}$ (e) of the Constitution for property taxes paid on the principal office of the insurance company in California. Elimination of this deduction would increase the yield from the insurance tax by \$3 million per year.

Because of the existence of this deduction certain insurance companies have acquired office buildings in California containing space in excess of their home office needs, the rent from which provides them with an additional source of income. Under existing law, they are allowed to deduct the property tax paid on this excess space, while at the same time the added revenue is not subject to the California franchise or corporation income tax because the gross premiums taxes paid by insurance companies are, by constitutional provision, in lieu of all other taxes, except property taxes.

Management Survey 886 of the Organization and Cost Control Division of the Department of Finance, made at the request of the Governor's Office, which reviews the insurance company tax, contains recommendations and comments essentially the same as the foregoing.

The Employee Health and Welfare program, created by Chapter 2167, Statutes of 1957, administered by the Department of Insurance, was terminated June 30, 1960, as the program, in which several hundred health and welfare organizations were registered, did not disclose any unethical practices.

Department of Insurance—Continued

The authorized staff of the agency, for 1960-61, by division and location is as follows, exclusive of temporary help:

Division	Location				Total
	San Francisco	Los Angeles	Sacramento	San Diego	
Administration -----	26	8	2	3	39
Compliance and legal -----	43	40	1	2	86
License -----	42	4			46
Examination and financial analysis -----	43	29			72
Total -----	154	81	3	5	243

ANALYSIS

Salaries and Wages

The agency's request includes provision for the continuance of eight positions in the compliance and legal staff, granted as an emergency authorization for fiscal year 1960-61. This increase was justified on the basis of backlog and projected workload in the policy service bureau.

We recommend continuation of these positions.

Although we concur, having verified the requirement in the absence of proper justification, we are compelled to reiterate our past comments regarding this agency's failure to undertake to anticipate or project workload, and simultaneously establish and maintain adequate standards. It is possible that, without such projections and standards, this agency may experience difficulty in ensuing years, should projected revenues not materialize.

As an example, the surplus line broker's tax represents in the budget year 34.2 percent of revenues. The surplus line broker places with nonadmitted insurers that portion of risk rejected by a majority of admitted insurers due to company underwriting rules. Should licensed or admitted insurers elect to assume risks currently brokered to, as an example, Lloyd's of London, the effect would be to reduce Insurance Fund revenue derived from surplus line broker's tax, and correspondingly increase General Fund revenue through the Insurance Gross Premium Tax. An adjustment of workload would be required in the absence of immediate remedial legislation. Without anticipated workload data or adequate standards, areas of reduction in personnel would be indeterminate.

Two positions, a chief deputy insurance commissioner and a related senior stenographer-clerk have been continuously vacant since September 18, 1959.

We recommend that the following existing positions be deleted.

Position	Amount	Budget	
		Page	Line
1 chief deputy insurance commissioner -----		\$14,556	549 39
1 senior stenographer-clerk -----		4,740	549 43
Total -----		\$19,296	

Department of Insurance—Continued

We believe that the fact that these positions have been continuously vacant for more than one year is an indication that they are not needed for the effective operation of the agency. In this connection it is interesting to note that the positions were deleted by the agency itself from the Controller's roster on July 1, 1960, but that this action was disregarded when the budget document was prepared.

Equipment

A multigraph, model 80, is requested as a replacement for a mimeograph machine in the San Francisco office. Justification is that from 1,800 to 2,000 form letters are mailed monthly and that appearances demand a multilith process rather than mimeograph.

We recommend deletion of a multigraph, model 80, budget page 550, line 44, \$1,200.

It is noted that in the 1959-60 fiscal year, a multilith was approved for the Los Angeles office. We believe that a centralized reproduction of forms under the administrative branch would not only be more economical but would also assist in obtaining control and uniformity.

The agency proposes the replacement of 10 standard typewriters with electric typewriters on the basis of criteria found in Department of Finance, Organization and Cost Control Division, Management Survey No. 779. General references to reduction of fatigue factor, increased efficiency, or usage in excess of four hours daily are given.

We recommend deletion of \$2,140, budget page 550, line No. 44 which represents the excess cost of replacement of electric over standard typewriters. Management Survey 779, establishes three specific recommendations: "(1) for individual typing stations when an average of more than four hours per day is spent actually typing, including two or more hours preparing stencils, continuous forms, or multiple copy (six or more copies); (2) for whole typing pools when the number of existing typing positions are reduced 5 percent or more, or an equivalent number of justified additional positions are disallowed; (3) for secretary-stenographers to elected officials, department heads, and their deputies, upon special justification when approved by the Budget Division."

The latitude that the agency has assumed in interpreting these standards is not, in our opinion, warranted.

**Department of Investment
DIVISION OF REAL ESTATE**

ITEM 218 of the Budget Bill

Budget page 552

**FOR SUPPORT OF DIVISION OF REAL ESTATE
FROM THE REAL ESTATE FUND**

Amount requested	\$1,725,917
Contribution to State Employees' Retirement System	103,924
Total	\$1,829,841
Estimated to be expended in 1960-61 fiscal year	1,818,857
Increase (0.6 percent)	\$10,984
TOTAL RECOMMENDED REDUCTION	\$28,811

Division of Real Estate—Continued

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Licensing :			
2 Junior-intermediate typist-clerks -----	\$7,590	554	7
Elimination of Oakland Office :			
1 Deputy commissioner II -----	8,940	553	73
1 Senior typist-clerk -----	5,013	553	76
Rent -----	6,768	554	30

GENERAL SUMMARY

The total expenditure program proposed for the Division of Real Estate for 1961-62 is shown on budget pages 552 to 555, although funds for its support come from two separate appropriations, as follows:

Fund	Budget Act Appropriation		Retirement	Total expenditures
	Item No.	Amount		
Real Estate -----	--	\$1,725,917	\$103,924	\$1,829,841
Real Estate Education and Research -----	--	272,330	3,835	276,165
Totals -----	--	\$1,998,247	\$107,759	\$2,106,006

The Real Estate Fund derives its revenue from the various fees provided under the California Real Estate Law, except that Section 10450.6 of the law, which was added in 1956, provides that one-fourth of the amount of any license fee collected by the commissioner shall go to the Real Estate Education and Research Fund.

Section 10451.5 of the law, also added in 1956, provides that money in the latter fund is available for appropriation by the Legislature to be used by the commissioner in carrying out the provisions of the Real Estate Law and . . . "in the advancement of education and research in real estate at the University of California, state colleges and junior colleges."

The division is headed by the real estate commissioner, who is appointed by the Governor with the consent of the Senate for a term of four years. The real estate commissioner maintains his headquarters in Sacramento. Principal functions of the division are the licensing and regulation of persons and firms engaged as real estate, business opportunity, or mineral, oil, and gas salesmen or brokers. Various duties related to subdivisions and mortgage loan brokers have been assigned to the real estate commissioner by other provisions of the Real Estate Law.

The 1960 Legislature approved a total permanent staff of 195, including eight new positions. However, 17 additional positions for 1960-61 were authorized by the Department of Finance under emergency authorizations, with termination dates of June 30, 1961. These positions are all being requested as additional permanent positions for 1961-62, and are the new positions shown on budget page 554, lines 5 to 17.

The authorized staff of the agency on September 1, 1960, by section and location is as follows, exclusive of temporary help:

Division of Real Estate—Continued

Location	Admin- stration	Exami- nation	Licensing	Education		Total
				Regu- lation	and research	
Sacramento -----	15	13	53	9	7	97
San Francisco ----	---	3	---	23	---	26
Los Angeles -----	---	6	---	61	---	67
Fresno -----	---	---	---	6	---	6
Oakland -----	---	---	---	7	---	7
San Diego -----	---	---	---	9	---	9
Totals -----	15	22	53	115	7	212

The administrative section, located at Sacramento, is comprised of the commissioner and assistant commissioner, with two secretaries, 10 persons in the accounting unit performing the accounting, personnel and cashiering functions, and a stock clerk.

The examination section prepares and conducts examinations which are required to be taken and passed by all applicants for the various classes of licenses required under the law. These examinations are both written and oral and are given in all the offices of the agency, as needed, except Oakland. Total applicants for examinations in all categories are as follows:

Year		
1958-59 -----	Actual	38,240
1959-60 -----	Actual	44,546
1960-61 -----	Estimated	52,000
1961-62 -----	Estimated	61,118

The licensing section handles the issuance of all licenses and renewals, and includes 2 deputy commissioners and 51 in clerical classifications.

Original licenses are issued for a period of one year upon passage of a first examination, and are renewed for a four-year period upon passage of another examination. Thereafter, they are renewable on a four-year basis without further examination.

At June 30, 1960, there were a total of 135,645 licenses in force, of all kinds, of which 21,561 were originals, with a one-year life and 114,074 were renewals, with a four-year life.

These licenses are all renewable either one year or four years from date of original issue, and as a result of a program, initiated on July 1, 1957, which placed the then existing licenses on a staggered basis, for renewal purposes, the licensing workload is distributed evenly throughout the year.

Prior to this changeover licenses were renewed annually as of July 1, and the processing was all on a manual basis.

At the time of the changeover the process was placed on a mechanized basis, using punched card equipment and a transfer printer.

The mechanized installation was made as the result of a survey conducted by the Department of Finance, Organization and Cost Control Section, Survey 760, dated October 19, 1956.

Part of the equipment needed was purchased outright, the cost of which was approximately \$14,500 while the remainder is being acquired

Division of Real Estate—Continued

under a lease purchase agreement, which extends over a 15-year period, with annual payments of approximately \$7,400, plus maintenance charges of approximately \$3,600 per year.

Survey 760 recommended that once the use of punched card methods had been established in the main areas of mailing and licensing operations the agency should give thought to extending mechanization into the areas of accounting, cashiering and statistics. To date this has not been done.

Regulation activity is organized on an area basis, San Francisco being the headquarters for the northern regulatory area and Los Angeles, the southern regulatory area. Subarea offices are maintained in Fresno, Oakland, Sacramento and San Diego.

The regulation function includes legal, investigative, and audit activities.

The printed budget for the Division of Real Estate includes the following items as being financed by the appropriations from the Real Estate Education and Research Fund.

	<i>Actual 1959-60</i>	<i>Estimated 1960-61</i>	<i>Proposed 1961-62</i>
Salaries and Wages:			
Deputy Commissioners -----	\$18,799	\$32,316	\$32,735
Clerical -----	9,665	13,901	14,150
Total salaries and wages----	\$28,464	\$46,217	\$46,885
Study of real estate education and research needs -----	16,276	30,000	30,000
Real estate education and research programs, state colleges and junior colleges -----	44,383	110,000	173,000
Miscellaneous (Chiefly operating expenses) -----	14,027	24,076	22,445
Subtotal -----	\$103,150	\$210,293	\$272,330
Retirement contributions -----	2,744	4,365	3,835
Total -----	\$105,894	\$214,658	\$276,165
Salaries and wages were for the following numbers of positions:			
Deputy Commissioners -----	2.1	4	4
Clerical -----	2	3	3
Total -----	4.1	7	7

The function performed by the foregoing staff is one of generally co-ordinating and implementing certain phases of the Real Estate Education and Research Program. Direction is received from the Real Estate Commissioner, or the Commissioner's Real Estate Education and Research Advisory Committee which is chaired by the deputy in charge of this section and includes representatives of the University of California, the state colleges and junior colleges and the industry. Three additional positions, two deputies and one clerk, were added by the augmentation during 1960-61 and are requested for continuation during 1961-62 and included in the totals shown in the foregoing for that year.

Division of Real Estate—Continued

The program to be financed from the Real Estate Education Fund is discussed under the next item.

ANALYSIS

Seventeen additional positions are requested for 1961-62 as shown on budget page 554, lines 5 to 17, all of which are, in effect, continuations of positions already established by emergency authorization during 1960-61.

We recommend approval of one junior-intermediate clerk for examinations, \$3,615, budget page 554, line 5.

This position is to be used in San Francisco and it appears to be justified on a workload basis.

Two additional junior-intermediate typist-clerk positions are requested for licensing, budget page 554 line 7.

The agency requested and was granted two additional clerical positions in this section for fiscal year 1960-61, based on an anticipated 9.7 percent increase in licenses, over the two-year period from June 30, 1959, to June 30, 1961. Backlog was also cited as justification.

To arrive at the number of clerks required, licenses in effect on June 30, 1959, were divided by man years directly involved to arrive at a unit of production. This was applied to the projected licenses to show a need for 2.0 additional clerks.

These positions were established during April of the 1959-60 fiscal year as the agency was able to show that the increased number of licenses had materialized.

In June of 1960, the agency requested and was granted an augmentation of two additional clerks based upon continuing workload increases, backlog, and an increase in numbers of transactions handled.

We recommend disapproval of two junior-intermediate typists-clerks, budget page 554, line 7, \$7,590.

Using the same method of calculation but applying it to the actual past year, we find that an additional five percent increase can be accommodated during 1960-61 without the two additional positions.

As the registration of real property loan brokers constituting some 19,000 transactions were undertaken and completed during this base year, we feel that during the current year, the backlog can be substantially reduced if not abolished.

Thus, it appears to us that during the budget year the justification of backlog and number of transactions will no longer be valid, and, in effect, the unit will be able to exceed the standard.

Further, the initial cycle for four-year renewal licenses will have been completed, and a decrease, or lesser increase in number of licenses in effect and issued will be experienced by the agency.

Under Regulation this budget contains a request for 11 additional positions; five deputy commissioners Grade I, three general auditors Grade II, one assistant counsel, and two clerks.

The additional 11 positions are requested in order that promotional subdivisions and mortgage loan activity may be adequately supervised.

Division of Real Estate—Continued

Specifically, out-of-state promotional subdivisions and the ten percenter or discount operators are cited as justification.

It appears to us that this increase can be attributed to an urgent need for expanded service.

We recommend approval of the following additional positions for regulation, subject to the conditions noted:

Class	Number	Amount	Budget	
			Page	Line
Deputy real estate commissioner I.....	5	\$29,150	554	9
Assistant counsel	1	7,728	554	10
General auditor II	3	18,348	554	11
Junior-intermediate typist-clerk	2	6,640	554	12
Total	11	\$61,866		

We believe that the continued need for these positions should be subject to close scrutiny as it appears to us probable that the effects of extended investigation and audit activity as well as the possibility of new legislation will tend to curtail unethical practices in this field, as has been the case with advance fee operators.

We recommend approval of the following additional positions for education and research:

Class	Number	Amount	Budget	
			Page	Line
Deputy real estate commissioner II.....	2	\$13,486	554	15
Junior-intermediate stenographer-clerk.....	1	3,485	554	17
Total	3	\$16,971		

It appears to us that these positions are justified in the interests of a better co-ordination of the research and education programs in state colleges and junior colleges.

Oakland Office

The sub area offices are generally established when an adequate workload develops for a permanent staff, and distances are such that effective supervision is not possible from the central office. These facilities are also used for examination and hearing services conducted occasionally in the outlying areas.

Such an office in Oakland now contains a staff of one deputy commissioner II, three deputy commissioners I, and three clerks. The three deputies I are assigned specific county territories in which they investigate both subdivisions and complaints.

