

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

ITEM 153 of the Budget Bill

Budget page 759

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

Amount requested	\$5,409,356
Estimated to be expended in 1967-68 fiscal year	5,361,630
Increase (0.9 percent)	\$47,726
Increase to improve level of service	\$43,944

TOTAL RECOMMENDED REDUCTION None

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control was established in January 1955 following adoption by the voters in November 1954 of Section 22 of Article XX of the State Constitution, the effect of which was to transfer subject matter jurisdiction from the Board of Equalization to the new department.

It is the mission of this department to administer the laws governing the importation and sale of alcoholic beverages in California. This mission is discharged under a single program of "regulation" consisting of two elements—licensing and compliance. Forty-seven types of licenses are currently issued covering many varieties of sale and manufacture of alcoholic beverages. The securing of compliance by these licensees with regulatory laws, rules and regulations is the responsibility of local authorities and of the department.

The Department of Alcoholic Beverage Control consists of headquarters and zone offices in the north and south of the state each supervising 10 district offices established in principal cities. The number of authorized positions in the department currently is 438.4.

Licensing program element output is best described by the following selected figures.

	Actual		Estimated		
	1965	1966	1967	1968	1969
Applications	14,812	14,336	14,495	14,596	14,685
Licenses issued	12,868	12,390	12,525	12,610	12,700
Active licenses	45,522	46,280	46,292	46,350	46,450

The figure for active licenses in the above table is the total of all department licenses active on the date of the count. The number of applications is the total of all requests for licensing of all types for the year period. The number of off-sale and on-sale general licenses is based on population, growth in this group of licenses is directly proportional to population as provided by code formulas. The number of beer and wine licenses is unlimited but the turnover in such licenses is very great with the result that the total number of active licenses tends to increase very slowly.

Compliance program element output is indicated in the following table:

	Actual		Estimated		
	1965	1966	1967	1968	1969
Accusations filed	2,253	2,200	1,900	1,900	1,900
License revoked	203	123	150	150	150
Other discipline	1,780	1,827	1,500	1,500	1,500

Department of Alcoholic Beverage Control—Continued

The foregoing tables and the added statistics appearing in the Governor's Budget indicate that the workload in this department has been and continues to be relatively level.

ANALYSIS AND RECOMMENDATIONS

During budget year 1968-69 the department proposes to spend the sum of \$5,409,356 which exceeds estimated expenditures for the current year by \$47,726 or 0.9 percent. The proposed budget year expenditure is not segregated by program elements because the field force of special investigators works on both licensing and compliance assignments simultaneously and segregation of expenditures by program elements would therefore be artificial rather than factual.

Within the proposed expenditure the department has requested seven added positions. Of these, two legal and one stenographic position are to be returned from the Department of Justice to which they were transferred under the 1966-67 Budget Act in an attempt to expedite legal representation. The plan has not proved to be effective and thus the requested return, which is to be offset by a similar reduction in the Department of Justice. The Attorney General's office will continue to represent the department before the Alcoholic Beverage Control Appeals Board and in the courts, but will no longer represent the department before hearing officers.

The remaining four requested new positions include two lawyers, one auditor and one stenographer which are requested to increase the level of compliance primarily in regard to the business practice laws. During the past year the department has taken more positive action in the investigation and enforcement of these laws. The investigation and enforcement procedure involved with business practice cases are far more complex than others traditionally conducted by the department. The additional positions are proposed to insure better case preparation and better presentation in the administrative hearing procedure. A strong and prompt compliance action is essential public protection.

We recommend approval of this item as budgeted.

It is estimated that the 1967 Budget Act appropriation plus \$200,479 from the salary increase fund, less a transfer of \$1,675 to the Department of General Services, will be totally expended during the current year leaving no estimated savings.

Revenues to the General Fund produced through activity of this department are estimated for fiscal year 1968-69 at \$6,988,235.

No estimate is made for fiscal year 1968-69 as to amounts to be divided between cities and counties from the Alcohol Beverage Control Fund (composed of 90 percent of many of the license revenues collected by the department). During fiscal year 1966-67 a total of \$11,045,605 was so divided.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

ITEM 154 of the Budget Bill

Budget page 762

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

Amount requested	\$126,292
Estimated to be expended in 1967-68 fiscal year	125,003
Increase (1 percent)	\$1,289
TOTAL RECOMMENDED REDUCTION	None

Summary of Policy Options

Analysis page

Amend Section 22 of the State Constitution and repeal Section 23075 et seq. of the Business and Professions Code to abolish the board.....	596
---	-----

GENERAL PROGRAM STATEMENT

The mission of the Alcoholic Beverage Control Appeals Board is to provide administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relative to penalty assessments and various licensing actions.

The board was established by Section 22 of Article XX of the Constitution and operates under Business and Professions Code Sections 23075 et seq. It consists of a chairman and two members appointed by the Governor with confirmation by the Senate and serving at the pleasure of the Governor. Board staff is currently authorized at seven positions. Meetings are held regularly in Sacramento, San Francisco and Los Angeles.

We estimated in our Analysis of the 1967-68 Budget Bill that approximately a quarter of the possible appealable decisions of the department are actually appealed to the board. Workload status of the number of appeals received by the board and decisions issued are tabulated below.

Appeals Board Input and Output

<i>Fiscal year</i>	<i>Appeals filed</i>	<i>Decisions issued</i>
1963-64	215	240
1964-65	267	222
1965-66	213	237
1966-67	258	213

ANALYSIS AND RECOMMENDATIONS

For fiscal year 1968-69 the board proposes the expenditure of \$126,292 which is \$1,289 or 1 percent more than estimated expenditures for the current year. This request represents small increases in all categories including salaries and related expense.

The current year support appropriation received a salary increase augmentation of \$2,591. Savings of \$3,153 are estimated for the current year out of funds available for expenditure.

We recommend approval as budgeted.

POLICY OPTION

To become effective the following proposal would require amendment to Section 22 of the State Constitution and repeal of Sections 23075 et seq. of the Business and Professions Code.

Alcoholic Beverage Control Appeals Board—Continued

This board was established by constitutional amendment in 1954 as an intermediate appellate agency between the Department of Alcoholic Beverage Control and the superior courts to test the department's decisions in licensing actions and penalty assessments where the plaintiff believes he has been injured or adversely affected. The annual appeal workload of this board in recent years has represented approximately 25 percent of the annual appealable decisions rendered by the Department of Alcoholic Beverage Control. This is slightly in excess of 200. Board statistics indicate that, on the average, annually about 10 percent (20 or so) of its decisions are appealed to the courts. Should the board be abolished, the added workload for the local superior court would amount to approximately 180 cases annually to be added to the filings of the Sacramento County Superior Court which in fiscal year 1965-66 totaled 14,705. We calculated in our Analysis of the Budget Bill 1966-67 that each decision of this board was costing the state \$544 on the average. In our judgment the abolition of this board would not seriously impair any potential appellant rights. We recommend such action be taken.

DISTRICTS SECURITIES COMMISSION

ITEM 155 of the Budget Bill

Budget page 763

**FOR SUPPORT OF THE DISTRICTS SECURITIES COMMISSION
FROM THE GENERAL FUND**

Amount requested	\$225,842
Estimated to be expended in 1967-68 fiscal year	178,430
Increase (26.6 percent)	\$46,412

TOTAL RECOMMENDED REDUCTION	None
--	------

GENERAL PROGRAM STATEMENT

The California Districts Securities Commission is composed of the Attorney General, the Director of Water Resources, the Superintendent of Banks, the State Treasurer and three members appointed to four-year terms by the Governor. Authorized staff positions number 13.1 presently. The commission office is located in San Francisco. It is charged with several missions imposed by specific legislation. These are not consolidated into a program or programs as such but may be described as "the regulation of assumption of debt obligations and related matters by certain districts organized under California law." The activity of the commission with reference to these regulated districts is as follows.