We recommend the elimination of the Oakland office, including the following items:

Item	Amount	Budget	
		Page	Line
One deputy commissioner II.....	\$8,940	553	78
One senior typist-clerk	5,013	553	76
Rent	6,768	554	30
Total	\$20,721		

Division of Real Estate—Continued

We feel that at least the foregoing economies can result from abolishing this office, with no resultant loss of effective coverage.

When originally established, this office served a need which is undeniable, but it appears to us that such a need no longer exists. The proximity of the San Francisco office is such that with the elimination of this office and the transfer to San Francisco of the three deputies I and two clerks, greater utilization and control of personnel would result. The elimination of the one level of supervision, numerous reports, and telephone and counter service would release the two positions referred to. We feel that as examinations are currently given in San Francisco, the majority of the hearings are currently held in San Francisco and distances are such that adequate supervision could be maintained from San Francisco, more accurate and timely service to the general public would be available under the new arrangement at a saving in cost.

Department of Investment
DIVISION OF REAL ESTATE

ITEM 219 of the Budget Bill

Budget page 555

**FOR ADDITIONAL SUPPORT OF DIVISION OF REAL ESTATE
FROM THE REAL ESTATE EDUCATION AND RESEARCH FUND**

Amount requested	\$474,830
Contribution to State Employees' Retirement System	3,835
Total	\$478,665
Estimated to be expended in 1960-61 fiscal year	474,650
Increase (0.8 percent)	\$4,015

TOTAL RECOMMENDED REDUCTION

None

ANALYSIS

Of the foregoing amount \$276,165, is to finance activities in the Division of Real Estate relating to education and research, including real estate education and research programs in state colleges and junior colleges which are included in the budget detail for the Division of Real Estate. The remainder of \$202,500 is to be allocated by the Department of Finance in amounts as it finds necessary to the University of California exempt from Section 31 of this act.

Real Estate Education and Research

In 1950, moneys from the Real Estate Fund, which supports the operation of the Division of Real Estate and is accrued from license, subdivision and other fees collected by the Real Estate Commissioner, were made available in support of real estate education at the University of California. For fiscal year 1950-51, the Legislature appropriated \$50,000 to the University for the development of a real estate program with the same amount appropriated for each of the following two years. This action on the part of the Legislature had been urged by the California Real Estate Association, and the Commissioner of Real Estate.

Support for the real estate program at the University of California at Berkeley and Los Angeles was increased to \$100,000 for the fiscal years 1952-53 through 1957-58.

Division of Real Estate—Continued

In the beginning, the money was intended primarily for the establishment of off-campus, that is, extension offerings in real estate, at the same time building an undergraduate program. In a short time, however, the University reported that it could not conscientiously continue the program unless it was coupled with research to give body to instruction and instructional material. This was the beginning of the research program at the University of California, both at Berkeley and at Los Angeles.

In 1956 license fees were increased, renewal licenses went on a four-year basis, and 25 percent of all license fees were segregated in a Real Estate Education and Research Fund. Under the law, moneys in this fund are to be appropriated by the Legislature for the use of the commissioner in the "*advancement of real estate education and research in the University of California, the state colleges, and the junior colleges.*"

To implement this action, the Commissioner's Real Estate Education and Research Advisory Committee (the CREERAC) was formed. The committee consists of representatives of the University of California, state colleges, junior colleges, the real estate industry, and the commissioner's office. This committee advises the commissioner on means and projects intended to advance real estate education and research in the public institutions of higher learning in the State, following the ultimate aim of the program expressed by the commissioner as "the upgrading of the real estate industry toward professionalization." The university makes its request for appropriation from the Real Estate Education and Research Fund directly to the Governor and the Legislature. Its program and proposals are, however, reviewed by the commissioner and his advisory body prior to release of the funds to the university. For the past three years, the university requests were reviewed and accepted by the commissioner. In 1958-59 the university was appropriated \$218,350 from the Real Estate Education and Research Fund, and increases were made in this appropriation during the following two years:

University of California Real Estate Education and Research Appropriations	
From the Real Estate Education and Research Fund	
1958-59	\$218,350
1959-60	255,000
1960-61	260,000

For 1961-62, the university requested \$270,000 (mainly for research) and the commissioner meeting with a special committee of real estate brokers to consider the request for funds . . . by the University of California reduced the request by \$67,500, to \$202,500. Six research projects of UCLA and three of Berkeley were cut as were half the expenses of "associated operations" (facilities, supplies, publication costs, etc.). This recent development indicates that the Division of Real Estate may question some of the uses for which one-fourth of its license fees are being expended.

We too question some aspects of these activities. A basic problem to this matter is the philosophy of appropriating license fees. To what extent should such fees be used for the protection and enlightenment

Division of Real Estate—Continued

of the citizens and consumers of the State rather than for the vague goal of "upgrading of the industry toward professionalization?" Also involved here is a question of higher education policy involving the extent to which a state licensing agency can, or should, undertake to design and to administer the teaching and research phases of an education program of this kind, beyond allocating funds for this purpose, and the determination of broad guide lines as to objectives. Meaningful guides for future development are lacking. If this program is to continue, there should be a master plan based on the real needs of the State and its citizens as well as the real estate business.

We recommend approval of this item. However, we also recommend that the Commissioner's Real Estate Education and Research Advisory Committee submit a master plan for real estate education outlining specific needs and their economic justifications, and including their interpretation of the role of the university, the state colleges, and the junior colleges, in time for the 1962-63 Budget Session.

**Department of Investment
DIVISION OF SAVINGS AND LOAN**

ITEM 220 of the Budget Bill

Budget page 555

**FOR SUPPORT OF DIVISION OF SAVINGS AND LOAN, FROM THE
SAVINGS AND LOAN INSPECTION FUND**

Amount requested	\$953,894
Contribution to State Employees' Retirement System.....	51,319
Total	\$1,005,213
Estimated to be expended in 1960-61 fiscal year.....	904,696
Increase (11.1 percent)	\$100,517
TOTAL RECOMMENDED REDUCTION	\$72,652

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
1 Administrative assistant	\$8,112	556	39
1 Savings and loan examiner II	6,672	556	41
2 Auditor I	10,464	556	42
2 Senior savings and loan appraiser	15,456	556	43
1 Hearing reporter (augmentation)	+7,008	556	44
1 Transcriber (augmentation)	+4,092	556	44
Shorthand reporter costs—revise estimate.....	4,957	556	51
Shorthand reporter costs—substitute own staff.....	16,100	556	51
Specialized training	3,366	556	55
Traveling—in-state	12,625	556	54
Auto additional	4,000	556	65
Auto replacement	2,000	556	65
Net reduction	\$72,652		

GENERAL SUMMARY

The Division of Savings and Loan, headed by the Savings and Loan Commissioner, maintains offices in both San Francisco and Los Angeles as required by Section 5208 of the Financial Code. The commissioner, who is appointed by the Governor with the consent of the Senate, and

Division of Savings and Loan—Continued

serves at the pleasure of the Governor, maintains his headquarters in Los Angeles, while the administrative headquarters of the agency for certain purposes is located in San Francisco.

The major responsibilities of the division are the examination of state-chartered Savings and Loan Associations, including a test check of loan portfolios, approval of articles of incorporation for new associations and licensing of new branches, and undertaking the disposition of miscellaneous requests presented under the Savings and Loan Law.

The division is supported out of the Savings and Loan Inspection Fund, which derives its revenues from assessments against Savings and Loan Associations. The surplus in the fund is expected to exceed \$1 million at the end of the budget year under the current assessment rate of \$0.18 per thousand dollars of assets. The authorized staff by class and location exclusive of temporary help, on November 1, 1960, was as shown below:

<i>Class</i>	<i>San Francisco</i>	<i>Los Angeles</i>	<i>Total</i>
Commissioner -----	-	1	1
Chief deputy -----	-	1	1
Assistant commissioner -----	1	-	1
Attorney -----	-	2	2
Administrative assistant I -----	1	-	1
Examiner -----	15	30	45
Appraiser -----	6	11	17
Technician and clerk -----	7	11	18
Totals -----	30	56	86

Workload indicators are the number of associations requiring examinations and the number of new and delinquent loans.

Authorized staff and number of associations in recent years are as follows:

<i>Fiscal year</i>	<i>Actual</i>			<i>Estimated</i>
	<i>1957-58</i>	<i>1958-59</i>	<i>1959-60</i>	<i>1960-61</i>
Authorized staff -----	44.1	46.1	82.1	86.1
Number of associations -----	171	173	174	186

Due to the increased activity in the savings and loan industry, and resultant workload and staffing increases experienced by this agency, it is felt that consideration should be given to exploring further the relationship between the state and federal regulatory agencies, with a view toward obtaining additional co-operation.

The similarity in functions of the Banking Department and Savings and Loan Division have prompted our mention previously of the desirability of incorporating these two separate agencies into one in order that increases in efficiency may be realized and common problems met.

ANALYSIS

Salaries and Wages

The agency's request includes provisions for seven new positions at a cost of \$51,048. This represents an 8.3 percent increase in staff.

Administrative assistant II (budget page 556, line 39) ----- \$8,112

This position is requested for the Los Angeles office to relieve the chief

Division of Savings and Loan—Continued

deputy commissioner of the detail required in directing that office so that the deputy may more effectively co-ordinate the activities of the division. In addition, the agency states that the administrative assistant would undertake "(1) preparation of the division budget and development of budgetary procedures including development of appropriate workload measurements in the appraising and examining fields, (2) development of division-wide statistical reporting systems, (3) design of appropriate samples to be used by division appraisers in selecting loans to be test-checked at the time of our examination, (4) analysis of available surveys and statistical information for the purpose of recommending possible division action."

We recommend disapproval of one administrative assistant II position, \$8,112, budget page 556, line 39.

In the years past, the administration of the division has been centralized in San Francisco. On April 15, 1959, an administrative assistant I position was established in that office as part of the augmentation for 33 positions approved by the 1959 Legislature after the budget was prepared. The position justification Form 613 indicated that the duties of the administrative assistant would be "to assist the person in charge of the San Francisco office of the division in accomplishing the administrative details of the operation of the divisions's two offices, including accounting functions, personnel transactions, general house-keeping functions and budgetary matters."

We are of the opinion that should these functions be transferred to Los Angeles, as is the indication, the existing administrative assistant I position should also move to Los Angeles in order that proper control may be exercised by the commissioner who is located there. We feel that budget preparation, which is to be undertaken by the new position, cannot be separated from the accounting, personnel and general house-keeping functions which are currently being performed in the San Francisco office.

*One associate counsel position for the Los Angeles office,
budget page 556, line 40-----\$10,344*

The agency established its two associate counsel positions in the year 1959-60, to assist the commissioner in hearing applications for new savings and loan facilities and to perform other legal activities. These positions are currently in Los Angeles.

We believe that the new position is justified, due to the substantial increase in hearings held during 1959-60 and anticipated number of hearings for 1960-61. In each instance, in excess of one-third of the hearings are held in the San Francisco office.

We recommend approval of the additional associate counsel position, but believe that, in the interests of proper balance, and to eliminate travel costs it should be located in San Francisco rather than Los Angeles.

*One savings and loan examiner II, budget page 556, line 41-----\$6,672
Two auditor I, budget page 556, line 42-----10,464*

Division of Savings and Loan—Continued

Section 8800 of the Financial Code requires that the commissioner examine all savings and loan institutions annually. The commissioner requests these additional positions in order that under the current level of service, this may be accomplished. In the agency's supporting documents, the associations not examined during fiscal year 1959-60 are given, with the total man-days required in previous examinations of these facilities. The number of associations are also expected to increase by 12 by the year ending June 30, 1961. We project this increase to arrive at a 1961-62 figure of 200 associations.

We recommend disapproval of one savings and loan examiner II, \$6672, budget page 556, line 41, and two auditor I positions, \$10,464, budget page 556, line 42.

In requesting these positions, it appears to us that the commissioner has not taken into consideration the total authorized examiner staff of 45, including the five positions which were vacant on November 1, 1960. The following table is based on data contained in the budget request submitted by the commissioner, the man-years shown being calculated by dividing the required man-days by 228. The calculations shown for 1960-61, and 1961-62 represent our own estimates.

	<i>Number of Required Man-years association man-days required</i>		
Examinations completed 1959-60 (average 45 days per examination) -----	143	6,463	28.3
Sundry assignments, 1959-60-----	--	1,530	6.7
Actual Total, 1959-60 -----	143	7,993	35.0
Examinations not made, 1959-60-----	32	1,052	4.6
Additional examinations, 1960-61—at 45 days per examination -----	12	540	2.4
Additional examinations, 1961-62—at 45 days per examination -----	13	595	2.6
Total Required, 1961-62 -----	200	10,180	44.6

It is noted that the maximum required personnel according to the foregoing calculations is 45.

By filling the five vacant examiner and auditor positions which existed on November 1, 1960, and maintaining that staff, it appears to us that the agency should be able to meet its estimated workload requirements during 1961-62.

2 Senior savings and loan appraisers are requested, budget page 556, line 43 ----- \$15,456

It is the practice of the agency to use its own appraisers to test the appraised values placed by the associations on the real estate securing their loans and this is done on a sample basis for 7 percent of all new loans. The agency also appraises the security underlying delinquent loans.

New loans made on a calendar year basis by all associations have been as follows, in recent years, as reported by the commissioner:

Division of Savings and Loan—Continued

Calendar year	Number of loans
1953 actual	67,970
1954 actual	78,097
1955 actual	97,471
1956 actual	93,982
1957 actual	92,768
1958 actual	93,066
1959 actual	135,002
1960 estimated	195,752

The commissioner's estimate of 195,752 new loans for 1960 assumes the same rate of increase over 1959 that 1959 showed over 1958, namely, 45 percent.

Based upon this projection the agency believes that the existing staff of 17 is not adequate to appraise the 7 percent sample, plus the security underlying delinquent loans, at the standard rate of four appraisals per day per man for 228 working days per year.

We recommend disapproval of two senior savings and loan appraisers, \$15,456, budget page 556, line 43.

In order to project an estimate for new loans into the budget year, we have first converted the commissioner's figures to a fiscal year basis for 1957-58 and 1958-59 through an averaging process, i.e., we have assumed new loans for 1957-58 to be the average of those reported by the commissioner for the calendar years 1957 and 1958, and new loans for 1958-59 to be the average of those reported for the calendar years 1958 and 1959. We have then estimated new loans for 1959-60, 1960-61 and 1961-62, by applying the same percentage of increase each year as that indicated for 1958-59 over 1957-58, as shown in the following table. In the other columns, the required 7 percent, the presently authorized staff, and the number of appraisals possible per year at the standard production rate given by the commissioner of four appraisals per man per day for 228 days a year, are given.

Fiscal year	New loans	Percent increase over previous year	7 percent of new loans	Presently authorized appraisers	Number of appraisals possible per year
1957-58	92,917	--	--	--	--
1958-59	114,034	22.7	--	--	--
1959-60	139,920	22.7	--	--	--
1960-61	171,682	22.7	12,018	17	15,504
1961-62	210,654	22.7	14,746	17	15,504

We have no figures representing those loans on which interest has been delinquent longer than three months which would require appraisal.