1. Districts organized under Water Code Division 11, irrigation districts; Division 12, county water districts; and Division 13, California water districts. Major debt obligation proposals for this category are reviewed as are those of other districts which seek certification of bond issues as being legal for investment. After certification the commission also approves the expenditure of certain bond funds during the period of acquisition or construction of district facilities. The number of dis-

Districts Securities Commission—Continued

districts reporting to the commission for the above purposes is shown below.

<i>Fiscal Year</i>	<i>Districts Reporting</i>
1963-64	177
1964-65	186
1965-66	203
1966-67	205

2. Water storage districts organized under Division 14 of the Water Code. Prior to 1965 these districts had been supervised in certain financial affairs by the Department of Water Resources. That responsibility was transferred to the commission by legislation effective in 1965.

3. Districts securities investigations. Legislation adopted in 1965 requires certain public districts other than those connected with government agencies to obtain commission approval for the issuance of debt obligations. Workload in this category is small.

4. City and county land reclamation projects. Under 1964 legislation the commission must prepare an advisory financial feasibility report for each proposed county or city bond issue for land reclamation projects.

ANALYSIS AND RECOMMENDATIONS

During budget year 1968-69 the commission proposes to expend the sum of \$225,842 which exceeds estimated current expenditures from the General Fund by \$47,412 or 26.6 percent. Actually, however, the current General Fund expenditure has been augmented by the sum of \$39,483, the balance of funds in a special deposit, the use of which was stated to be authorized in an opinion of the Attorney General. The true estimated support expenditure for the current year is then \$178,430 from the General Fund plus \$39,483 from deposit funds for a total of \$217,913. Proposed budget year expenditures after this calculation are thus 3.6 percent over those estimated for the current year. The proposal for fiscal year 1968-69 is not keyed to any program definition. There is no increase in the level of service provided, with the only increases being those of salary adjustment and normal price increases in operating expenses.

We recommend approval of this item as budgeted.

This commission is authorized by law to establish and collect fees for its services sufficient in amount to offset the costs to the General Fund for its operation. Revenue income is therefore estimated in the same amount as the budget request. Savings for the current year are estimated at \$2,468.

HORSE RACING BOARD

ITEM 156 of the Budget Bill

Budget page 765

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

Amount requested	\$304,936
Estimated to be expended in 1967-68 fiscal year	280,890

Increase (8.6 percent)	\$24,046
------------------------	----------

TOTAL RECOMMENDED REDUCTION	None
-----------------------------	------

Horse Racing Board—Continued

GENERAL PROGRAM STATEMENT

Modern horseracing and wagering on such races in California dates from June 1933 when the voters adopted Section 25a of Article IV as an amendment to the State Constitution. This amendment affirmed the Horse Racing Act which created the California Horse Racing Board and gave it the mission of regulating, licensing and supervising horse-racing and wagering on the results of such races. The constitutional authorization is now contained in Section 19 of Article IV.

The program of this board is the regulation of horseracing conducted with parimutuel wagering. As in most regulatory programs, the board is concerned with licensing participants and securing compliance with laws, rules and regulations by licensees.

The California Horse Racing Board consists of three members appointed to four-year terms by the Governor. Members of the board receive travel expenses but otherwise serve without compensation. Headquarters is maintained in Los Angeles. The number of currently authorized staff positions is 18.2 of which five are discussed hereafter. As part of the boards' operating technique, licensing clerks and investigators are stationed at each track when a horse race meeting is in progress. Some members of the staff are permanently stationed in the northern part of the state.

ANALYSIS AND RECOMMENDATIONS

As the result of Chapter 647, Statutes of 1967, (AB 1082) the maximum number of authorized annual racing days was increased from 573 to 800. Because the workload of the Horse Racing Board is directly related to the number of racetracks operating and the number of racing days allocated, the projected increase in this workload is shown in the following table.

	<i>Actual</i>		<i>Estimated</i>	
	1965-66	1966-67	1967-68	1968-69
Number of days	569	573	730	800
Number of licensees	11,353	11,256	13,518	14,869

Since the act went into effect and extra racing days were assigned to certain tracks, an emergency fund allocation of \$38,739 was made to the board for the addition of 5.7 new positions to assist with extra workload for the remainder of the current fiscal year. Types of racing and the number of racing days for the budget year 1968-69 are tabulated below.

<i>Type of race</i>	<i>Number of days</i>
Thoroughbred	414 (major tracks)
Harness horse	78 (major tracks)
Quarter horse	142
Combination	66
Fairs	100
Total	800

The board proposes to spend \$304,936 during fiscal year 1968-69, which exceeds estimated expenditures for the current year by \$24,046 or 8.6 percent. Included within this proposal is the retention of 5 of

Horse Racing Board—Continued

the 5.7 new positions added in the current year under Emergency Fund allocation. The 0.7 position was for temporary help not requested for continuance. The positions to be retained are:

2 Racetrack investigator (budget page 765, line 51)-----	\$18,348
1 Racing license clerk (budget page 765, line 52)-----	6,360
2 Intermediate typist-clerk (budget page 765, line 53)-----	9,960

Horse Racing Board staff workload is related to the number of racing days in a year, the length of the racing week and racing day, the geographic location of the racetracks and the number of racing meetings which may be in progress at any given time. The board's staffing pattern has been to assign two investigators and two racing license clerks to each race meeting. With six investigators and five clerks as presently authorized and the use of limited temporary help, the board has been able to staff as many as three race meetings being conducted simultaneously. The average schedule has been one meeting in the north and one in the south in progress at the same time.

The 1967 legislation added 40 percent more racing days, provided for a six-day racing week and for night racing. At various times as many as four meetings will be held at the same time in different parts of the state. Throughout the year a minimum of three meetings will be held. Three and four meetings being held at once in different geographic locations will require the addition of an investigator and clerk positions. One of the two proposed clerical positions is to be used in the board office to tabulate the statistical material generated by the added racing days and prepare the reports required by the new legislation. The other clerical position will be in the field and will assist the added license clerk and investigator.

We recommend approval of this item as budgeted.

The Horse Racing Board receives its budget support through an appropriation from the Fair and Exposition Fund which receives its revenues as an allocation from the state's share of horserace wagering. Because the Fair and Exposition Fund is totally appropriated each fiscal year, an allocation of \$38,739 from the state's Emergency Fund (General Fund) was required when it became necessary administratively to increase the board's staff to meet the demands of the new racing program.

Horseracing is the source of substantial revenue to the state. Representatives of the board estimate that income to the state from this source during fiscal year 1966-67 amounted to \$50 million. It is also estimated that the added racing days resulting from the 1967 legislation will produce an additional \$13 million which will raise total estimated horse-racing revenue for fiscal year 1968-69 to \$63 million.

STATE BANKING DEPARTMENT

ITEM 157 of the Budget Bill

Budget page 767

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

Amount requested ----- \$1,363,193
 Estimated to be expended in 1967-68 fiscal year ----- 1,292,679

Increase (5.5 percent) ----- \$70,514

TOTAL RECOMMENDED REDUCTION ----- None

GENERAL PROGRAM STATEMENT

The State Banking Department "has charge of the execution of the laws of this state relating to banks and trust companies and relating to the banking and trust business." This mission of administering banking laws is carried out under the following:

1. Investigation of applications for new banks and branches.
2. Examination of all state-chartered banks, trust companies, trust departments of title insurance companies doing a trust business, and foreign corporations doing business in this state.
3. Taking over affairs of licensees in financial difficulty for the purpose of establishing a conservatorship or liquidation.
4. Investigation of complaints against licensees and review of activities for compliance with the banking law.

The activities listed above are not defined in adequate program terms since the department has made no determination of personnel and costs on a program basis.

The state began regulating banks in 1878 and in 1909 created the State Banking Department which with some modification has been continued in existence. The department is headed by the superintendent of banks assisted by a staff of 87 currently authorized positions. Headquarters is located in San Francisco and a branch office is maintained in Los Angeles.

Two types of workload growth tabulated by the department are illustrated in the two following tables.

Application Workload Growth

	Actual			Estimated	
	1964-65	1965-66	1966-67	1967-68	1968-69
Banks -----	18	4	4	3	4
Branches -----	89	107	70	75	80

Examination Workload Growth

	Actual			Estimated	
	1964-65	1965-66	1966-67	1967-68	1968-69
Banks -----	102	98	95	96	99
Branches -----	606	666	725	780	835
Trust companies -	6	6	6	6	6
Foreign banking corporations ---	19	21	19	21	24
Transmitters of money -----	4	4	4	4	4

State Banking Department—Continued
ANALYSIS AND RECOMMENDATIONS

For fiscal year 1968-69 the department proposes expenditures from the State Banking Fund in the sum of \$1,363,193 which amount exceeds estimated current expenditures by \$70,514 or 5.5 percent. The increase in the budget year proposal reflects salary increases and an increase in operating expense including \$5,000 to cover the incidental expense of the department in revising and updating the banking law.

With reference to its proposed revision of the state banking laws the department points out that the law has not been revised since 1949. No added staff is proposed for this project. Work is to be done in considerable measure by a committee representing the banking industry, the legal community and government. We have discussed the proposal with the department and recommend the study as presently proposed.

We recommend approval of this item as budgeted.

The department is supported by the State Banking Fund which in large part is derived from an asset percentage assessment by the department. It is proposed to assess the banking institutions in the budget year 1968-69 at 90 percent of the maximum permitted by law. Such assessment is estimated to produce \$1,214,993. Other estimated income will boost current resources in the fund to \$1,321,603 which is \$41,590 less than anticipated expenditures. The fund, however, has sufficient estimated surplus to cover this small deficit.

Department of Investment
DIVISION OF CORPORATIONS

ITEM 158 of the Budget Bill

Budget page 769

FOR SUPPORT OF THE DIVISION OF CORPORATIONS
FROM THE GENERAL FUND

Amount requested	\$3,506,863
Estimated to be expended in 1967-68 fiscal year	3,460,908
Increase (1.3 percent)	\$45,955

TOTAL RECOMMENDED REDUCTION None

GENERAL PROGRAM STATEMENT

The Division of Corporations has the mission of protecting the public against (1) unfair schemes of investment in securities, and (2) fraud, usury and unsound business practices on the part of certain regulated companies which lend money or receive it in a fiduciary capacity. The division has grouped its activities into three programs: (1) Securities Program, (2) Lender-Fiduciary Program and (3) Administration-clerical Program. However, these programs are not fully described in budget request material; neither is any segregation of personnel or costs set forth indicating relationship to particular programs.

California was one of the first states to undertake the regulation of security sales. Legislation first was enacted in 1913 and the present corporate securities act dates from 1917. Beginning in the latter year the lender-fiduciary relationships were brought under regulation, and administration of the regulations placed under the Division of Corporations.

Division of Corporations—Continued

Not all security transactions are subject to division regulation. Exempted are (1) those securities issued by banks, savings and loan associations, insurance companies, (2) those subject to approval by the Public Utilities Commission or certain federal agencies and (3) those of the type certified as legal for investment by banks which are reviewed by the Districts Securities Commission. Before securities other than the types listed above may be offered for sale in California, applications must first be made to the Commissioner of Corporations.

The division has as its chief officer the Commissioner of Corporations, appointed by the Governor and serving at his pleasure. Offices are maintained in Sacramento, San Francisco, Los Angeles and San Diego. The currently authorized number of positions is 416.2. The division's proposal to abolish a group of positions as of June 30, 1968, is discussed later in this analysis.

In addition to its regulation of security issues and lender-fiduciary activities, the division licenses brokers, securities sales agents and investment counselors, and issues licenses and collects fees under the lender-fiduciary program. The estimated growth of licensing workload is indicated in the following table.

	Licensing Workload				
	Actual			Estimated	
	1964-65	1965-66	1966-67	1967-68	1968-69
Corporate securities					
Permits issued -----	18,946	17,641	17,057	17,748	18,000
Licenses issued -----	19,586	18,703	19,438	20,200	21,500
Lender-fiduciary					
Licenses issued -----	3,452	3,636	2,283	2,500	2,750

Compliance Workload

The division measures its compliance workload by the examinations of licensees which are required or authorized by statutes. The work on these regulatory examinations is reimbursed by licensees in some instances; in others it is not. The division reviews complaints and may conduct investigations on its own motion. Regulatory examination totals are set forth below and include both lender-fiduciary licensees and security brokers.

<i>Fiscal year</i>	<i>Number of examinations</i>
1964-65 -----	3,089
1965-66 -----	3,610
1966-67 -----	3,398
1967-68 (est.) -----	3,557
1968-69 (est.) -----	3,604

ANALYSIS AND RECOMMENDATIONS

For the 1968-69 fiscal year the division proposes an appropriation of \$3,506,863 which exceeds estimated expenditures for the current year by \$45,955 or 1.3 percent.

Included in its request is a proposal to abolish 49 currently authorized positions as of June 30, 1968. The agency states that these positions are either vacant or will become so during the 1967-68 fiscal year. The positions are no longer required because of administrative improvements, including destruction of stock certificates now permitted by law;

Division of Corporations—Continued

elimination of (1) multiple files, (2) clearance bureau, (3) duplication of SEC reviews, and (4) interoffice duplication of reports; the use of public accountants' statements instead of staff work; and simplification of time reporting. As a part of its administrative adjustment program, division accounting activity was moved from Sacramento and consolidated in Los Angeles where the principal accounting workload exists.

We have reviewed these administrative changes and have discussed their potential effect upon the quantity and quality of protective service to be rendered to the public. We do not foresee any adverse effect on these services and therefore find no objection to the several features of the division's administrative improvement program.

We recommend approval of this item as budgeted.

This agency, while supported by the General Fund, charges licensees for the examinations which the law requires it to make. These charges, termed "reimbursements," are estimated at \$928,210 for the budget year and will serve as a partial offset to budgeted costs.

Further, the division collects fees for permits, licenses, examinations, investigations, and for certain penalties. Total fee revenue is calculated to offset the cost of the division to the General Fund. This fee revenue is estimated at \$3,845,935 for the budget year, or \$339,072 over estimated costs.

The division's current appropriation of \$3,475,293 was increased by the allocation of \$187,402 to cover salary increases. Savings for the current year are estimated at \$201,787.

Proposed New Corporate Securities Law

The Commissioner of Corporations proposes to have introduced at the 1968 Regular Session of the Legislature a new corporate securities law. The draft of the proposed act has been prepared by a committee composed of legal, academic and governmental representatives. The following statement is taken from an introduction to the proposed law prepared by the division.