It is also significant to note that for the 1961-62 fiscal year, the commissioner has made a revision in the standard production rate for appraisers from the five per day, used in former years, to four per day. This has resulted in a loss of possible production of 3,876 appraisals. We have no explanation of the reason for this change. We believe that by filling the five vacant appraiser positions which existed on November 1, 1960, and maintaining that staff, the agency should be able to exceed

Division of Savings and Loan—Continued

the workload requirement on new loans, and examine 758 delinquent loans.

We also have serious reservations as to whether new loans will increase at the rate estimated in view of current business conditions.

Operating Expenses

General Expense

The agency has included in general expense for 1961-62 an amount of \$30,075 for shorthand reporters for public hearings. The payments are made to outsiders on a contract basis at stipulated rates per day and per folio page, and it is our understanding that all notes taken by the reporters are transcribed in full.

The agency has furnished the following data for hearing costs for 1959-60 and 1960-61:

	Number of hearings	Average cost per hearing	Total cost
1959-60, Actual			
Los Angeles office.....	62	\$188	\$11,649
San Francisco office.....	33	145	4,439
Total			\$16,088
1960-61, Estimated			
Los Angeles office.....	75	\$200	\$15,000
San Francisco office.....	35	145	5,075
Total			\$20,075

The total cost in Los Angeles for 1960-61, as shown in the foregoing, increased 28.77 percent over 1959-60, while the corresponding increase in San Francisco was 14.33 percent.

If the same rate of increase is assumed in each office for 1961-62 over 1960-61, the estimated total costs would be as follows:

Los Angeles office (128.77% of \$15,000).....	\$19,316
San Francisco office (114.33% of \$5,075).....	5,802
Total	\$25,118

We recommend a decrease in general expense for hearing reporters of from \$30,075 to \$25,118 or \$4,957, budget page 556, line 51.

We believe this is a more reasonable estimate than that included in the budget justification.

The hearing workload in Los Angeles appears to be sufficient to warrant the use of civil service personnel for reporting and transcribing hearings, at least for most of the work, a matter which we are informed has been of concern to the State Personnel Board for some time.

The pay scale for civil service hearing reporters is \$584-710 per month (\$7,008 to \$8,520 per year) while that of transcribers is \$341-415 per month (\$4,092 to \$4,980 per year).

We recommend a further decrease of \$16,100 in general expense, budget page 556, line 51, and an increase of \$11,100 in salaries and wages, budget page 556, line 54, to provide for a hearing reporter and a transcriber in Los Angeles on a civil service basis.

Division of Savings and Loan—Continued

The net result of this recommendation would be an overall saving of \$5,000 for reporting and transcribing hearings in Los Angeles. The reduction of \$16,100 in general expense for hearing reporters in Los Angeles, from \$19,316 to \$3,216 would still leave the latter amount available for hearing reporters on a contract basis if it should develop that the civil service employees could not carry the entire load.

Specialized Training

The amount of \$5,000 budgeted for specialized training contains provisions for \$1,997 in salaries and wages, and \$1,369 in travel for the purpose of training.

We recommend reduction of specialized training by \$3,366, budget page 556, line 55.

No additional amount should be budgeted for training in either the salaries and wages or travel expense categories since both are included in other areas of the budget. Travel expenses are shown in that category of general expense under the title, "conventions, conferences and training."

Travel-In-State

Travel-in-state, shown on budget page 556, line 54, consists of the following:

	Actual 1959-60	Estimated 1960-61	Proposed 1961-62	Percent increase 1961-62 over 1959-60
Cost of meals and hotel-----	\$32,488	\$57,344	\$61,766	90.1%
Conferences, conventions and training sessions-----	671	787	1,013	51.0
Other -----	12,030	9,912	10,762	-10.5
Auto mileage-----	7,394	15,500	15,900	115.0
Auto operation-----	6,647	6,800	8,162	22.7
Totals -----	\$59,230	\$90,343	\$97,603	64.8%

In analyzing the increases in the first item, we note that number of personnel, number of days traveled and the average cost per day are all increased. In automobile mileage, total number of dollars for private car operation (and in effect number of miles), exclusive of pool car, increased from the 1959-60 actual figure of \$5,603 to \$13,600 for the budget year.

We recommend reduction of \$12,625 travel in state, budget page 556, line 54.

Although we are not in a position to question the increases in the number of personnel traveling, nor days traveled, we feel that the cost per day for hotel and meals should remain constant until it is demonstrated that such costs will increase. This is in accordance with budget instructions issued by the Department of Finance. The actual average cost for 1959-60 was \$4.33 per day, while the average in the budget year is \$5.44 per day. By applying the figure of \$4.33 experienced in the actual past year, to the days estimated for the budget year, 11,349, we arrived at a total cost of \$49,141 for meals and hotels. This results in a reduction of \$12,625.

Division of Savings and Loan—Continued

Equipment

Automobile addition..... \$4,000

This amount has been budgeted for automobiles for the two new appraisers requested by the agency. *We recommend deletion of \$4,000 for automobiles—additional, budget page 556, line 65,* as we have recommended that these positions be disallowed. Should they be approved, we recommend that in lieu of the purchase of new automobiles any need for additional transportation be supplied from the Department of Finance pool.

Automobile replacement..... \$2,000

The budget papers show this automobile as a 1955 Ford, which had a total mileage of 61,467 miles on June 30, 1960. The estimated total mileage to be accrued during fiscal year 1960-61 is 10,800. *We recommend deletion of this item, budget page 556, line 65, \$2,000.*

According to the figures given, this automobile will have attained 71,464 miles at the end of fiscal year 1960-61, which is well below the accepted criteria for replacement of 100,000 miles.

BOARD OF OSTEOPATHIC EXAMINERS

ITEM 221 of the Budget Bill

Budget page 558

**FOR SUPPORT OF BOARD OF OSTEOPATHIC EXAMINERS
FROM THE CONTINGENT FUND OF THE BOARD OF
OSTEOPATHIC EXAMINERS**

Amount requested	\$68,780
Contribution to State Employees' Retirement System.....	2,622
Total	\$71,402
Estimated to be expended in 1960-61 fiscal year.....	69,361
 Increase (2.9 percent)	 \$2,041

TOTAL RECOMMENDED REDUCTION..... None

GENERAL SUMMARY

The Board of Osteopathic Examiners regulates the osteopathic profession through examination and licensing as well as the investigation of complaints. The board consists of five members of the profession appointed by the Governor for three-year terms.

ANALYSIS

The increase in this budget results in large part from the necessity to replace an automobile during the budget year. During the current year fees have been increased by the board to effect an approximate 30 percent increase in revenue. As a result, the accumulated surplus in the fund at June 30, 1961 and 1962 will increase for the first time in several years, thus reversing a trend which had threatened financial difficulty for this agency.

We recommend approval as budgeted.

BOARD OF PILOT COMMISSIONERS FOR THE HARBOR OF SAN DIEGO
 ITEM 222 of the Budget Bill Budget page 559

FOR SUPPORT OF BOARD OF PILOT COMMISSIONERS FOR THE HARBOR OF SAN DIEGO FROM THE GENERAL FUND

Amount requested	\$1,425
Estimated to be expended in 1960-61 fiscal year	1,435
Decrease (0.7 percent)	\$10

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

This board, composed of three members from San Diego appointed by the Governor for four-year terms, regulates piloting on San Diego Bay by licensing pilots and fixing the rates for pilotage. The board is supported by the General Fund and all revenues received from licenses, penalties and fees are deposited in the General Fund. Such revenues are estimated to substantially exceed expenditures in the budget year.

We recommend approval as budgeted.

BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO, AND SUISUN

ITEM 223 of the Budget Bill Budget page 560

FOR SUPPORT OF BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO, AND SUISUN FROM THE PILOT COMMISSIONERS' SPECIAL FUND

Amount requested	\$23,968
Contribution to State Employees' Retirement System	450
Total	\$24,418
Estimated to be expended in 1960-61 fiscal year	24,255
Increase (0.7 percent)	\$163

TOTAL RECOMMENDED REDUCTION..... None

ANALYSIS

This board, composed of three members appointed by the Governor to four year terms, regulates piloting on San Francisco, San Pablo and Suisun Bays, by licensing the pilots on these waters, and is supported by pilotage fees.

We recommend approval as budgeted.

Department of Professional and Vocational Standards
DEPARTMENTAL ADMINISTRATION

FOR SUPPORT OF DEPARTMENTAL ADMINISTRATION FROM THE PROFESSIONAL AND VOCATIONAL STANDARDS FUND Budget page 561

Amount requested	\$748,512
Contribution to State Employees' Retirement System	26,575
Total	\$770,087
Estimated to be expended in 1960-61 fiscal year	752,382
Increase (2.4 percent)	\$17,705

TOTAL RECOMMENDED REDUCTION..... None

GENERAL SUMMARY

This department administers laws regulating and protecting certain private businesses, professions and vocations through 27 member

Departmental Administration—Continued

agencies. These agencies are headed by boards or commissions composed of from 3 to 13 members, appointed by the Governor from among the membership of the particular business, profession or vocation regulated by the agency. Regulation and protection is accomplished through the power to approve applications for licensing, the examination of applicants, the issuance, revocation or suspension of licenses, the investigation of complaints and the inspection of the premises and activities of licensees. In some instances additional disciplinary measures may be invoked.

Generally these agencies impose fees for licensing and are supported from the special funds resulting from the collection of such fees.

The department provides accounting, personnel, and machine registration services to the constituent agencies, as well as providing for budgetary preparation and control and liaison with other governmental units. In addition, the department provides the same services for and supervises the Division of Administrative Procedure, which provides hearing officer and Administrative Code publication services to all state agencies, and manages the Business and Professions Building and Annex.

Department Administration is supported by the assessment of its costs to the member agencies and consequently is not dependent on annual appropriations in the budget bill for its support.

The effectiveness of the various boards and commissions grouped under the Department of Professional and Vocational Standards, as well as certain similar agencies which have constitutional status, is, in terms of protecting the public interest, subject to serious question as a result of the special fund nature of their financing and the prevailing legal requirement that all members of the commission be licensees of the particular vocation or profession over which it exercises regulatory authority.

The use of the police power of the State, in many instances, largely in the interests of particular occupations or businesses over matters primarily of interest only to the industry or profession regulated, is not consistent with the concept of the use of these powers in the regulation of activities clearly and primarily in the interests of public health, safety and general welfare. The consistent application of the principle that regulation of businesses and professions through the use of the police power of the State should be applied only where such regulation is required in the interest of health, safety and general welfare, should make it possible to eliminate some boards and commissions and would also require that the Legislature consider amending the composition and authority of the regulatory agencies, including their relationship to the Department of Professional and Vocational Standards. Partial lay membership, expanded membership in some cases, abolition of special funds, with revenues accruing to the General Fund in amounts determined to be self-supporting, and central investigative and other services should be considered, we believe, to achieve maximum efficiency.

Summary

P. & V. Standards

Departmental Administration—Continued

We have previously pointed out the excessive use of emergency authorizations by the agencies in this department. Since the current year budget became effective July 1, 1960, 22 of the 28 agencies comprising the department have revised their budgets by this device for a total increase of \$205,261. The list of these agencies and the amount of each upward revision are shown below.

<i>Agency</i>	<i>Emergency Authorization</i>
Board of Accountancy -----	\$427
Athletic Commission -----	512
Board of Barber Examiners -----	2,665
Cemetery Board -----	1,838
Board of Chiropractic Examiners -----	685
Board of Registration for Civil and Professional Engineers -----	140
Collection Agency Licensing Bureau -----	23,251
Contractors License Board -----	27,309
Board of Cosmetology -----	32,391
Board of Dry Cleaners -----	3,801
Board of Funeral Directors and Embalmers -----	2,344
Bureau of Furniture and Bedding Inspection -----	14,218
Board of Guide Dogs for the Blind -----	640
Board of Landscape Architects -----	708
Medical Examiners Contingent Fund -----	33,087
Physical Therapy Fund -----	699
Board of Nurse Examiners -----	18,912
Board of Optometry -----	2,173
Board of Pharmacy -----	4,499
Bureau of Private Investigators and Adjusters -----	14,776
Certified Shorthand Reporters Board -----	3,765
Board of Vocational Nurse Examiners -----	16,421

There is currently under consideration by the Governor and the department a proposal to pool the investigative and inspection functions of all the boards and agencies in the department using such services, except the Contractors License Board.

We have repeatedly recommended this organizational change in past years together with other centralization changes, and would again recommend that the department implement an investigative and inspection centralizing reorganization along the lines set out in their Division of Investigation Management Survey which was distributed under a cover letter from the director dated December 29, 1960.

The objective of such a reorganization is to increase efficiency, and one standard by which to measure such increase is reduced unit costs. The management survey referred to above indicates that savings in travel costs will be immediate and substantial, and that future staff requirements will not be as large as would be required under the present organization. Initially higher costs are proposed to provide a substantially higher level of supervision for the proposed new Division of Investigation than exists for the investigative function as it is now organized. While we agree that improved supervision is desirable, under the proposed new organization it appears that the level of supervision proposed by the management survey may well be excessive. We suggest that the initial organization of the proposed division be accomplished within the limits of the present cost of the function. If, after

Departmental Administration—Continued

some experience with centralized operations in this area is gained, supervision deficiencies become apparent, they can be examined on the facts and corrected through the budget process.

The following table shows the unbudgeted surplus for each of the special fund agencies in the department estimated for June 30, 1962. The table also reflects the state of investment of these surplus funds in the Business and Professions Building Annex as of that date as well as the increase or decrease in surplus from the current year, estimated for each agency and in total.

Agency	Investment in Business and Professions Building Annex	Current surplus exclusive of building investment	Estimated surplus as of June 30, 1962	Increase or decrease from estimate for June 30, 1961
Accountancy ----	\$158,273	\$230,178	\$388,451	+ \$4,895
Architectural Examiners ----	----	94,009	94,009	+ 24,458
Athletic Commission ---	---	56,526	56,526	— 28,864
Barber Examiners ---	---	21,396	21,396	— 19,735
Cemetery Board ---	---	29,150	29,150	+ 3,183
Chiropractic Examiners ----	---	44,519	44,519	+ 2,932
Civil and Profes- sional Engineers	82,111	114,483	196,594	+ 16,799
Collection Agency Bureau -----	---	76,685	76,685	+ 62,089
Contractors -----	121,693	1,259,052	1,350,745	+ 356,836
Cosmetology -----	57,356	171,153	228,509	+ 43,301
Dental Examiners -	17,922	43,526	61,448	— 11,755
Dry Cleaners -----	---	11,504	11,504	— 21,118
Funeral Directors and Embalmers -	7,169	35,526	42,695	— 784
Furniture and Bedding -----	67,733	42,044	109,777	— 32,768
Landscape Architects -----	---	28,858	28,858	— 1,346
Medical Examiners ----	242,093	73,756	315,849	— 33,036
Physical Therapists ----	---	2,920	2,920	— 5,962
Nurse Examiners -	111,308	190,964	302,272	+ 65,731
Optometry -----	---	11,947	11,947	+ 3,743
Pharmacy -----	---	48,857	48,857	— 14,029
Private Investigators and Adjusters --	78,863	10,630	89,493	— 4,317
Shorthand Reporters -----	---	35,856	35,856	+ 1,078
Social Workers --	---	17,065	17,065	— 5,998
Structural Pest Control -----	---	30,679	30,679	+ 18,216
Veterinary Medicine -----	---	29,883	29,883	+ 3,519
Vocational Nurse Examiners ----	---	80,441	80,441	+ 39,261
Yacht and Ship Brokers -----	---	43,182	43,182	+ 1,187
Totals -----	\$944,521	\$2,834,789	\$3,779,310	+\$467,516

Departmental Administration—Continued
ANALYSIS

Departmental administration costs for the budget year are estimated at \$770,087 an increase of \$17,705 or 2.4 percent over the \$752,382 now estimated for the current year. The amount budgeted in the 1960-1961 budget for the current year was \$628,749. Thus expenditure estimates have been administratively increased by \$123,633 or 19.2 percent since consideration of the budget in the Spring of 1960.