"The attached Corporate Securities Law of 1968 is not the Uniform Securities Act or a modified Uniform Securities Act, nor is it an amendment or rewrite of our present Corporate Securities Law. Rather, the Proposed Act is the result of an effort wherein the members of the committee, without influence from any segment, have attempted to write the best possible corporate securities regulatory system for the State of California in light of securities markets and financing methods as we know them today. The Proposed Act draws from the best of the present California Corporate Securities Law, the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 and the Uniform Securities Act. It also draws upon the experience of the regulatory officials charged with the administration of those acts, while recognizing the interests of legitimate business and investment bankers in the efficient and effective operation of those acts."

The proposed act carries with it a completely new schedule of fees easy to assess under simplified formulas. The commissioner estimates

Item 159

Investment

Division of Corporations—Continued

that the new schedule will net the General Fund an amount approximately the same as now received under the current complex formula.

**Department of Investment
DEPARTMENT OF INSURANCE**

ITEM 159 of the Budget Bill

Budget page 771

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

Amount requested	\$103,500
Estimated to be expended in 1967-68 fiscal year	103,500

Increase	None
----------------	------

TOTAL RECOMMENDED REDUCTION	None
-----------------------------------	------

GENERAL PROGRAM STATEMENT

Beginning in 1964 a plan was devised under which an annual appropriation is made to the Department of Insurance from the General Fund as compensation for the department's work in collecting tax revenues from the insurance industry which are paid into the General Fund. Within the budget structure of the department this General Fund appropriation is credited to and expended by the Administration Division.

ANALYSIS AND RECOMMENDATIONS

The General Fund appropriation proposed for fiscal year 1968-69 is \$103,500, identical in amount to the appropriation for the current year.

We recommend approval of the item as budgeted.

**Department of Investment
DEPARTMENT OF INSURANCE**

ITEM 160 of the Budget Bill

Budget page 771

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

Amount requested	\$4,306,250
Estimated to be expended in 1967-68 fiscal year	4,000,735

Increase (7.6 percent)	\$305,515
------------------------------	-----------

TOTAL RECOMMENDED REDUCTION	\$11,976
-----------------------------------	----------

Summary of Recommended Reductions

	Amount	Page	Line
Data processing manager I	\$11,976	772	66

Summary of Recommendations

	Analysis page
Review the current method of funding and conduct a study to determine the reasonable maximum fees to be paid by the insurance industry for support of the Department of Insurance	610

GENERAL PROGRAM STATEMENT

The Department of Insurance has as its responsibility the regulation of the insurance industry within the state for the protection of insurance policyholders and beneficiaries under those policies. This responsi-

Department of Insurance—Continued

bility is discharged through the following divisions of activity under supervision of the commissioner:

1. Administration Division
2. Rate Regulation Division
3. Compliance and Legal Division
4. License Division
5. Field Examination Division
6. Company Information and Analysis Division

The regulation of insurance activity in California began in 1868 with the creation of the Office of Insurance Commissioner. In 1929 this activity was made a division in the then newly established Department of Investment. In 1941, with the enactment of Insurance Code Section 12906, the agency was removed from the department and established as the Department of Insurance, the only tie with the Department of Investment being that the commissioner remains a member of the Board of Investment.

The Commissioner of Insurance is appointed by the Governor to a four-year term with the advice and consent of the State Senate. Headquarters is in San Francisco by code provision with a branch office maintained in Los Angeles. District offices are located in Sacramento and San Diego. Current authorized staff consists of 321.5 positions.

ANALYSIS AND RECOMMENDATIONS

The Department of Insurance requests the sum of \$4,306,250 for expenditure during budget year 1968-69 which exceeds current estimated expenditures by \$305,515 or 7.6 percent.

Administration Division

This division provides fiscal, personnel, office, actuarial services and administration of insurance companies in conservation or liquidation.

Requested appropriation	\$982,262
Estimated current expenditures.....	887,833
	<hr/>
Increase (10.6 percent)	\$94,429
Current authorized man-years.....	56.9

Proposed New Positions

- 1 Actuary (budget page 772, line 65) \$14,556
 1 Intermediate typist-clerk (budget page 772, line 67) 5,100

The department proposes the establishment of the actuary and typist positions to implement the provisions of Chapter 1687, Statutes of 1967, which defined the reasonable ratio of losses to earned premiums on credit life and credit disability insurance as being 50 percent. During the legislative hearings on Chapter 1687 the department estimated the need for three positions if the bill became law. One of the three positions has been established in the Compliance and Legal Division.

- 1 Data processing manager I (budget page 772, line 66) -- \$11,976

Funds in the amount of \$8,000 were allocated to the Department of Insurance in fiscal year 1966-67 to finance a detailed systems design study for the licensing function within the department.

Department of Insurance—Continued

An interagency agreement was completed on March 3, 1967, between the Departments of Insurance and General Services for the provision of 630 man-hours of systems analyst personnel time through June 30, 1967, to design a system and make recommendations for implementation. The need for additional funding to complete the detailed systems specifications was recognized and \$3,800 was approved for this purpose in June 1967.

The expense to fully automate the licensing function was found to be prohibitive, and a unique systems approach to the problem was proposed which met the requirement of the department that it have daily access to a history card on each insurance broker. This approach also improved the present cumbersome manual system and utilized automatic data processing equipment in the most efficient and economical manner. The system was designed to post data to a permanent history card, using an electric writing machine which, at the same time, prepared punched-paper tape for automatic input to a computer. New licenses would also be issued by this electric writing machine with the data relative to the license again captured in machine-readable form.

A computer service center would be utilized for high-volume work with the assorted basic data on magnetic tape thereby permitting statistical reporting on an "as required" basis.

The Department of Insurance requested that this system design project undertaken by the Department of General Services be suspended as of August 1967, apparently to await the results and/or comments of the Governor's Survey on Efficiency and Economy. No further word has been forthcoming, and the project has been terminated with a total of \$9,300 expended.

We understand that an estimated \$1,280 will be needed to complete this project in a form ready for computer programming. This would have provided a final report with a cost benefit analysis which was expected to produce a reduction in clerical staff and manual machines to offset at least partially the cost of the new system.

There is no need for a data processing manager since the department cannot justify an installation exclusively for its own use. Further investigation has revealed that the intent was to acquire a programmer and not a manager. However, a programmer would only be needed to facilitate a one-time conversion of the system design to automatic data processing equipment. Since the current system design has not been completed, the department is not prepared to begin programming. Once this stage is reached, a contract to secure such service would be a more desirable and practical approach.

We therefore recommend deletion of the data processing manager position.

Rate Regulation Division

This division conducts field audits of insurance companies and rating bureaus with reference to fire, inland marine, casualty and workmen's

Investment

Item 160

Department of Insurance—Continued

compensation rates to determine practices, rate impact, compliance with law and related matters.

Requested appropriation	\$265,678
Estimated current expenditures	253,892
Increase (4.6 percent)	\$11,786
Current authorized man-years	18

No new positions are requested for this division.

We recommend approval as budgeted.

Compliance and Legal Division

It is the responsibility of this division to review applications to do business in California, applications to issue securities, withdrawal proceedings, policy forms, and other orders and papers. It processes disciplinary matters, handles complaints and other related matters.

Requested appropriation	\$1,407,520
Estimated current expenditures	1,352,954
Increase (4 percent)	\$54,566
Current authorized man-years	120.3

Proposed New Positions

1 Assistant counsel (budget page 773, line 69)	\$10,482
2 Insurance officer II (budget page 773, line 70)	16,428

The assistant counsel position was administratively established in the current year as part of the implementation of Chapter 1687, Statutes of 1967, referred to earlier in this analysis and is proposed to be continued in the 1968-69 fiscal year. The two insurance officer positions were administratively established in the current year to implement requirements of Chapter 452, Statutes of 1967. This requirement was brought to the attention of the Legislature when Chapter 452 was heard by committee.

We recommend approval as budgeted.

License Division

This division processes all applications for licenses, determining applicant eligibility, giving examinations and keeping license records.

Requested appropriation	\$455,062
Estimated current expenditures	438,642
Increase (3.7 percent)	\$16,420
Current authorized man-years	50.3

Two measurements of division workload are set forth in the following table.

<i>Fiscal year</i>	<i>Examinations given</i>	<i>Licenses issued</i>
1965-66	20,363	88,517
1966-67	20,226	91,263
1967-68 (estimated)	20,000	91,000
1968-69 (estimated)	20,000	97,000

We recommend approval as budgeted.

Department of Insurance—Continued

Examination Division

This division is responsible for the making of field audits of insurance companies admitted to do business in California or seeking admission. These audits are conducted in accordance with procedures adopted by the National Association of Insurance Commissioners (NAIC). The Commissioner of Insurance states that NAIC standards serve to protect the public and also serve to insure that the state receives the tax revenues scheduled for the state which amount to more than \$100 million annually.

Requested appropriation	\$865,105
Estimated current expenditures.....	752,471
<hr/>	
Increase (14.9 percent)	\$112,634
Current authorized man-years.....	51

The increase represented in this portion of the budget request results from (1) six proposed new positions and (2) added funds proposed for out-of-state travel.

Proposed New Positions

6 Insurance examiner II (budget page 774, line 51) \$53,712

Through formulas based upon NAIC procedures the department finds need for 12 added field examiners if NAIC standards are to be maintained and the public protected. Due to recruitment and training problems, only 6 of these positions are requested at this time rather than the 12. We have reviewed the commissioner's calculation of needed man-hours to perform the indicated audits including increasing complexity, first and second examinations, out-of-state examinations, liquidation, title companies and certain code requirements.

An amount of \$69,700 is requested by the division for out-of-state traveling for fiscal year 1968-69, an increase of \$42,505 as compared to estimated expenditures of \$27,195 for the current year. The actual expenditure for the past year, 1966-67, was \$39,895, whereas \$86,640 was originally budgeted for out-of-state travel. The department reports that in order to meet budgetary savings, many out-of-state examinations were canceled. One case, for example, on the schedule for the budget year which had been scheduled for the current year will require 14 examiners. Out-of-state travel expenses are charged to the companies being examined and revenue therefrom deposited in the Insurance Fund. In addition to 6 positions proposed in the budget for fiscal year 1968-69, the department is in the process of filling 5 positions which had been held vacant. Thus, 11 additional people will be traveling during 1968-69 compared to the current year.

We recommend approval as budgeted.

Company Information and Analysis Division

This division has recently been created under the administrative reorganization plan instituted by the present Commissioner of Insurance. It has the principal responsibility for collecting and studying information about insurance companies in order to be informed of approaching financial difficulty and to recommend corrective measures. The division also insures that the state collects the appropriate pre-

Investment

Item 161

Department of Insurance—Continued

miums and surplus line taxes, and that correct stockholder and proxy statements are filed.

Requested appropriation	\$330,023
Estimated current expenditures	314,943
<hr/>	
Increase (4.7 percent)	\$15,080
Current authorized man-years	25

We recommend approval as budgeted.

Fund Condition

The Insurance Fund is now derived primarily from fees collected by the department. In 1954 the Legislature restricted this fund to a balance of \$2 million, all in excess of this amount being transferred to the General Fund each year. In 1964 the surplus line tax was diverted to the credit of the General Fund and lost to the Insurance Fund as a source of revenue. In lieu thereof an annual appropriation from the General Fund of approximately \$100,000 was provided as support of the department's General Fund tax collection activity. By 1965 the surplus balance in the Insurance Fund began to decline. The 1968-69 proposed budget indicates that the fund will be approximately \$1,125,000 short of its ability to meet proposed expenditures. This amount has been entered in the statement of fund condition as income dependent upon legislative action during the 1968 session of the Legislature.

While the 1968-69 budget request of the department indicates that the \$1,125,000 Insurance Fund deficit is to be met from fee increases, this is only an interim solution. The commissioner is of the opinion that the fee schedule is now at its effective maximum. Any fee increase upon foreign insurers will most likely cause expensive retaliatory treatment of California companies doing business in other states.

We recommend that the Legislature review the current funding of the support of the Department of Insurance and we also recommend that a study be conducted to determine the reasonable maximum fees that can be paid by the insurance industry for the support of the Department of Insurance. Such study should be conducted by the department in cooperation with the insurance industry, the Department of Finance and the Legislative Analyst.

Department of Investment DIVISION OF REAL ESTATE

ITEM 161 of the Budget Bill

Budget page 776

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

Amount requested	\$3,040,886
Estimated to be expended in 1967-68 fiscal year	2,942,791
<hr/>	
Increase (3.3 percent)	\$98,095
TOTAL RECOMMENDED INCREASE	\$40,000

Summary of Recommendations

Augment budget by \$40,000 to initiate conversion of licensing function to automatic data processing.

Division of Real Estate—Continued

GENERAL PROGRAM STATEMENT

The Division of Real Estate has the principal mission of protecting the public in offerings of subdivided property, real property securities and in real estate transactions handled through agents. As a further objective, the division, through educational and research programs, seeks to advance the professional standing of its licensees.

The division has established four programs which are described in detail in its program budget submission following the regular budget request in the Governor's Budget document. These programs are as follows:

1. Transaction activities including (a) licensing which includes examination of applicants and services to licensees and the public, and (b) regulation and recovery which includes disciplinary action and operation of the recovery program under which the division may pay certain judgments obtained against licensees for fraud.

2. Offerings and securities including (a) the division's activity with reference to subdivision matters and (b) regulation of activity with reference to real property securities including such types of security as the sale of notes secured by trust deeds.

3. Education and research activities are designed to raise professional competence. A special allocation of funds is provided for the University of California and allocations are made to other universities and colleges for special projects in the real estate research or education fields.

4. Administration. This program provides (a) executive leadership and direction, and (b) central services in such categories as personnel, business, administration, accounting and publications.

Real Estate Regulation

Regulation of the real estate business was first attempted in California in 1917 under an act declared later to be unconstitutional. Legislation in 1919 created the present type of regulation, the first of its kind in the United States. Subdivision activity was brought under regulation in 1933, and in 1935 the Real Estate Commission was established. This body is composed of the Real Estate Commissioner as chairman and six members appointed by the Governor. The commission is an advisory body and the members receive no compensation for their services but do receive travel expenses.

The chief officer of the division is the commissioner who is appointed by the Governor. He is assisted by a staff of 251.4 currently authorized positions. In addition to Sacramento headquarters, a branch is maintained in Los Angeles with district offices in six other major California cities.

Division Growth Status

A total of 306 positions were authorized for this division in budget year 1967-68. Decreased activity in licensing, examinations and subdivision operations due to market conditions resulted in a modified budget which abolished 26 positions in January 1967. Full impact of these market conditions and certain administrative improvements result in the current budget request to abolish 22 more positions which are or

Division of Real Estate—Continued

will become vacant during the current year. This will reduce the staff to 258 authorized positions.

Evidence of decline in the activity regulated by this division is shown in the following table for the last three complete years.

<i>Fiscal year</i>	<i>Licenses in effect</i>	<i>Licenses issued</i>	<i>Examinations given</i>
1964-65 -----	164,755	75,405	52,485
1965-66 -----	147,500	62,014	50,491
1966-67 -----	140,950	44,072	28,761

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of \$3,040,886 from the Real Estate Fund, which is \$98,095 or 3.3 percent more than is estimated to be expended during the current year.