A total of nine new positions are requested. Four of these are being established during the current year to provide staff for new offices being opened in Oakland and Fresno and to provide additional tabulating and key punch staff in the Licensing Services section of the Division of Administration in Sacramento. The other five include a records management analyst, a stock clerk and a duplicating machine operator together with additional clerical help for the general service functions of the department. The needs for a records management program in the department are set out in Survey 1077 of the Management Research Section of the Organization and Cost Control Division of the Department of Finance.

Despite the growth of the department and the request for new positions, operating expense and equipment requests are being reduced for the budget year.

Operation and maintenance of the Business and Professions Building and Annex are budgeted at exactly the same level in the current year with the exception of the nonrecurrence of certain special repair and maintenance items.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
DIVISION OF ADMINISTRATIVE PROCEDURE**

ITEM 224 of the Budget Bill

Budget page 565

**FOR SUPPORT OF DIVISION OF ADMINISTRATIVE PROCEDURE
FROM THE GENERAL FUND**

Amount requested -----	\$70,987
Contribution to State Employees' Retirement System -----	11,500
<hr/>	
Total -----	\$82,487
Estimated to be expended in 1960-61 fiscal year -----	70,990
<hr/>	
Increase (16.2 percent) -----	\$11,497
TOTAL RECOMMENDED REDUCTION -----	None

GENERAL SUMMARY

The Division of Administrative Procedure has three principal functions:

1. To study and recommend improvement of administrative law and procedure.
2. To supply hearing officers to any state agency conducting proceedings under the Administrative Code on request.

Division of Administrative Procedure—Continued

3. To compile and publish the California Administrative Code consisting of agency rules and regulations.

The division contains two units, Administration and Codification. Costs of maintaining the hearing function in the Administrative unit are apportioned among agencies using the services and amounts are determined and charged in advance, on the basis of prior usage and are subsequently adjusted to reflect actual usage. Costs of the codification function and for employee retirement are the only direct charges against the General Fund.

ANALYSIS

General Fund expenditures proposed for this division for its codification function and for the agency's total contribution for employee retirement in fiscal year 1961-1962 amount to \$82,487, an increase of \$11,497 or 16.2 percent over estimated expenditures for the current year.

We recommend approval as budgeted.

The major part of the proposed increase is in the item of printing of rules and regulations and this appears to be in line with recommendations on assumed price levels of the Department of Finance. Proposed administrative charges of \$292,001 show an increase of \$3,985 or 1.4 percent over estimated expenditures for the current year. These charges are fully reimbursable by the agencies using division services.

We recommend, for consideration by the Legislature, the transfer of this division from the Department of Professional and Vocational Standards to the Department of Finance or a Department of General Services if one is created in any reorganization of state government.

The administrative hearing service performed by this agency is not restricted to the Department of Professional and Vocational Standards and its group of special fund licensing and regulatory agencies. By law the services of this division are available to any state agency. Inclusion of the division within the Department of Finance would provide a broader base of activity and encourage a wider use of these services. The nature of the work of this division classifies it as a general service function and this point has been recognized in several of the suggested reorganizations of the state government. It seems reasonable that the division be included within the scope of the State's general service agency.

Department of Professional and Vocational Standards

BOARD OF ACCOUNTANCY

ITEM 225 of the Budget Bill

Budget page 566

FOR SUPPORT OF BOARD OF ACCOUNTANCY
FROM THE ACCOUNTANCY FUND

Amount requested	\$270,980
Contribution to State Employees' Retirement System	7,580
Total	<u>\$278,560</u>
Estimated to be expended in 1960-61 fiscal year	264,342
Increase (5.4 percent)	<u>\$14,218</u>
TOTAL RECOMMENDED REDUCTION	\$8,496

Board of Accountancy—Continued

Summary of Recommended Reductions

	Amount	Budget	
		Page	Line
Temporary help -----	\$1,500	566	80
Intermediate typist-clerk -----	3,996	567	4
Travel—in-state -----	3,000	567	13

GENERAL SUMMARY

The Board of Accountancy is composed of seven members appointed by the Governor to four-year terms. It examines and licenses certified public accountants and public accountants and regulates the activities of licensees through rules and regulations and the investigation of complaints.

ANALYSIS

The increase in this budget results from the request for one new clerical position, and an increase in temporary help in the amount of \$1,700, an increase in in-state travel in the amount of \$3,093 and minor adjustments including an allowance for merit salary increases.

Salaries and Wages

Temporary help (budget page 566, line 80)----- \$6,150

This request represents an increase of \$1,700 over the \$4,450 now estimated for this item for the current year.

We recommend the deletion of \$1,500 to reduce this item to the level allowed for the current year.

No specific explanation or justification of this increase has been submitted by the agency. Presumably the request is based on increased clerical workload, however, the workload factors of number of licensees and applications as shown in the budget on page 566, lines 65 and 66, are estimated to be the same for both the current and the budget years at 24,500 licensees and 4,500 applications. The same workload in both years should require the same amount of temporary help and will not justify the requested increase. Our recommendation would allow an increase of \$200 to permit the agency to secure approximately the same number of hours of temporary help as in the current year. This increase is necessary because of salary increases.

Intermediate typist-clerk (budget page 567, line 4)----- \$3,996

This is a proposed new position requested on the basis of workload increase.

We recommend the deletion of this position to reduce Salaries and Wages by \$3,996.

Workload for this agency has declined over the last three actual years as shown in the budget at page 566, lines 65 and 66, and prior thereto has been relatively stable for some time with only minor fluctuations. The agency does not estimate any increase in the number of licensees in the budget year over the last actual year, 1959-60, and estimates an increase of 430 in the number of applications. The agency does not expect any increase in the number of applications in the budget year over the current year, 1960-61.

Board of Accountancy—Continued

In the last two fiscal years the agency has been authorized an increase of three additional clerical positions. They now have a total of seven such positions compared with five in 1958-59. Of the five authorized positions in 1958-59 one was utilized for the annual reregistration of licensees, a function which has since been taken over by the departmental machine reregistration unit and the position eliminated. Thus the agency had four clerical positions in 1958-59 for the kind of work for which it is now authorized seven, an increase of 75 percent. In 1958-59 the agency workload as shown in the budget was 24,760 licensees and 3,822 applications. The estimated workload of 24,500 licensees and 4,500 applications for the budget year is a decrease in licensees of 260 or approximately 1 percent and an increase in applications of 678 or approximately 18 percent for which the agency has a 75 percent increase in staff. It should also be noted that in 1959-60 with five positions authorized for this kind of work the agency handled a workload of 24,500 licensees, the same as is estimated for the budget year, and 4,070 applications. In the current year the agency has been authorized two new positions, an increase of 40 percent for an estimated increase in applications of 430 or 10.6 percent, and the agency does not estimate any increased workload in the budget year over the current year.

Operating Expenses

Traveling—in-state (budget page 567, line 13)----- \$26,648

The agency experiences travel expense for seven board members, 12 committee members and eight staff members.

We recommend deletion of \$3,000 to reduce this item to \$23,648.

This item is budgeted at \$23,555 for the current year. The agency justifies the increase on the basis of the Department of Finance price letter issued annually as part of the instructions given agencies for preparation of the budget. (State Administrative Manual, Transmittal Letter No. 71, dated June 29, 1960.) The agency states that according to this letter traveling expenses should be increased 6 percent and automobile mileage costs 12.5 percent. As a matter of fact, the price letter states that travel expenses including hotel and meal allowances, transportation by common carrier and automobile mileage should be budgeted at 1959-60 costs; that automobile operation for agency-owned cars should be budgeted at not to exceed 3.8 cents per mile and pool car operations at 5.5 cents per mile. The latter is an increase of 0.5 cents per mile for the budget year. Thus we have no increase in travel costs in 1961-62 over the current year. The agency has budgeted the cost of operating its one car in both 1960-61 and 1961-62 at the maximum of 3.8 cents per mile, again no increase. The increased cost of pool car operation would be \$93 for the year.

There is no change in the numbers of persons traveling for this agency, nor in the amount of travel as between the current and the budget years, and consequently no necessity for any increase in the amount of money allowed for travel expenses, other than the \$93 for pool car operation which our recommendation would allow.

**Department of Professional and Vocational Standards
BOARD OF ARCHITECTURAL EXAMINERS**

ITEM 226 of the Budget Bill Budget page 568

**FOR SUPPORT OF BOARD OF ARCHITECTURAL EXAMINERS
FROM THE ARCHITECTURAL EXAMINERS FUND**

Amount requested	\$89,725
Contribution to State Employees' Retirement System	2,750
 Total	 \$92,475
Estimated to be expended in 1960-61 fiscal year	90,903
 Increase (1.7 percent)	 \$1,572
 TOTAL RECOMMENDED REDUCTION	 None

ANALYSIS

This board regulates the practice of architecture through a licensing and complaint investigation program. The increase in the budget year results from salary increases and minor adjustments to operating expenses.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
ATHLETIC COMMISSION**

ITEM 227 of the Budget Bill Budget page 569

**FOR SUPPORT OF ATHLETIC COMMISSION
FROM THE ATHLETIC COMMISSION FUND**

Amount requested	\$180,910
Contribution to State Employees' Retirement System	7,954
 Total	 \$188,864
Estimated to be expended in 1960-61 fiscal year	188,239
 Increase (0.3 percent)	 \$625
 TOTAL RECOMMENDED REDUCTION	 None

GENERAL SUMMARY

The Athletic Commission, consisting of five members appointed by the Governor for four-year terms, regulates all boxing and wrestling matches in the State. This regulation is accomplished by licensing all sponsors, officials and participants as well as managers, promoters and matchmakers. Additionally, the commission collects all revenues accruing to the State from the tax on admissions and on broadcasting privileges. Commission inspectors, investigators or officials attend all licensed events to insure compliance with the law and rules and regulations.

ANALYSIS

Expenditures for this agency are estimated to be approximately the same during the current and the budget years. Merit salary increases are partially offset by a reduction on equipment and a minor reduction in operating expenses.

Athletic Commission—Continued

The projected fiscal situation for this agency appears to be improved in this budget with an estimated accumulated surplus in the Athletic Commission Fund of \$56,526 on June 30, 1962. The achievement of this balance, however, is dependent on whether an increase in revenue of approximately \$60,000 is experienced during the current year. This in turn depends on whether several national championship fights are in fact held in California and whether the declining trend in numbers of licensees and shows which has continued now over the last three years is reversed in the current year. Workload and revenue statistics through October, 1960, do not indicate such a reversal for the first four months of the fiscal year and on this basis the projection of numbers of licensees and number of shows do not appear to be realistic. Unless such a reversal occurs this agency could be in serious financial difficulty by the end of 1961-62.

**Department of Professional and Vocational Standards
BOARD OF BARBER EXAMINERS**

ITEM 228 of the Budget Bill

Budget page 570

**FOR SUPPORT OF BOARD OF BARBER EXAMINERS
FROM THE BARBER EXAMINERS FUND**

Amount requested	\$185,746
Contribution to State Employees' Retirement System	6,634
Total	\$192,380
Estimated to be expended in 1960-61 fiscal year	185,857
 Increase (3.5 percent)	 \$6,523
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

This board regulates the barbering profession through examination and licensing of barbers, apprentice barbers, and barbershops. It inspects barbershops for compliance with rules and regulations and investigates complaints. The board consists of three members appointed by the Governor for four-year terms.

ANALYSIS

The increase in this budget results in large part from the addition of one new position of intermediate typist-clerk at a cost of \$3,996 partially offset by a reduction of \$2,712 of temporary help, and the request for an increase of \$4,743 in equipment expenditures. This latter item is largely accounted for by the necessity to replace two automobiles in the budget year.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

CEMETERY BOARD

ITEM 229 of the Budget Bill

Budget page 572

FOR SUPPORT OF CEMETERY BOARD
FROM THE CEMETERY FUND

Amount requested	\$52,879
Contribution to State Employee's Retirement System	2,263
Total	\$55,142
Estimated to be expended in 1960-61 fiscal year	54,515
Increase (1.2 percent)	\$627
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This board regulates the cemetery industry by licensing cemeteries, salesmen and brokers. It investigates complaints of irregular practices in connection with existing interment contracts and considers and approves or disapproves proposals for such operation.

Only minor adjustments to the budget are proposed.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

BOARD OF CHIROPRACTIC EXAMINERS

ITEM 230 of the Budget Bill

Budget page 573

FOR SUPPORT OF BOARD OF CHIROPRACTIC EXAMINERS
FROM THE CHIROPRACTIC EXAMINERS' FUND

Amount requested	\$83,943
Contribution to State Employees' Retirement System	2,500
Total	\$86,443
Estimated to be expended in 1960-61 fiscal year	85,859
Increase (0.7 percent)	\$584
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This board, composed of five members appointed by the Governor for terms of three years, determines the qualifications of chiropractors and issues licenses, investigates complaints, and establishes rules and regulations governing the practice of the profession.

The budget reflects a minor increase for merit salary adjustments, partially offset by a decrease in equipment requirements.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
BOARD OF REGISTRATION FOR CIVIL AND PROFESSIONAL ENGINEERS**

ITEM 231 of the Budget Bill

Budget page 574

FOR SUPPORT OF BOARD OF REGISTRATION FOR CIVIL AND PROFESSIONAL ENGINEERS, FROM THE PROFESSIONAL ENGINEERS' FUND

Amount requested	\$328,169
Contribution to State Employees' Retirement System.....	13,282
Total	\$341,451
Estimated to be expended in 1960-61 fiscal year.....	\$344,623
Decrease (0.9 percent)	\$3,172
TOTAL RECOMMENDED REDUCTION.....	None

GENERAL SUMMARY

The Board of Registration for Civil and Professional Engineers, consisting of eight members, examines, licenses and regulates civil, structural, chemical, electrical, mechanical and petroleum engineers and land surveyors.

ANALYSIS

Expenditures proposed for this board for fiscal year 1961-1962 amount to \$341,451, a decrease of \$3,172 or 0.9 percent of estimated expenditures for the current year.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
COLLECTION AGENCY LICENSING BUREAU**

ITEM 232 of the Budget Bill

Budget page 575

FOR SUPPORT OF COLLECTION AGENCY LICENSING BUREAU FROM THE COLLECTION AGENCY FUND

Amount requested	\$114,730
Contribution to State Employees' Retirement System	3,681
Total	\$118,411
Estimated to be expended in 1960-61 fiscal year.....	127,770
Decrease (7.3 percent)	\$9,359
TOTAL RECOMMENDED REDUCTION.....	None

GENERAL SUMMARY

The Collection Agency Licensing Bureau examines, licenses, and regulates collection agencies, their officers and employees; registers employees of licensees; examines licensees' accounts; and appoints conservators for liquidation when necessary. The bureau chief is appointed by the Governor and serves under supervision of the department director. Within this bureau is the California Advisory Board of Collection Agencies of five members also appointed by the Governor. The bureau chief serves in the same capacity for the Bureau of Private Investigators and Adjusters with salary cost shared equally by the two agencies.

Collection Agency Licensing Bureau—Continued
ANALYSIS

Expenditures proposed for this bureau for the fiscal year 1961-62 are scheduled at \$118,411, a decrease of \$9,359 or 7.3 percent of estimated expenditures for the current year.

We recommend approval as budgeted.

Bureau expenditures exceeded income in the fiscal year 1959-60 and are estimated to exceed income in the current year. It is further estimated that the accumulated surplus in the Collection Agency Fund on June 30, 1961 will total only \$14,596. Unless income is increased this program faces insolvency. It is apparent that the estimated income for the fiscal year 1961-62 as set forth in the proposed budget is based on the anticipation of such remedial legislation.

Department of Professional and Vocational Standards
CONTRACTORS' LICENSE BOARD

ITEM 233 of the Budget Bill

Budget page 577

FOR SUPPORT OF CONTRACTORS' LICENSE BOARD FROM THE
CONTRACTORS' LICENSE FUND

Amount requested	\$1,119,129
Contribution to State Employees' Retirement System	52,300
Total	\$1,171,429
Estimated to be expended in 1960-61 fiscal year	1,094,716
Increase (7 percent)	\$76,713
TOTAL RECOMMENDED REDUCTION	\$30,168

Summary of Recommended Reductions

	<i>Budget</i>		
	<i>Amount</i>	<i>Page</i>	<i>Line</i>
2 Associate counsel	\$20,688	577	47
2 Senior legal stenographer	9,480	577	48

GENERAL SUMMARY

The Contractors' License Board, consisting of seven members appointed by the Governor, has as its function the examining, licensing and regulation of general engineering, general building and specialty contractors in the various branches of the construction industry in the State.

ANALYSIS

Expenditures proposed by this board for fiscal year 1961-1962 amount to \$1,171,429, an increase of \$76,713 or 7 percent over estimated expenditures for the current year.

Salaries and Wages

2 Associate counsel (budget page 577, line 47)	\$20,688
2 Senior legal stenographer (budget page 577, line 48)	9,480

The board justifies the proposed positions of associate counsel on the basis that they will represent the agency in administrative hearings so as to relieve investigators from the dual role of prosecutor and witness and will advise investigators in legal aspects of investigations.

Contractors' License Board—Continued

We recommend deletion of the two proposed associate counsel positions and the two attendant legal stenographic positions for a reduction of \$30,168.

The addition of legal counsel to the agency staff will provide a higher level of service. We doubt that the employment of such counsel could result in any saving of investigator time since investigators will still be required to be present as witnesses at administrative hearings. Hearings under the Administrative Procedure Act are considerably more informal than are proceedings in court. Where in a particular issue the board might desire legal assistance and advice the services of the Attorney General's Office are already available. That office is also prepared to advise the agency with respect to legal aspects of investigation. Additionally, we point out that the authorization of house counsel for this agency would set a precedent and would likely serve to stimulate similar requests in the future by other agencies in this department.

1 Senior stenographer-clerk (budget page 577, line 49)-----	\$4,512
1 Senior clerk (budget page 577, line 50)-----	4,512
3 Intermediate typist-clerk (budget page 577, line 51)-----	11,988

The board justifies its request for these positions on the basis of increased workload.

We recommend approval of these positions as budgeted.

We point out, however, that the agency's justification statement that "Since the 1945-1946 fiscal year, licensees have increased 122 percent without a comparable increase in positions" is misleading. No statistical base is provided for this assertion and there is no mention of improvements in efficiency which may have rendered added positions unnecessary. We have reviewed statistics published by this agency for eight fiscal years 1952-1953 to 1959-1960 both inclusive which show that for this period the number of licensees increased 30 percent while total filled positions also increased 30 percent. We do find justification for the proposed new positions in the current and projected workload figures which are increasing proportionately with the trend characteristic of the fiscal years noted above.

**Department of Professional and Vocational Standards
BOARD OF COSMETOLOGY**

ITEM 234 of the Budget Bill

Budget page 578

**FOR SUPPORT OF BOARD OF COSMETOLOGY
FROM THE COSMETOLOGY CONTINGENT FUND**

Amount requested-----	\$379,121
Contribution to State Employees' Retirement System-----	12,088
Total -----	\$391,209
Estimated to be expended in 1960-61 fiscal year-----	363,084
Increase (7.7 percent) -----	\$28,125
TOTAL RECOMMENDED REDUCTION -----	\$11,544

Board of Cosmetology—Continued

Summary of Recommended Reductions

	Budget		
	Amount	Page	Line
2 Special investigators -----	\$11,544	579	12

GENERAL SUMMARY

The Board of Cosmetology, consisting of five members appointed by the Governor, has as its function the examining, licensing, and regulation of practice of hairdressers, cosmeticians, manicurists and electrologists as well as beauty shops and schools of cosmetology.

ANALYSIS

Expenditures proposed by this Board for fiscal year 1961-1962 amount to \$391,209, an increase of \$28,125 or 7.7 percent over estimated expenditures for the current year.

Salaries and Wages

2 Intermediate typist-clerk (budget page 579, line 13)-----	\$7,992
0.9 Temporary help (budget page 579, line 14)-----	3,411

The Board justifies the two proposed clerical positions on the basis of increased workload. One of these positions was established during the current year and is carried into the budget year on permanent status. The increase in temporary help will provide added clerical service during the license renewal period and an additional examination proctor to serve an increased number of examinees.

We recommend approval of these positions as budgeted.

We have reviewed workload figures submitted by the agency and these reveal a constantly increasing number of applicants and licensees. Projections of workload for the budget year appear to be in line with recent trends.

2 Special investigator (budget page 579, line 12)-----	\$11,544
--	----------

The Board cites as justification for these two proposed new positions an increase in number of complaints assigned to investigation and a backlog of assigned complaints which should be reduced.

We recommend deletion of the two proposed positions of special investigator for a saving of \$11,544.

The class of special investigator does not exist within this agency at this time. Such positions carry a higher salary rate than that of cosmetology inspector which class now handles the Board's field activity. Since complaints and investigations have heretofore been covered by the Board's inspectors we find no justification for a higher level of position for this work.

We have also reviewed the cumulative figures supplied by the agency in its report to the Governor's Council and these indicate a slightly lower complaint level for the current year when compared to the past year. More investigations have been concluded during the comparison period and any backlog of investigation apparently results from the fact that fewer investigations have been dismissed without further action during the current year. Our review of the agency's field inspection program indicates that numbers of complaints are originated by

Board of Cosmetology—Continued

staff and referred to the investigation process. To this extent the number of complaints filed is administratively controllable with careful supervision. Justification for an increase in investigative staff therefore appears to us as insufficient.

Agency Budgeting Practice

We have reviewed this Board's expenditure record for the six-year period beginning with fiscal year 1955-1956 and ending with the current year's estimates and find that in each of these years the board has used an emergency authorization of funds in excess of the amounts appropriated by the Legislature. These emergency augmentations to the budgets are set forth in the table below.

<i>Fiscal year</i>	<i>Amount</i>
1955-1956 Actual -----	\$5,899
1956-1957 Actual -----	17,671
1957-1958 Actual -----	13,881
1958-1959 Actual -----	10,782
1959-1960 Actual -----	45,877
1960-61 Est. -----	32,391
Total -----	\$126,501

Over the six-year period the Board has spent or will spend \$126,501, an extra or so-called emergency amount which the Legislature has had no opportunity to review. In our view this form of repeated under-budgeting with constant resort to emergency funds to meet the agency's annual cost of operation is unrealistic budgeting.

**Department of Professional and Vocational Standards
BOARD OF DENTAL EXAMINERS**

ITEM 235 of the Budget Bill Budget page 580

**FOR SUPPORT OF BOARD OF DENTAL EXAMINERS' FROM THE
STATE DENTISTRY FUND**

Amount requested -----	\$148,689
Contribution to State Employees' Retirement System -----	4,464
Total -----	\$148,153
Estimated to be expended in 1960-61 fiscal year -----	135,474
Increase (9.4 percent) -----	\$12,679
TOTAL RECOMMENDED REDUCTION -----	\$895

Summary of Recommended Reductions

	<i>Budget</i>		
	<i>Amount</i>	<i>Page</i>	<i>Line</i>
Equipment -----	\$895	580	52

GENERAL SUMMARY

The Board of Dental Examiners, consisting of seven members appointed by the Governor, has as its function the examining, licensing, and regulation of dentists and dental hygienists.

Board of Dental Examiners—Continued

ANALYSIS

Expenditures proposed by this board, for fiscal year 1961-62 amount to \$148,153, an increase of \$12,679 or 9.4 percent over estimated expenditures for the current year.

Salaries and Wages

0.5 Intermediate typist-clerk (budget page 580, line 35)----- \$2,097

The board proposes a half-time intermediate typist-clerk for its Los Angeles office on the basis of workload increase, this partial position to be shared equally with the Board of Nurse Examiners.

We recommend approval of this position.

Agency workload figures provided by the board indicate a steady increase in the number of licensees served and a gradual increase in the number of applications to be processed. The ratio of currently authorized clerical positions to the number of licensees under this board is close to the average for the professional boards.

Operating Expenses

The principal item of increase in operating expense proposed is the printing of the biennial directory of licensees.

Equipment

Equipment (budget page 580, line 52)----- \$4,699

Included in this item is \$895 for the purchase of one Fargo F-600 kit. This item of miniature radio transmitting and receiving equipment, frequently employed in undercover activity by law enforcement officers, is requested by the board for use by its investigators for transmitting and receiving reportable items and in transcribing evidence.

We recommend deletion of \$895 from this item.

The operation of the proposed equipment may require two individuals, one to wear the concealed microphone and transmitter, and another, at some distance, to operate the receiver. The normal use of the equipment is to secure evidence for criminal prosecution or to time co-ordinated arrest of suspects.

We do not believe that this type of activity by board investigators is warranted as part of professional licensing and regulation procedures. It is our view that the proper scope of investigation in this instance is the investigating of applicants for examination and complaints against licensees. Violation of the rules of professional ethics or board regulations which may lead to disciplinary action do not appear to require the depth of investigation contemplated with the proposed equipment. If there is indication of criminal activity the evidence upon which prosecution is to be based should more properly be secured by the local district attorney's office rather than by the board. Such board activity would invade the field of recognized law enforcement and is, in our view, beyond the field of licensing and regulation of licensees.

Other items of equipment proposed include the replacement of two automobiles and a typewriter and acquisition of equipment for the proposed half-time position.

**Department of Professional and Vocational Standards
BOARD OF DRY CLEANERS**

ITEM 236 of the Budget Bill

Budget page 581

**FOR SUPPORT OF BOARD OF DRY CLEANERS
FROM THE DRY CLEANERS FUND**

Amount requested	\$258,553
Contribution to State Employees' Retirement System	9,149
Total	\$267,702
Estimated to be expended in 1960-61 fiscal year	273,179
Decrease (2 percent)	\$5,477
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This board regulates the dry cleaning industry through a program of licensing, inspection and the enforcement of rules and regulations. It is composed of seven members appointed to four-year terms by the Governor.

The reduction in estimated expenditures for the budget year results from deletion from the budget of the item for services of the University of California for research on cleaning and maintenance of fabrics, which has been budgeted at \$15,000 in 1959-60 and 1960-61. This reduction is offset by increases for merit salary adjustments and minor changes in operating expenses as well as an increase in the equipment request.

Accumulated surplus on June 30, 1962 is estimated at \$11,504 or approximately one-third of a month's operation. It has been obvious for some years that the continued high rate of expenditures by this agency would deplete its surplus and raise serious questions as to its continued solvency. It appears that this problem will have to be met in the 1961 Session of the Legislature. Among the alternatives are increased fees, a discontinuance of the transfer of funds to the General Fund for support of the Fire Marshal under Section 9575 of the Business and Professions Code, and a change in the basis for enforcing safety in this industry, or the reduction of operating costs. It should be noted in this latter regard that the agency's workload as reflected by numbers of licensees and applications has been declining in recent years. The proposed transfer of funds for support of the Fire Marshal for the budget year is in the amount of \$98,286.

**Department of Professional and Vocational Standards
BOARD OF FUNERAL DIRECTORS AND EMBALMERS**

ITEM 237 of the Budget Bill

Budget page 582

**FOR SUPPORT OF BOARD OF FUNERAL DIRECTORS AND EMBALMERS
FROM THE FUNERAL DIRECTORS AND EMBALMERS FUND**

Amount requested	\$66,806
Contribution to State Employees' Retirement System	2,899
Total	\$69,705
Estimated to be expended in 1960-61 fiscal year	65,301
Increase (6.7 percent)	\$4,404
TOTAL RECOMMENDED REDUCTION	None

**Board of Funeral Directors and Embalmers—Continued
ANALYSIS**

This board regulates the activities of funeral directors and embalmers by examination and licensing as well as by inspection of mortuary establishments to insure satisfactory sanitary and ethical practices.

Included in the increase in estimated expenditures is the replacement of one automobile at a cost of \$1,920, and minor increases for merit salary adjustments and operating expenses.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
BUREAU OF FURNITURE AND BEDDING INSPECTION**

ITEM 238 of the Budget Bill Budget page 584

FOR SUPPORT OF BUREAU OF FURNITURE AND BEDDING INSPECTION FROM THE BUREAU OF FURNITURE AND BEDDING INSPECTION FUND

Amount requested.....	\$378,230
Contribution to State Employees' Retirement System.....	20,988
Total	\$399,218
Estimated to be expended in 1960-61 fiscal year.....	400,544
Decrease (0.3 percent)	\$1,326
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

The Bureau of Furniture and Bedding Inspection licenses and regulates the sellers and processors of overstuffed furniture and articles of bedding. Included within the bureau is an advisory board whose seven members are appointed by the Governor as is the bureau chief.

Expenditures proposed for this bureau for fiscal year 1961-1962 amount to \$399,218, a decrease of \$1,326 or 0.3 percent of estimated expenditures for the current year.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
BOARD OF GUIDE DOGS FOR THE BLIND**

ITEM 239 of the Budget Bill Budget page 585

FOR SUPPORT OF BOARD OF GUIDE DOGS FOR THE BLIND FROM THE GENERAL FUND

Amount requested	\$4,866
Estimated to be expended in 1960-61 fiscal year.....	4,610
Increase (5.6 percent)	\$256
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

The Board of Guide Dogs for the Blind examines, licenses and regulates guide dog trainers and guide dog schools.