As noted above the budget request contains the division's proposal to abolish 22 positions. Two are in the examination category, six in licensing, 16 in regulatory activity and one is in administration. Decline in workload due to real estate market conditions plus administrative improvements in the handling of examinations and other activities have made these positions unnecessary. We can find no reduction in the protection afforded the public.

Data Processing

In the 1966-67 Budget, the Division of Real Estate requested data-processing systems analyst and related expenses at a cost of \$16,000 to develop a data-processing system for the division. The budget also proposed the same amount of funds for the Department of Insurance. Upon our recommendation, the Legislature deleted both proposals and added \$16,000 to the Department of General Services budget in order that it could complete studies for both agencies.

In February of 1967 an agreement was signed with the Systems Analysis Office of the Department of General Services. This agreement provided for the study suggested by the previous surveys, and for detailed recommendations and specifications to implement these recommendations.

The purpose of the survey was to review and analyze the present licensing system and to suggest changes or modifications which economically satisfy the division's stated requirements.

The Division of Real Estate is faced with two significant problems. A recurring problem is the occasional inflow to the division of extremely large numbers of transactions. These peak workload periods can be attributed to increased activity in the real estate market, and while the present market is at a relatively low level and presents no workload problem to the division, a significant increase in activity will, as it has before, exert demands beyond the division's present capacity. These market surges have a net effect of overburdening a basically clerical system. The division is thus forced to meet these workloads with a combination of overtime and temporary personnel.

The second problem is that the division's current 90-column card tabulating equipment will be obsolete and no longer supported by the manufacturer. The effective date of this action is July 1, 1970, and it

Division of Real Estate—Continued

is in the best interests of the division to meet the problem now. The solution to both problems was the goal of the systems study.

A complete proposal, including sufficient detail to permit programming instructions, has been made to the Division of Real Estate and is acceptable to the division.

We recommend an augmentation of \$40,000 to the budget in order that the Division of Real Estate may start on the conversion of its licensing operation to automatic data processing.

We believe the proposed system is feasible and that it is desirable to begin conversion as soon as possible. If it is implemented the division will make use of time on another agency's computer, and will not require the addition of any new personnel. Rather it will be able to eliminate three positions.

The initial one-time conversion cost is \$62,000, of which we recommend a total of \$40,000 be added to the 1968-69 Budget. Upon installation of the system, annual savings will result from the fact that there will be no necessity to convert to 80-column card equipment from the present 90-column card system for which the manufacturer states parts will no longer be available. Additional savings in clerical staff will offset the cost of operating the new system.

If the system proposed by the Department of General Services is not adopted and the 80-column card system is used, the increased cost to the division will be approximately \$20,000 per year.

Recovery Program

The recovery program falls within the regulatory and discipline areas of division activity. This program is designed to pay unsatisfied judgments against real estate licensees where judgments are based upon fraud, misrepresentation or deceit accomplished while performing acts for which a license is required. The law provides certain requirements which must be met and a procedure which must be followed. Each claim is limited to \$10,000. Funds to meet such claims are obtained from the recovery portion of the Real Estate Education, Research and Recovery Fund. The division seeks the sum of \$108,000 to meet recovery requirements during fiscal year 1968-69 which is \$10,409 or 10.7 percent greater than estimated expenditures for the current year.

Education and Research

A principal purpose of this program is to raise professional competence and improve the knowledge and skills of real estate practitioners. The Real Estate Commissioner has established an advisory committee which is composed of representatives of the University of California, the colleges and the real estate industry and serves to coordinate the various programs. Grants are made to the state university, private universities and state colleges. Real estate curricula and applied research are being supported by this grant program. Sixty-eight junior colleges are being encouraged to improve real estate course offerings.

For fiscal year 1968-69 the division has budgeted \$316,000 for expenditure in support of the education and research program to be paid

Division of Real Estate—Continued

from the Real Estate Education, Research and Recovery Fund. This is \$1,361 greater than estimated current year expenditures for this purpose.

Fund Condition

A transfer of \$372,321 from the recovery allocation within the Real Estate Education, Research and Recovery Fund to the Real Estate Fund will make it possible for the Real Estate Fund to meet the division's estimated support expenditures for the current year with a surplus of \$225,893 at the end of the fiscal year. Revenue estimates for the 1968-69 fiscal year are higher in most categories than those of the current year and are predicated upon an upturn of real estate activity.

**Department of Investment
DIVISION OF REAL ESTATE**

ITEM 162 of the Budget Bill

Budget page 780

**FOR EDUCATIONAL, RESEARCH AND RECOVERY, THE
DIVISION OF REAL ESTATE FROM THE REAL ESTATE
EDUCATION, RESEARCH AND RECOVERY FUND**

Amount requested	\$590,500
Estimated to be expended in 1967-68 fiscal year	578,730
<hr/>	
Increase (2 percent)	\$11,770

TOTAL RECOMMENDED REDUCTION None

GENERAL PROGRAM STATEMENT

One-fourth of the amount collected for each license issued or renewed by the Division of Real Estate is paid into the State Treasury and the accumulated sum constitutes the Real Estate Education, Research and Recovery Fund. The fund is utilized for two purposes: (1) for the support of the Division of Real Estate's education and research program, and (2) for payment of certain judgments obtained against real estate licensees where clients have been defrauded.

ANALYSIS AND RECOMMENDATIONS

The total fund appropriation of \$590,500 requested for fiscal year 1968-69 is proposed for allocation by the Department of Finance with maximum amounts as follows:

To the division for education and research	\$316,000
To the division for recovery act purposes (judgments)	108,000
To the University of California	166,500
<hr/>	
Total	\$590,500

The total amount requested exceeds current estimated expenditures of \$578,730 by \$11,770 or 2 percent.

The budgeted amount provides for allocation by the Department of Finance from this fund in amounts as it finds necessary within the indicated limits to the division and to the University of California. The annual allocation to the university is not to exceed an amount designated by the Real Estate Commissioner and when allocated is

Division of Real Estate—Continued

transferred directly to the University by the State Controller. The amount of the proposed allocation also appears in the budget of the university.

Eighty percent of the fund is earmarked by law for purposes of real estate education and research. The balance is earmarked for the recovery program. The commissioner is authorized by law to transfer from this fund to the Real Estate Fund annually any amount in the recovery portion in excess of \$400,000. During the current year the sum of \$372,321 was transferred.

The law further provides that should the balance in the recovery portion of the fund fall below \$400,000, a special fee may be levied upon licensees as their licenses are renewed.

It is estimated that the accumulated surplus in this fund will amount to \$563,282 as of June 30, 1969.

Discussion of the particular activities carried forward by the division under appropriations from this fund are more fully described in the preceding item relating to the Division of Real Estate.

We recommend approval of this item as budgeted.

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

ITEM 163 of the Budget Bill

Budget page 788

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

Amount requested	\$2,749,342
Estimated to be expended in 1967-68 fiscal year	2,749,804
Decrease (0.5 percent)	\$462

Increase to improve level of service

\$21,000

TOTAL RECOMMENDED REDUCTION **\$21,000**

Summary of Recommended Reductions

	<i>Amount</i>	<i>Budget Page</i>	<i>Line</i>
Reduce data processing charges	\$21,000	788	77

GENERAL PROGRAM STATEMENT

The Savings and Loan Commissioner is charged with the administration and enforcement of the laws relating to the incorporation, organization, business, operation, merger, consolidation, dissolution and liquidation of associations subject to the provisions of the savings and loan law as provided in Section 5250 of the Financial Code.