Board of Guide Dogs for the Blind—Continued

Workload for this agency continues to consist of nine active licenses. The actual cost of this function during 1959-60 was \$406 per license. This cost was estimated to be \$491 per license for the current year when the 1960-61 budget was approved, but has now been reestimated at \$512 and is estimated to be \$541 in the 1961-62 fiscal year.

These licenses produce approximately \$100 a year revenue. The number of licenses and the workload of correspondence, board meetings, license renewals, applications, etc., has remained stable for quite a few years. The substantial increase in this budget last year was justified on the basis of an increase in board membership from five to seven members, the necessity to reimburse the Department of Education for services which it had theretofore provided as part of its vocational rehabilitation program, and the necessity to collect in advance a pro rata share of the cost of Division of Administrative Procedure hearing costs.

Since that budget went into effect on July 1, 1960, it has been determined that the \$1,500 allowed to reimburse the Department of Education was excessive and the item has been dropped from the budget with the \$1,500 being allocated to other budget items. In its place an item of \$500 of temporary help has been added, financed by a \$640 Emergency Fund allocation. This money is to be used to reimburse an individual in the Department of Education for performing clerical services on an overtime basis.

In the entire history of this board only one matter has ever been processed through the Division of Administrative Procedure for hearing. It was our understanding that while it was necessary to budget a pro rata amount in advance against the possibility of hearings being required, such an advance would only be required if the agency used the services of the division in the prior year. However, at the time this budget was prepared, approximately July, 1960, it could not be known whether the agency would use hearing services during the current year or not, so the pro rata charge is again budgeted for 1961-62 despite the fact that no hearings are pending and there is virtually no possibility of such hearings during either the current or budget years with the minimal number of longtime licensees regulated by this agency.

Travel expense for this agency has been increased from the \$500 authorized in the 1960-61 budget to \$1,500 for the 1961-62 budget. Actual travel costs are reported at \$67 in 1958-59 and at \$1,508 in 1959-60. General expense, authorized at \$35 in the 1960-61 budget, has now been increased to \$540 for this current year and a similar amount is requested for the budget year. This increase is requested for "Legal Advertising, Hearings and Evidence," although no disciplinary matters are pending.

The costs of this licensing program are excessive when judged by the standard of benefit to the State and particularly the benefit to blind persons. The same or an improved degree of supervision of the guide dog program for the blind could be accomplished administratively by either the Department of Education or the Department of Social Welfare, both of which have extensive related responsibilities in connection with the problems of blindness and licensing.

Board of Guide Dogs for the Blind—Continued

We therefore recommend the abolition of this agency and the transfer of its licensing function and responsibility to either of the above agencies.

**Department of Professional and Vocational Standards
BOARD OF LANDSCAPE ARCHITECTS**

ITEM 240 of the Budget Bill

Budget page 586

**FOR SUPPORT OF BOARD OF LANDSCAPE ARCHITECTS
FROM THE STATE BOARD OF LANDSCAPE ARCHITECTS FUND**

Amount requested	\$19,411
Contribution to State Employees' Retirement System	418
Total	\$19,829
Estimated to be expended in 1960-61 fiscal year	20,033
Decrease (1 percent)	\$204
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

The State Board of Landscape Architects, consisting of five members appointed by the Governor, has as its function the examining, licensing, and regulation of landscape architects throughout the State.

Expenditures proposed for this board for fiscal year 1961-62 amount to \$19,829, a decrease of \$204, or one percent, from estimated expenditures for the current year.

Certain functions of this board are combined for administrative purposes with those of the Certified Shorthand Reporters' Board, the Board of Examiners in Veterinary Medicine, and the Yacht and Ship Brokers' Commission, utilizing the same personnel and facilities with these costs allocated between the four regulatory agencies.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
BOARD OF MEDICAL EXAMINERS**

ITEMS 241, 242 and 243 of the Budget Bill

Budget page 587

**FOR SUPPORT OF BOARD OF MEDICAL EXAMINERS FROM THE
MEDICAL EXAMINERS CONTINGENT AND PHYSICAL THERAPY
FUNDS**

Amount requested	\$520,163
Contribution to State Employees' Retirement System	16,965
Total	\$537,128
Estimated to be expended in 1960-61 fiscal year	518,720
Increase (3.9 percent)	\$20,408
TOTAL RECOMMENDED REDUCTION	\$9,272

Board of Medical Examiners—Continued

Summary of Recommended Reductions

	Budget		
	Amount	Page	Line
Salaries and wages			
1 special investigator	\$5,772	588	21
Operating expense			
Travel—in-state	3,500	588	30

GENERAL SUMMARY

This board examines, licenses and regulates physicians and surgeons, dispensing opticians, midwives, drugless practitioners, chiroprodists, psychologists and registered and licensed physical therapists. The board consists of 10 members appointed by the Governor for four-year terms together with five members of the chiropody examining committee and seven members of the physical therapy examining committee. All of these functions are financed from the Medical Examiners Contingent Fund except for licensed physical therapy which is financed from the Physical Therapy Fund. Regulation is accomplished primarily through complaint investigation.

ANALYSIS

The increase in this budget results primarily from merit salary increases, one proposed new position of special investigator, and increases in operating expenses, as well as a decrease in salary savings.

Special investigator (budget page 588, line 21).....\$5,772

This position is requested to handle the increased number of complaints assigned to investigation and to reduce the backlog of assigned complaints per investigator.

We recommend deletion of this position.

This agency now has a total of 13 investigators, four of these investigators were authorized for the current year for the purpose of reducing the time required for investigations and consequently the backlog of cases assigned to investigators. During 1959-60 with nine authorized investigator positions the agency disposed of a total of 691 complaints for an average of 76.8 complaints per investigator. In 1960-61 with 13 investigators the agency should be able to dispose of 998 complaints. Complaints for 1960-61 are estimated at 800 so that 198 of the 421 cases pending at the start of 1960-61 can be disposed of during the current year leaving only 223 cases pending at the start of the budget year, or an average of 17 cases assigned to each investigator at the start of the budget year. During the budget year without the additional investigator requested, this backlog, or more appropriately number of cases assigned to an investigator and in process of being completed, will decline still further since the authorized 13 positions will be able to close 998 cases whereas the agency only estimates a total of 920 complaints in that year. Thus at the end of the budget year with no increase in staff the agency should have only 145 cases in process or an average of 11 per investigator.

This rather nominal work in process caseload per investigator should provide the agency with almost optimum investigative workload conditions without the addition any new investigators during the budget year.

Board of Medical Examiners—Continued

Travel—in-state (budget page 588, line 30)-----\$41,707

This request for travel expenses is \$4,922 or 13.2 percent more than is estimated for the current year.

We recommend the deletion of \$3,500 to reduce travel costs to \$38,207.

No specific justification for this increase has been advanced by the agency. Only one new traveling position, the special investigator discussed above, is requested for the budget year. Increases in travel costs for the budget year are estimated by the Department of Finance to be minimal. Our recommendation will allow an increase of almost \$1,500 over the estimated travel cost for the current year, which in itself appears to be an overgenerous estimated increase over 1959-60 actual costs, to take care of the four new investigator positions, minor price increases, and some additional board activity provided for in the current year.

Department of Professional and Vocational Standards

BOARD OF NURSE EXAMINERS

ITEM 244 of the Budget Bill

Budget page 590

FOR SUPPORT OF BOARD OF NURSE EXAMINERS, FROM THE
NURSE EXAMINERS FUND

Amount requested	\$349,359
Contribution to State Employees' Retirement System.....	16,330
Total	\$365,689
Estimated to be expended in 1960-61 fiscal year.....	369,344
Decrease (1 percent)	\$3,655
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

This board composed of five members, appointed by the Governor for four-year terms, regulates the nursing profession through examination, licensing, inspection and complaint investigation.

The estimated decrease in expenditures results from a substantial reduction in the agency request for equipment and an increase in salary savings, partially offset by merit salary increases and the request for 0.5 of a position of typist-clerk for the Los Angeles office, and one full year of temporary help. The half-time position will be shared with the Board of Dental Examiners. The temporary help is for the purpose of a revision of the agency filing system to make it more compatible with the departmental machine reregistration system. This revision together with special equipment being purchased during the current year are expected to reduce this agency's clerical requirements in the future.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

BOARD OF OPTOMETRY

ITEM 245 of the Budget Bill

Budget page 592

FOR SUPPORT OF BOARD OF OPTOMETRY
FROM THE STATE OPTOMETRY FUND

Amount requested.....	\$48,418
Contribution to State Employees' Retirement System.....	1,829
Total.....	\$50,247
Estimated to be expended in 1960-61 fiscal year.....	49,101
Increase (2.3 percent).....	\$1,146
TOTAL RECOMMENDED REDUCTION.....	None

ANALYSIS

The Board of Optometry, consisting of five members appointed by the Governor, has as its function the examining, licensing, and regulation of optometrists.

Expenditures for this board for the budget year are scheduled at \$50,247, an increase of \$1,146 or 2.3 percent over estimated expenditures for the current year.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

BOARD OF PHARMACY

ITEM 246 of the Budget Bill

Budget page 593

FOR SUPPORT OF BOARD OF PHARMACY
FROM THE PHARMACY BOARD CONTINGENT FUND

Amount requested.....	\$328,686
Contribution to State Employees' Retirement System.....	15,697
Total.....	\$344,383
Estimated to be expended in 1960-61 fiscal year.....	343,261
Increase (0.3 percent).....	\$1,122
TOTAL RECOMMENDED REDUCTION.....	None

GENERAL SUMMARY

The Board of Pharmacy, consisting of seven members appointed by the Governor, has as its functions the examining, licensing, and regulation of pharmacists and pharmacies, manufacturers and wholesalers of drugs, general dealers and itinerant vendors. It issues permits for hypodermics and licenses and regulates the sale of poisons and dangerous drugs throughout the State.

ANALYSIS

Expenditures for this board for the budget year are proposed in the sum of \$344,383, an increase of \$1,122 or 0.3 percent over estimated expenditures for the current year.

We recommend approval as budgeted.

Board of Pharmacy—Continued

Despite the enactment of Chapter 9, Statutes of 1960, which provided an increase in level of fees which the board can collect, the estimated accumulated surplus in the Pharmacy Board Contingency Fund will continue its decline in the budget year. The estimate for June 30 of the current year is \$62,886 as compared with \$48,857 for the budget year, a decline of \$14,029 or 22.3 percent.

**Department of Professional and Vocational Standards
BUREAU OF PRIVATE INVESTIGATORS AND ADJUSTERS**

ITEM 247 of the Budget Bill

Budget page 594

**FOR SUPPORT OF BUREAU OF PRIVATE INVESTIGATORS
FROM THE PRIVATE INVESTIGATOR AND ADJUSTER FUND**

Amount requested	\$100,346
Contribution to State Employees' Retirement System	4,021
<hr/>	
Total	\$104,367
Estimated to be expended in 1960-61 fiscal year	98,550
<hr/>	
Increase (5.9 percent)	\$5,817
TOTAL RECOMMENDED REDUCTION	None

GENERAL SUMMARY

The Bureau of Private Investigators and Adjusters has as its function the examining, licensing and regulation of private detectives, adjusters, repossessors, and officers and employees of private investigation agencies. The bureau chief is appointed by the Governor and serves under supervision of the department director. The bureau chief serves in the same capacity for the Collection Agency Licensing Bureau with salary cost shared equally by the two agencies.

ANALYSIS

Expenditures proposed for this bureau for fiscal year 1961-1962 amount to \$104,367, an increase of \$5,817 or 5.9 percent over estimated expenditures for the current year.

We recommend approval as budgeted.

In its budget statement the agency indicates that legislative attention to an increased revenue proposal will be necessary to preserve solvency and the existing level of service. The proposed increase is apparently included in revenue estimates for the budget year.

While accumulated surplus in the Private Investigator and Adjuster Fund will decrease from \$116,510 as of June 30, 1960, to an estimated \$89,493 as of June 30, 1962, the latter figure is 86 percent of proposed expenditures for the 1961-1962 budget year. Agency expenditures are remaining reasonably level and income shows some annual gain. While the estimated 1961-1962 accumulated surplus represents an investment in the Business and Professions Building Annex this investment could be liquidated or reduced in part to cover any loss in revenue which might jeopardize the existing level of service. We see no necessity for raising fees at this time.

**Department of Professional and Vocational Standards
CERTIFIED SHORTHAND REPORTERS' BOARD**

ITEM 248 of the Budget Bill

Budget page 596

**FOR SUPPORT OF CERTIFIED SHORTHAND REPORTERS' BOARD
FROM THE SHORTHAND REPORTERS' FUND**

Amount requested	\$20,822
Estimated to be expended in 1960-61 fiscal year	20,238
<hr/>	
Increase (2.9 percent)	\$584
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

The Certified Shorthand Reporters' Board, consisting of five members appointed by the governor, has as its function the examining, certification, and regulation of shorthand reporters.

Expenditures proposed for this board for fiscal year 1961-62 are \$20,822, an increase of \$584 or 2.9 per cent over estimated expenditures for the current year.

Certain administrative processes of this board in performing its functions have been combined with those of the Board of Landscape Architects, Board of Examiners in Veterinary Medicine, and the Yacht and Ship Brokers Commission utilizing the same personnel and facilities with costs allocated between the four regulatory agencies.

The added costs in this request reflect proposed increases in the use of paid temporary help during examinations, an increase in board meetings and travel, and additional supplies for board members.

We recommend approval as budgeted.

**Department of Professional and Vocational Standards
BOARD OF SOCIAL WORK EXAMINERS**

ITEM 249 of the Budget Bill

Budget page 597

**FOR SUPPORT OF BOARD OF SOCIAL WORK EXAMINERS
FROM THE REGISTERED SOCIAL WORKERS' FUND**

Amount requested	\$30,862
Contribution to State Employees' Retirement System	1,371
<hr/>	
Total	\$32,233
Estimated to be expended in 1960-61 fiscal year	31,083
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Increase (3.7 percent)	\$1,150
TOTAL RECOMMENDED REDUCTION	None

ANALYSIS

The Board of Social Work Examiners, consisting of seven members appointed by the Governor, administers a noncompulsory program of registration and certification of social workers.

Proposed expenditures for the budget year are \$32,233, an increase of \$1,150, or 3.7 percent, over estimated expenditures for the current year.

Board of Social Work Examiners—Continued

Accumulated surplus in the Registered Social Workers' Fund has declined from \$25,196 as of June 30, 1960, to an estimated \$17,065 as of June 30, 1962, a loss of \$8,131 as compared to a gain of \$5,055 in expenditures from \$27,178 to the proposed \$32,233 over the same period. As shown in workload figures the number of licensees is not increasing substantially and revenues show little change. Unless expenditures are reduced or revenue increased the board cannot remain solvent.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

STRUCTURAL PEST CONTROL BOARD

ITEM 250 of the Budget Bill

Budget page 598

FOR SUPPORT OF STRUCTURAL PEST CONTROL BOARD FROM THE STRUCTURAL PEST CONTROL FUND

Amount requested -----	\$87,219
Contribution to State Employees' Retirement System -----	3,708
<hr/>	
Total -----	\$90,927
Estimated to be expended in 1960-61 fiscal year -----	93,373
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Decrease (2.6 percent) -----	\$2,446
TOTAL RECOMMENDED REDUCTION -----	None

ANALYSIS

The Structural Pest Control Board, consisting of five members appointed by the Governor, examines, licenses and regulates operators, salesmen, and establishments engaged in this activity.