This mission assigned to the commissioner has not been elaborated into a formal statement of program but is set forth in the following list of responsibilities by the Division of Savings and Loan.

1. Annual examination of every state-licensed association.
2. Test appraisals of real property securing association loans.
3. Registration and examination of savings and loan holding companies.

Division of Savings and Loan—Continued

4. Licensing of new associations and branches of operating associations and controlling mergers.
5. Interim examination of special problem associations.
6. Provision of information to associations relative to supervision and lending practices.

Chief officer of the division is the commissioner, appointed by the Governor and serving at his pleasure. Headquarters is located in Los Angeles and a branch is maintained in San Francisco. The number of positions currently authorized for the division is 211.5. The abolition of a series of positions is discussed later in this analysis.

The number of associations and branches regulated is summarized for the indicated fiscal years in the following table.

<i>Fiscal year</i>	<i>Number of associations</i>	<i>Number of branches</i>
1964-65	210	254
1965-66	202	290
1966-67	193	339
1967-68 (est.)	193	340
1968-69 (est.)	192	343

ANALYSIS AND RECOMMENDATIONS

The division has requested for expenditure during fiscal year 1968-69 the sum of \$2,749,342 which is \$463 or 0.5 percent less than estimated expenditures for the current year.

Included within the division's budget proposal is the statement that 20 positions have been abolished. Most of the 20 positions were held vacant to increase salary savings during the current fiscal year and do not represent any loss of jobs by state employees. The positions are now reported as not needed due to improved utilization of personnel, particularly in the area of examination of problem associations and savings and loan holding companies.

Data processing charges (budget page 788, line 77)----- \$40,000

In its budget request for fiscal year 1968-69 the division has proposed that funds for data processing be increased from \$19,000 to \$40,000 for an improved data-processing system designed to provide an early warning of impending supervision and regulatory problems.

During the current fiscal year the Division of Savings and Loan retained a private certified public accounting firm to conduct a study and provide consulting services to the division. Within the scope of the study was the review of the present information and reporting system, particularly as it acts as an early warning to highlight potential problem associations on a timely basis.

The firm has recommended the use of a statistical technique called discriminant analysis which would allow for the determination of specific variables out of a large set of variables which are the most critical ones in differentiating between two groups of similar but not identical savings and loan associations. Currently the division reviews a whole series of operating ratios in attempting to identify problem associations. It is believed that the adoption of a discriminant analysis tech-

Division of Savings and Loan—Continued

nique will provide an earlier warning of those associations which are in difficulty.

We recommend the data-processing operating expense item of \$40,000 be reduced by \$21,000 and that it be approved in the amount of \$19,000.

On page 788, line 29, the budget states the following as justification for the proposed increased data processing funds:

"Funds are included for a more comprehensive data-processing system primarily designed to provide an early warning system to disclose significant supervisory problems, so that appropriate and timely action can be taken. Details of this system are not available, however, funds will not be expended until the plan has been approved by General Services and the Department of Finance."

We do not believe the proposed procedure of providing funds for an unknown system is desirable. A specific proposal should be presented with details as to how existing authorized funds are to be utilized, and how the proposed funds will accomplish the desired results.

Fund Condition

This agency is supported by the Savings and Loan Inspection Fund, revenues for which are derived from a percentage assessment of regulated association assets. The rate for the budget year will be 12.5 cents per \$1,000 of assets which is estimated to produce \$2,656,950. Other revenues are derived from fees, charges and interest on surplus funds in sufficient amount to more than cover annual costs. As of June 30, 1969 the fund will have an estimated surplus of \$2,390,626. Reimbursements for services rendered are estimated at \$76,000 for the budget year.

A salary increase authorization of \$79,765 was added to the current support appropriation of the division. Out of the total amount available for expenditure for the current year, it is estimated that savings will amount to \$29,671.

BOARD OF PILOT COMMISSIONERS FOR THE HARBOR OF SAN DIEGO

ITEM 164 of the Budget Bill

Budget page 789

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

Amount requested	-----	\$1,200
Estimated to be expended in 1967-68 fiscal year	-----	1,200

Increase	-----	None
----------	-------	------

TOTAL RECOMMENDED REDUCTION	-----	None
-----------------------------	-------	------

GENERAL PROGRAM STATEMENT

The Board of Pilot Commissioners for the Harbor of San Diego licenses pilots up to the number of six and sets pilotage rates within the range provided by law for the waters of San Diego Bay. There are four bar pilots licensed currently.

Board of Pilot Commissioners for the Harbor of San Diego—Continued

This board is composed of the Mayor of San Diego, ex officio, and two residents of the City of San Diego, one of whom must be a nautical person. Appointments are made by the Governor to four-year terms. Offices are located in San Diego. Authorized staff consists of a part-time secretary. Board members receive a \$25 per diem for days served on commission business.

ANALYSIS AND RECOMMENDATIONS

For budget year 1968-69 the commission proposes the expenditure of \$1,200 from the General Fund which is identical in amount with estimated expenditures for the current year.

We recommend approval of this item as budgeted.

Revenues are collected from the licensed pilots which more than offset costs to the General Fund. Revenues totaling \$7,000 are estimated for fiscal year 1968-69.

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

ITEM 165 of the Budget Bill

Budget page 790

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

Amount requested	\$27,145
Estimated to be expended in 1967-68 fiscal year	25,577
 Increase (6.1 percent)	 \$1,568

TOTAL RECOMMENDED REDUCTION None

GENERAL PROGRAM STATEMENT

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun licenses pilots for the three bays within its jurisdiction. There are presently 25 such licensees.

Under code provisions the board has two principal responsibilities:

1. It examines and licenses not more than 25 or less than 20 pilots. By way of discipline it may suspend or revoke such license after an administrative hearing.
2. It provides staff services to the Pilotage Rate Committee.

The Pilotage Rate Committee, created by legislation in 1962, meets biennially and prepares recommendations for fair and adequate pilotage rates for submission to the Legislature. The commissions' budget for this reason is cyclical reflecting a biennial increase to cover costs of audits and hearings conducted by the committee. The committee is composed of five members, two representing the pilots, two the shipping industry and one the public. The public member draws a \$50 per diem and travel expenses for days served in committee work. Members of the committee are appointed by the Governor.

The board is composed of three members appointed by the Governor and draw part-time salaries of \$300 a month. Authorized staff consists of a full-time secretary. Commission offices are located in San Francisco.

Board of Pilot Commissioners for the Bays of San Francisco,
San Pablo and Suisun—Continued

ANALYSIS AND RECOMMENDATIONS

For fiscal year 1968-69 the commission's budget request is for \$27,145 which exceeds estimated expenditures for the current year by \$1,568 or 6.1 percent. The increase consists of added per diems for the public member of the Pilotage Rate Committee and an addition to general expense to cover costs of the committee's work.

The commission is supported by the Pilot Commissioners' Special Fund. This fund represents a percentage contribution of pilotage fees by commission licensees. This contribution is scheduled in an amount to cover costs of operation by the commission. It is estimated that the fund will have a surplus of \$41,534 as of June 30, 1969.

We recommend approval as budgeted.