Expenditures proposed by this board for fiscal year 1961-62 are scheduled at \$90,927, a decrease of \$2,446 or 2.6 percent of estimated expenditures for the current year.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

BOARD OF EXAMINERS IN VETERINARY MEDICINE

ITEM 251 of the Budget Bill

Budget page 599

FOR SUPPORT OF BOARD OF EXAMINERS IN VETERINARY MEDICINE, FROM THE VETERINARY EXAMINERS' CONTINGENT FUND

Amount requested -----	\$25,384
Contribution to State Employees' Retirement System -----	632
<hr/>	
Total -----	\$26,016
Estimated to be expended in 1960-61 fiscal year -----	26,187
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Decrease (0.7 percent) -----	\$171
TOTAL RECOMMENDED REDUCTION -----	None

Board of Examiners in Veterinary Medicine—Continued

ANALYSIS

The Board of Examiners in Veterinary Medicine, consisting of five members appointed by the Governor, has the function of examining and licensing veterinarians and regulating the practice of veterinary medicine throughout the State.

Expenditures proposed for this board for fiscal year 1961-62 amount to \$26,016, a decrease of \$171, or 0.7 percent, over estimated expenditures for the current year.

Certain administrative processes of this board are combined with those of the Board of Landscape Architects, the Certified Shorthand Reporters' Board, and the Yacht and Ship Brokers' Commission utilizing the same personnel and facilities with costs allocated between these four regulatory agencies.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

BOARD OF VOCATIONAL NURSE EXAMINERS

ITEMS 252 and 253 of the Budget Bill

Budget page 601

FOR SUPPORT OF BOARD OF VOCATIONAL NURSE EXAMINERS
FROM THE VOCATIONAL NURSE EXAMINERS' FUND

Amount requested	\$117,715
Contribution to State Employees' Retirement System.....	5,074
 Total	 \$122,789
Estimated to be expended in 1960-61 fiscal year.....	122,992
 Decrease (0.2 percent).....	 \$203
 TOTAL RECOMMENDED REDUCTION.....	 None

ANALYSIS

The Board of Vocational Nurse Examiners, consisting of nine members appointed by the Governor, has as its function the examining, licensing and regulation of vocational nurses and psychiatric technicians and establishes professional school curriculums. Investigative and education consultant services are currently shared by the two programs.

Expenditures proposed by this board for fiscal year 1961-1962 amount to \$122,789. Of this amount \$68,391 is for the vocational nurses program under budget item 252, and \$49,324 is for the psychiatric technician program under budget item 253. The balance is the combined contribution to employees' retirement for both programs. The total amount represents a decrease of \$203 or 0.2 percent of estimated expenditures for the current year.

We recommend approval as budgeted.

Department of Professional and Vocational Standards

YACHT AND SHIP BROKERS COMMISSION

ITEM 254 of the Budget Bill

Budget page 603

FOR SUPPORT OF YACHT AND SHIP BROKERS COMMISSION
FROM THE YACHT AND SHIP BROKERS FUND

Amount requested -----	\$18,816
Contribution to State Employees' Retirement System -----	857
Total -----	\$19,673
Estimated to be expended in 1960-61 fiscal year -----	19,391
Increase (1.5 percent) -----	\$282
TOTAL RECOMMENDED REDUCTION -----	None

ANALYSIS

The Yacht and Ship Brokers' Commission, consisting of five members appointed by the Governor, examines, classifies and regulates brokers and salesmen of yachts and ships.

Expenditures proposed for this commission for fiscal year 1961-62 amount to \$19,673, an increase of \$282 or 1.5 percent over estimated expenditures for the current year.

Certain functions of the commission are combined for administrative purposes with those of the Board of Landscape Architects, the Certified Shorthand Reporters' Board, and the Board of Examiners in Veterinary Medicine utilizing the same personnel and facilities with costs allocated between these four regulatory agencies.

We recommend approval as budgeted.

PUBLIC UTILITIES COMMISSION

ITEM 255 of the Budget Bill

Budget page 605

FOR SUPPORT OF PUBLIC UTILITIES COMMISSION
FROM THE GENERAL FUND

Amount requested -----	\$3,534,542
Contribution to State Employees' Retirement System -----	204,432
Total -----	\$3,738,974
Estimated to be expended in 1960-61 fiscal year -----	3,744,336
Decrease (0.2 percent) -----	-\$5,362
TOTAL RECOMMENDED REDUCTION -----	\$117,085

Summary of Recommended Reductions

	Amount	Page	Budget Line
Administration:			
5 Staff assistant -----	\$39,982	606	7
1 Assistant chief, Southern California area -----	15,288	606	8
Utilities Division:			
Reduction in level, 3 positions -----	11,788	606	71
Legal Division:			
6 Junior counsel -----	40,032	609	39
Consultant services -----	10,000	609	55

Public Utilities Commission—Continued
GENERAL SUMMARY

The Public Utilities Commission consists of 5 members appointed by the Governor for six-year staggered terms subject to confirmation by the Senate. The commissioners elect one of their number president, who presides at all meetings and in addition to his duties as a member of the commission acts as the chief administrative officer of the agency.

The agency maintains its headquarters office in San Francisco, as required by Section 306 of the Public Utilities Code. The staff is distributed, however, among offices in San Francisco and Los Angeles and 13 small branch offices in other cities throughout the State. Approximately 20 percent of the total staff is in Los Angeles.

The commission has substantially complete jurisdiction over all privately owned public utilities in the State, including carriers of both persons and property and gas, electricity, telephone and water companies. Its principal, but not exclusive, regulatory functions are granting permission to operate, setting rates, prescribing areas of interest, establishing operating standards and procedures and enforcing the laws, rules and regulations.

From 80 to 85 percent of the workload of the commission's staff results from so-called formal matters, such as applications for rate increases and certificates of convenience and necessity which may be characterized as the "obligatory workload." The commissioners themselves, however, except for the president, devote the better part of their time to formal matters.

The "formal matter" workload is difficult to anticipate even where the number of filings may be accurately estimated. This is because the processing time per case varies from a few man-days to a number of man-years, so that an increase in formal filings could actually result in a decrease in workload and vice versa depending on the nature of the matters filed.

The numerical formal caseload has, over the past years, had a history of fluctuation rather than increase as shown by the following table. The "Resolutions Adopted" column represents matters officially acted upon by the commission but which did not stem from a formal filing or warrant a formal decision or order:

<i>Year</i>	<i>Formal proceedings filed</i>	<i>Decisions and orders issued</i>	<i>Resolutions adopted</i>
1954-55	1931	1516	1593
1955-56	1427	1838	1485
1956-57	1394	2066	1476
1957-58	1493	1916	1546
1958-59	1394	1991	1510
1959-60	1574	1805	1487

Furthermore, the formal workloads of individual units within the agency often fluctuate considerably.

While the commission itself is mainly concerned with formal matters, its staff performs many functions which, while in most cases desirable, need not as a matter of law be always acted upon immediately as in the case of most formal matters. Examples are development of meter stand-

Public Utilities Commission—Continued

ards, rate violations, enforcement of general orders, and surveys made to increase the efficiency of both the commission and the utilities under its jurisdiction.

As a consequence, it is our opinion that the technical staffing of the commission may be best evaluated on an agency-wide or division-wide basis rather than on a review of the requirements of individual units. For example, if it is anticipated that water company matters will constitute a heavy workload in a given year, the need for additional staff to handle such matters should first be reviewed by the commission from two standpoints: (1) The "nonobligatory" work of the unit which may be deferred to a period of low formal matter activity, and (2) the possibility of temporarily transferring personnel from another unit whose obligatory workload for the period is expected to be light.

It is recommended that in the future the commission when presenting material in justification of new positions include data covering the foregoing considerations.

Natural Gas Matters Before the Federal Power Commission

California is required to rely on the production of other states for the major part of the natural gas distributed to consumers by its public utilities. The latter currently purchase at least 70 percent of their supplies from interstate pipeline companies which usually produce part of the gas themselves and purchase the balance from independent producers.

Rate increases granted to the pipeline companies by the Federal Power Commission are immediately passed on to California utilities and in turn must eventually be considered by the Public Utilities Commission in setting rates to consumers. As a consequence, the State has a valid interest in holding such increases to a reasonable amount. For this purpose, the commission and the Department of Justice, prior to 1960-61, independently intervened before the Federal Power Commission, the function being performed without augmented staffs of any consequence except that the Department of Justice was annually budgeted an amount of \$25,000 for the hiring of consultants in Washington, D.C. Starting with 1960-61, however, the commission is the only public agency representing the State before the Federal Power Commission.

The complete money effect on California consumers has not been determined and is not likely to be in the immediate future. This is mainly because of the manner in which federal rate cases are handled, i.e., the pipeline files a new rate schedule with the Federal Power Commission which automatically becomes effective if not ruled on in six months. As major rate matters are rarely if ever settled in such a short period, the raised prices automatically go into effect subject to refund on an adverse final finding by the Federal Power Commission. Total such increases to California utilities in recent years (all subject to refund) have been as follows:

Public Utilities Commission—Continued

<i>Period</i>	<i>Amount</i>
8½ months of 1955.....	\$11,776,000
Year 1956.....	17,964,000
Year 1957.....	20,614,000
Year 1958.....	38,743,000
Year 1959.....	53,616,000
Year 1960.....	57,841,000
Total	\$200,554,000

The following statement appears in a report prepared by the Legislative Analyst on December 8, 1959, on activities of the California Public Utilities Commission in interstate natural gas matters:

“At the present time, in an average year, California consumers, who number in excess of four million, pay \$650 million to the California utilities for gas. The California utilities, in turn, pay \$320 million for their supplies of natural gas, of which \$225 million is paid to the El Paso Natural Gas Company and \$95 million to producers in California. Payments for out-of-state gas, therefore, amount to about 35 percent of the total which the consumers pay.”

The workload of the Federal Power Commission has been extended, in recent years, to include regulation of independent producers of natural gas, as indicated by the following excerpt from its Statement of General Policy No. 61-1, dated September 28, 1960:

“Since the Supreme Court’s 1954 decision in *Phillips Petroleum Company v. Wisconsin*, 347 U.S. 674, holding that under the Natural Gas Act the commission has jurisdiction over the interstate transportation and interstate sale for resale of natural gas by independent producers, and that such producers are ‘natural-gas companies’ under the act, the commission’s regulatory task has increased enormously in size and difficulty. In contrast to the regulation of less than 200 pipeline companies prior to the *Phillips* case, under this decision commission regulation extends to several thousand independent producers of natural gas. Although this producer segment of the natural gas industry differs from the pipeline transmission portion in fundamental particulars, its multiplicity of sales and services are now required to be covered by many thousands of rate and certificate filings under the act.”

For 1960-61, upon the Public Utilities Commission’s representation that it was necessary for it to intervene in the “independent producer” cases described above, the Legislature authorized 21 new positions plus \$10,000 for consultant fees. There was not, however, a compensating reduction in the budget of the Department of Justice except for elimination of the \$25,000 formerly budgeted for consultants. In its presentation before the 1960 Legislature the commission offered no workload data of any kind but relied solely on the importance of the project, a question on which there was not then and apparently is not now any dissent. The absence of data supporting the request is explained in part by the following excerpt from the commission’s 1960-61 budget justification:

Public Utilities Commission—Continued

“No tabulation of gas producer cost proceedings pending and the anticipated related workload is available at this time. Several hundred gas producer cost proceedings affecting California are currently before the Federal Power Commission. The degree to which these affect costs paid by California ratepayers has not been fully established. Upon commencing work on this branch, it is anticipated that a review of the present status, the precise dollar effects to California and related information of these proceedings will be made.”

At this time, however, after a full year of additional experience, the data presented by the commission is not much more extensive than in 1960-61. For example, the legal division, which has effective control of the natural gas program, has not only failed to submit a detailed statement of its plans for the 1961-62 year with respect to natural gas matters, but has not provided data regarding its other activities as has been customary in the past. Accordingly, the following items included as established positions or previously authorized operating expenses in the 1961-62 budget request are substantially unsupported:

Utilities Division Gas Producer Cost Branch

1	Principal utilities engineer	\$15,865
1	Senior utilities engineer	11,080
1	Associate utilities engineer	10,069
2	Assistant utilities engineer	16,172
1	Assistant statistician	7,701
1	Calculating machine operator	4,418
1	Senior stenographer-clerk	5,367
	Travel	14,800
8	Total	\$85,472

Finance and Accounts Division

1	Financial examiner IV	\$11,594
3	Financial examiner III	28,146
2	Financial examiner II	15,088
	Travel	22,500
6	Total	\$77,328

Legal Division

2	Public utilities counsel II	\$26,576
6	Junior counsel	40,032
	Travel	10,500
	Consultant	10,000
8	Total	\$87,108
22	Grand Total	\$249,908

The 22 positions listed in the foregoing include, in addition to the 21 added in 1960, a principal utilities engineer who was transferred from other activities.

The actual cost of the program will, of course, be materially greater than \$249,908, due to administrative, executive, equipment and other costs, particularly the time of the chief counsel (\$18,588) who, we are informed, devotes the principal part of his time to natural gas matters.

Public Utilities Commission—Continued

Natural gas matters on which we believe the commission should report to the Legislature as soon as additional experience makes practicable include:

1. The money effect on California consumers resulting from raised rates.

2. The effect on workload of the new procedures announced by the Federal Power Commission on September 28, 1960, in its Statement of General Policy No. 61-1. Generally speaking, in the past the rates of each independent gas producer were established by the traditional approach to public utility price fixing, i.e., cost of service plus a fair rate of return. This required separate examinations into each individual producer's investment and operations and was adverse to California interests because under federal law a requested rate increase automatically goes into effect if not acted upon by the Federal Power Commission within six months and such commission could not in that time examine into the hundreds and possibly thousands of additional applications which resulted from the *Phillips* case. On September 28, 1960, however, the Federal Power Commission adopted a new method of so-called "area price standards" whereunder it will automatically and without extensive examination, deny rate increase requests above certain percentages prescribed for various producing areas and about which it has said:

"In our opinion, the price standards established by this statement will aid in effectively applying the provisions of the act to independent producers on a simple, clear and administratively feasible basis, and in a manner fair to all whose interests are affected by commission regulation."

3. The effect of a number of intervenors appearing in the same matter. For example, in a typical pleading before the Federal Power Commission, which we have examined, there were, besides the Public Utilities Commission and the staff of the Federal Power Commission, 27 private and 12 public parties of record. Under these circumstances, we should have some indication of how much of the actual money benefits to California are due solely or substantially to interventions on the part of the State of California, and whether any savings in effort could result from closer co-operation with other intervenors, particularly in view of the following suggestion contained in the Federal Power Commission statement of September 28, 1960:

"As there will undoubtedly be numerous parties with an interest in such a proceeding full use should be made of prehearing procedures to reduce the factual issues and consolidate factual presentations to eliminate repetition and duplication of evidence."

ANALYSIS

The total expenditure program for the agency, including retirement contributions, is shown on pages 605 to 611 of the budget, funds for its support coming from two separate appropriations, as follows:

Public Utilities Commission—Continued

	Budget Bill	Total Expenditures		Increase	
	Item No.	1960-61	1961-62	Amount	Percent
General Fund -----	---	\$3,744,836	\$3,738,974	—\$5,882	—0.2
Transportation Rate Fund -----	---	3,002,096	3,034,979	32,883	1.1
Totals -----		\$6,746,932	\$6,773,953	\$27,021	0.4

Administration Division

The administration division includes the commission members, their immediate staffs, and general office personnel for both the San Francisco and Los Angeles offices.

We recommend deletion of the five assistant counsel positions, budget page 606, line 7, \$39,982.

These positions were originally established during 1957-58 as the result of Chapter 2239, Statutes of 1957, which related to the Household Goods Carriers' Act but also appropriated \$50,000 from the General Fund in augmentation of the appropriation for the Public Utilities Commission contained in the Budget Act of 1957. The positions were not included in the 1957-58 Budget as originally presented. The civil service classifications set up for the positions contemplated that an aide for each commissioner be appointed at the level of junior counsel (currently \$530-584). Each commissioner was to select his personal aide from a comparable salary classification in a field of his choice, such as law, engineering, economics or accounting. We recommended in our 1958-59 analysis at page 637 that the positions be eliminated.

During 1960-61, however, and again outside of the normal budgetary review process, the positions have been reclassified as assistant counsels (\$613-745) and all five are currently filled by lawyers, each of whom has a private office in the "executive wing" of the commission offices.

The reasons for our recommendation are as follows:

1. As indicated by the table shown on page 704, there has been no significant increase in the personal workload of the commissioners, which primarily relates to so-called formal matters and the adoption of resolutions.

2. Traditionally the commission and its individual members have in their deliberations used the regular staff for consultation purposes. As there has been no increase in workload to absorb the time formerly devoted to such work, we feel that the positions can be justified, if at all, only if comparable general staff positions are eliminated, i.e., a shift of general staff positions to commissioner's aide classifications.

3. As a result of completely independent surveys, both this office and the Department of Finance have recommended a major change in the organization of the commission which would relieve its members of most of their administrative duties. In essence this would be accomplished through the appointment of an executive officer, thereby permitting the commissioners to devote substantially full time to their judicial functions so as to materially reduce the so-called "regulatory lag" for which they have been criticized. We believe, in other words,

Public Utilities Commission—Continued

that the whole relationship of the commission to its staff is in need of an overhauling and not merely a continual increase in staff with no corresponding increase in activity.

We recommend deletion of the position of assistant chief, Southern California area, budget page 606, line 8, \$15,288.

This is a new position, established by the conversion of an existing position, which was filled on December 1, 1959, without first having been subjected to legislative review under the budget process. We recommend its deletion because the following description of the nature of the office does not demonstrate its need.

All of the divisions of the commission, except legal, maintain staffs at the southern area office. The division chiefs in San Francisco have not, however, relinquished control over their respective staffs except in the most elementary of general administrative matters such as office hours, personal as opposed to professional conduct, supplies and clerical services. Neither the chief of the area (\$1,213-1,475) nor his new assistant (\$1,100-1,338), for example, has jurisdiction over the appointment, promotion, number, transfer, assignment or professional activity of the technical staff, but only of the general office and clerical employees plus the duty of representing the commission before the public.

To aid him in these nontechnical duties, the chief of the area has (1) an assistant secretary of the commission (\$584-710) who both performs the official secretarial duties of the commission in the area, and acts as office manager in charge of such administrative matters as supplies, clerical help, allocations of space and files; and (2) an information officer I (\$644-782) who performs the usual duties of a press representative, such as briefing and assisting reporters at important hearings, writing speeches, distributing news releases, and writing or editing material for general distribution to the public.

Accordingly, it appears to us that the area chief is substantially relieved of routine day-to-day matters by the two aides just described, so that, having no functional control over the technical staff, his duties do not appear to be sufficiently burdensome to warrant the need of a high level assistant.

We recommend approval of the six new clerical positions, budget page 606, line 25, \$21,900.

Although there is no well-defined and specific workload support for these positions, our examinations into the activities of the commission have indicated a direct relationship between the personnel and activity of the commission as a whole and the administration clerical support thereof, such as messenger, file, record keeping, supply and duplication services. The staff maintained for such activities has, however, lagged considerably behind the commission staff as a whole as indicated by the following table:

Staff	1955-56	1960-61	Percent of increase
Total	560	681.5	21.7
Administration clerical	55.5	60	8.1

Public Utilities Commission—Continued

Allowance of the six positions will raise the percentage of increase for administration clerical positions to 18.1 percent, or more closely in line with the overall growth of 21.7 percent.

Utilities Division

The Utilities Division is responsible for the staff work concerning all but transportation utilities, i.e., gas, electric, telephone, telegraph, and water companies.

Utility Customer Service Unit

This unit is charged with substantially all contact with the public concerning rate quotations and other requests for information, complaints, and disputed utility bills. Most of such matters are handled entirely by the unit but in a few of the more complex cases the technical branch concerned will participate. For example, the Gas and Electric Branch would normally intervene where a serious gas leakage problem was disclosed.

We recommend a reduction of \$11,783 in salaries, budget page 606, line 71.

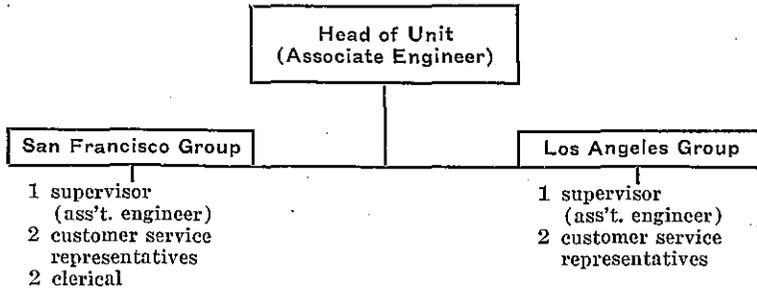
Separate reports issued in 1958 as a result of surveys of the operations of the commission by this office and the Department of Finance recommended that the practice of staffing the unit primarily with engineers be discontinued for the reason that much of its activity was clerical in nature. In fact, at the time the unit was established and staffed with engineers, the Department of Finance in a prior organization study stated that "Ultimately, it is believed that these engineering positions may be replaced by investigators or adjusters of subprofessional level."

As a consequence of the identical findings of the two independent surveys, we recommended for 1959-60, and the Legislature provided, for the replacement of three engineering positions by technicians and clerks. Actually, however, only one position has been reclassified by the commission, the recent personnel history and our recommended staffing of the unit for 1961-62 being as follows:

Class	Salary range	1958-59 actual	1959-60 and 1960-61 actual		1961-62 recommended
			1959-60 budgeted	and 1961-62 requested	
Senior engineer	\$821-998	1	1	1	--
Associate engineer	710-862	2	1	2	1
Assistant engineer	584-710	4	2	3	2
Customer service representative	436-530	--	3	1	4
Clerical	325-415	2	2	2	2
Totals		9	9	9	9

Public Utilities Commission—Continued

The recommended 1961-62 staff would be organized as follows:



Stenographic services in Los Angeles provided by pool.

The savings would be accomplished as follows:

Eliminate:

1 senior engineer -----	\$11,808
1 associate engineer -----	10,069
1 assistant engineer -----	8,086
Total -----	\$29,963
Substitute 3 customer service representatives -----	18,180
Net saving -----	\$11,783

Salaries shown are the averages budgeted for 1961-62 for each of the classes involved.

Legal Division

We recommend deletion of six junior counsel positions, budget page 609, line 39, \$40,032.

These positions (\$530-584) were established in 1960-61 contrary to our recommendation, as a part of the "Natural Gas" program and are currently filled by recent law school graduates as student legal assistants. At the same time the staff already engaged in gas matters was supplemented by two public utilities counsel II positions (\$950-1,155).

There are three principal reasons for our recommendation:

1. Because there has been no showing of need. For example, from June 7, 1954 to November 21, 1960, the legal staff devoted 962 man days to Federal Power Commission matters including general research, staff conferences, court appeals and matters involving other than natural gas or, on the average, less than the full time of one lawyer. The two new public utilities counsel II are, of course, just becoming effective but will alone more than triple the staff heretofore assigned to the program while the commission has not submitted data indicating a greater or even corresponding increase in activity.

2. Because it does not appear that recent law school graduates are of a proper grade of experience to handle natural gas matters which have been described by the commission as being of the greatest complexity.

3. Because the division has in recent years received additional lawyer personnel (not counting the commissioner's aides) at a rate more than

Public Utilities Commission—Continued

six times that of the rest of the commission staff with no comparably greater increase in work load, i.e., from a staff of 11 in 1955-56 to 26 in 1960-61, or an increase of 136.3 percent; while the commission staff as a whole has increased by 21.7 percent, or from 560 to 681.5. Even after elimination of the six positions the comparable legal staff increase is 81.8 percent.

We recommend deletion of the item for consultant services, budget page 609, line 55, \$10,000.

The commission's description of these services is that they "... will include prompt, regular surveys of filings of producers and pipeline companies affecting California, and the degree of importance to this State. The services will also include prompt information and advice of pending proceedings in other areas involving principles important from a policy standpoint if applied to California, and also as to decisions, Examiner's proposed orders, setting of hearing dates, and advice concerning possible participation by the Public Utilities Commission."

It is our understanding that the commission has possibly the largest budget and staff of any comparable state regulatory agency and, as previously pointed out, at least \$250,000 per annum in direct costs is currently being spent on natural gas matters. Under the circumstances, we feel that the expenditure of \$10,000 on what appears to be essentially a calendar service is excessive.

We are aware that some sort of modest calendar service could be used to advantage and would have no objection to the budgeting of a reasonable sum therefor. In view of the fact that a very substantial number of other states, cities, utility districts and private utilities are having problems similar to those of the commission, it is suggested that possibly a joint calendar service could be arranged, the service to be supplied by and pro rata fees paid to an organization such as the National Association of Railroad Commissioners.

In further justification of the item the commission states that: "Further supplementary services which may be performed are:

- a. Allocation studies of joint exploration cost as between gas and oil.
- b. Natural gas reserves studies.
- c. Market studies."

It is our understanding that one of the prime reasons the Legislature established 21 new positions in 1960-61 was so that the commission could itself competently perform such work.

Space Allocations

It is recommended that when determining future office space requirements, consideration be given to the inadequate use made of the commissioners' private offices in the new Los Angeles State Building and hearing rooms in both the San Francisco and Los Angeles offices.

Prior to moving to the new State Building, three private offices were maintained in Los Angeles for the use of visiting commissioners. How-

Public Utilities Commission—Continued

ever, since normally only one commissioner is in Los Angeles at any one time, the use made of the offices has mainly been as desk space for visiting examiners, engineers, and other staff members. In spite of this fact, in the new building each of the five commissioners has been assigned a separate office furnished in "department-head fashion" including rugs and drapes, and we are not aware of any proposed procedural changes which will increase their personal use by the commissioners.

The situation of optimum use of hearing rooms presents a more difficult problem. However, now that there are new large state buildings in San Francisco and Los Angeles, resulting in a much greater centralization of state offices, we believe that the whole problem of making the best use of hearing rooms by all state agencies, not just by the commission, should be reviewed by the Department of Finance. We have reached this conclusion principally by reason of the use made of the commission hearing rooms for the fiscal year ended June 30, 1960.

The commission has two hearing rooms in San Francisco and two in Los Angeles, and the following table indicates the number of days the rooms were used for all or some part of a day by the commission or some other agency. It also indicates the percentage of the total available working days during the year, 249, when the rooms were used for hearings, which averaged only 33.7 percent for the four rooms.

Location	Days or Fractional Days of Hearing			Average per room	Percent of Days Used
	Commission Hearings	Other Groups	Total		
San Francisco -----	121	18	139	69.5	27.8
Los Angeles -----	154	44	198	99.0	39.6
Total -----	275	62	337	84.25	33.7

We realize that a problem exists in co-ordinating the use of hearing rooms by several agencies because of adjournments made too late to permit the scheduling of another matter. For example, during 1959-60, the commission adjourned the following number of hearings, not necessarily all at the last moment.

Location	Hearing adjournments	Average per room
San Francisco -----	206	103
Los Angeles -----	154	77
Total -----	360	90

While we agree that the problem is a difficult one, it also seems quite possible that a survey of all hearing facilities available and the requirements of all agencies in each of the principal cities could result in a program which would provide for greater use of valuable space and also reduce the substantial cost of the special furniture and equipment usually installed in such quarters.

PUBLIC UTILITIES COMMISSION

ITEM 256 of the Budget Bill

Budget page 605

FOR ADDITIONAL SUPPORT OF THE PUBLIC UTILITIES COMMISSION FROM THE TRANSPORTATION RATE FUND

Amount requested	\$2,857,314
Contribution to State Employees' Retirement System	177,665
Total	\$3,034,979
Estimated to be expended in 1960-61 fiscal year	3,002,096
Increase (1.1 percent)	\$32,883

TOTAL RECOMMENDED REDUCTION None

ANALYSIS

This appropriation is for costs of administration involving regulation of carriers of property for compensation by rail, truck or water, the details of which are included under budget item 255. Any adjustments in that item relating to administrative costs of the foregoing will require a corresponding adjustment in this item.

DEPARTMENT OF SOCIAL WELFARE

ITEM 257 of the Budget Bill

Budget page 672

FOR SUPPORT OF THE DEPARTMENT OF SOCIAL WELFARE FROM THE GENERAL FUND

Amount requested	\$3,840,917
Contribution to State Employees' Retirement System	234,609
Total	\$4,075,526
Estimated to be expended in 1960-61 fiscal year	3,877,487
Increase (5.1 percent)	\$198,039

TOTAL RECOMMENDED REDUCTION \$268,371

**Summary of Recommended Reductions
Departmental Administration**

Salaries and Wages	Amount	Budget	
		Page	Line
Director's office:			
1 Case management project director	\$13,200	615	72
1 Senior research technician	10,221	615	73
1 Senior administrative analyst	10,221	615	74
1 Intermediate stenographer-clerk	4,458	615	77
Operating Expenses:			
Consultant services—case management project	6,000	616	5
Community Welfare Services			
Salaries and Wages			
Field review and public assistance:			
7 Public assistance specialist I	44,520	616	48, 57
Adoptions:			
2 Child welfare specialist I	12,720	616	67
Licensing:			
1 Child welfare specialist I	6,360	616	72
Management Services			
Operating Expenses:			
Traveling—in-state	28,325	618	48
Traveling—out-of-state	2,500	618	49