DEPARTMENT OF PROFESSIONAL AND VOCATIONAL STANDARDS

ITEMS 166 to 201 of the Budget Bill

Budget page 792

FOR SUPPORT OF THE DEPARTMENTAL ADMINISTRATION AND THE CONSTITUENT AGENCIES, FROM VARIOUS FUNDS

Amount requested	\$13,260,146
Estimated to be expended in 1967-68 fiscal year	12,623,939

Increase (5 percent)	\$636,207
----------------------------	-----------

TOTAL RECOMMENDED REDUCTION	\$205,071
--	------------------

Summary of Recommended Reductions

	Amount	Budget Page	Line
Reduce level of support for Athletic Commission	\$68,500	802	33
Reduce level of support for Bureau of Furniture and Bedding Inspection	136,571	821	33

GENERAL PROGRAM STATEMENT

Department Objectives

The Department of Professional and Vocational Standards consists of a group of boards, bureaus and commissions, each of which administers one or more acts regulating an occupation, profession or business. While each constituent agency maintains its semi-independent status, the department provides such centralized services as accounting, budgeting, personnel management, data processing, internal auditing and legal assistance as well as investigative and inspection activities in many cases.

Agency Programs—Regulation

The regulatory programs conducted throughout the department are designed to protect society against fraudulent practices and professional incompetence. Regulation has two elements—licensing and compliance—and administration costs are prorated between these two elements. Licensing may include a variety of activities—establishment of curricula, school accreditation, required experience period, examination, issuance and renewal of licenses and certificates, or a registration procedure. Compliance, commonly termed enforcement, is composed of procedures to insure that licensees obey laws, rules and regulations

Table 1
Combined Analysis of Operating Units
Department of Professional and Vocational Standards

Item No.	Budget page	Currently authorized personnel	Current number of licensees	1966-67 expenditures (actual)	Emergency authorization (included in expenditures) (\$98,461)	1967-68 expenditures (estimated)	Emergency authorization (included in expenditures) (\$59,553)	1968-69 proposed budget	Percent increase or decrease 1968-69 over 1967-68
166	794								
Departmental Administration ¹ -----									
Division of Administration -----		65.2		\$673,054		\$748,886		\$750,126	0.2%
Data Processing -----		23.0		217,511		251,690		241,294	-4.1
Building Maintenance and Operation -----		3.1		548,329		455,890		488,930	7.2
Division of Investigation -----		143.2		1,555,546		1,532,690		1,577,193	2.9
Agencies									
167 Board of Accountancy -----	798	14.1	26,000	336,710	0	316,737	0	331,688	4.7
168 Board of Architectural Examiners -----	800	8.4	6,745	111,383	5,000	145,796	0	145,628	-0.1
169 Athletic Commission ² -----	801	8.0	1,680	165,704	3,639	92,919	0	162,500	74.9
170 Board of Barber Examiners -----	802	13.1	44,000	360,793	17,919	415,145	45,417	418,561	0.8
171 Cemetery Board -----	804	4.4	1,700	67,795	0	73,710	0	74,813	1.5
172 Board of Chiropractic Examiners -----	805	4.2	4,600	107,215	0	103,314	0	106,049	2.6
173 Board of Registration for Civil and Professional Engineers -----	806	40.0	49,000	545,266	5,247	603,429	10,944	617,078	2.3
174 Collection Agency Licensing Bureau -----	808	9.0	595	150,316	0	205,180	39,328	214,763	4.7
175 Contractors' License Board -----	809	164.0	86,000	2,261,544	67,227	2,376,753	24,267	2,354,476	-0.9
176 Board of Cosmetology -----	811	29.8	152,500	726,035	50,510	742,291	36,974	819,639	10.4
177 Board of Dental Examiners -----	812	11.0	16,127	171,701	6,958	227,070	11,233	210,122	-7.5
178 Board of Dry Cleaners -----	814	10.6	19,800	320,859	0	340,101	9,872	347,523	2.2
179 Bureau of Electronic Repair Dealer Registration -----	815	11.8	6,200	247,457	16,687	247,682	0	261,607	5.6
180 Bureau of Employment Agencies -----	817	3.0	1,600	0	0	74,475	0	136,223	0
181 Board of Funeral Directors and Embalmers -----	818	7.1	4,559	100,244	2,143	108,304	761	110,001	1.6
182 Bureau of Furniture and Bedding Inspection -----	820	15.0	23,400	635,052	0	306,194	0	448,765	46.6
183 Board of Guide Dogs for the Blind ³ -----	822	0	19	830	0	1,000	0	2,350	0
184 Board of Landscape Architects -----	823	1.2	847	29,682	1,609	31,473	983	31,596	0.4
185 Bureau of Marriage Counselors -----	824	0	2,000	11,745	1,500	14,577	3,012	14,535	-0.3
186 -----									
188 Board of Medical Examiners -----	825	31.1	61,463	891,281	0	940,925	0	1,048,340	11.4
189 Board of Nursing Education and Nurse Registration -----	829	34.6	130,000	607,333	9,714	596,679	0	632,223	6.0

190	Board of Optometry -----	830	2.8	2,835	69,975	4,112	64,121	282	71,526	11.5	
191	Board of Osteopathic Examiners --	832	0	360	7,034	0	7,713	0	7,989	3.6	
192	Board of Pharmacy -----	833	24.2	20,500	519,129	17,071	578,656	30,732	578,143	-0.1	
193	Bureau of Private Investigators and Adjusters -----	834	4.2	1,900	114,753	0	101,757	143	108,130	6.3	
194	Certified Shorthand Reporters Board -----	836	1.2	1,433	28,309	0	30,754	294	31,310	1.8	
195-											
196	Board of Social Work Examiners -	837	3.5	5,900	31,620	0	55,140	1,406	54,928	-0.4	
197	Structural Pest Control Board ---	840	19.4	4,095	444,399	12,703	461,618	1,835	491,312	6.4	
198	Board of Examiners in Veterinary Medicine -----	841	0.6	2,754	49,514	3,079	74,639	17,575	67,461	-9.6	
199-											
200	Board of Vocational Nurse Exami- ners -----	843	13.8	32,589	224,775	7,010	267,516	29,477	272,580	1.9	
201	Yacht and Ship Brokers Commis- sion -----	841	2.0	670	26,144	0	29,115	0	30,744	5.6	
				726.6	711,871	\$9,364,597	\$232,128	\$9,634,783	\$264,535	\$10,202,603	5.9%

¹ Departmental Administration expenditures represent a total of pro rata assessments already charged against the department's constituent agencies and are not carried to column footings.

² Supported by General Fund.

Department of Professional and Vocational Standards—Continued

governing their business or professional conduct. Compliance activities include inspections, investigations, administrative hearings for suspension or revocation of licenses and proceedings in the courts where the act being administered so provides.

Department Organization

The Department of Professional and Vocational Standards was established in 1929. It operates through: (1) general departmental administration and (2) each constituent agency. The department is headed by a director appointed by and serving at the Governor's pleasure. The director is assisted by a departmental staff of 234.5 currently authorized positions. In addition to Sacramento headquarters, branch offices are maintained in San Francisco and Los Angeles.

ANALYSIS AND RECOMMENDATIONS

Departmental Administration

Support of departmental administration is provided from the Professional and Vocational Standards Fund. This fund is made up of pro rata charges assessed against each of the constituent agencies and is reflected in each agency's budget appropriation. In the Budget Bill, however, the department's proposed administration expenditure is shown as a direct appropriation. This overlap or dual accounting of funds should be recognized where total departmental expenditures are being considered.

For departmental administration in 1968-69 the department requests the sum of \$3,057,543 as follows:

Division of Administration.....	\$750,126
Data processing operation.....	241,294
Building maintenance and operation.....	488,930
Division of Investigation.....	1,577,193
	<hr/>
	\$3,057,543

This total request represents an increase of \$68,387 or 2.3 percent over estimated expenditures for the current year.

Proposed New Positions

The department proposes the addition of two positions, an associate counsel and a financial examiner II. The associate counsel position was administratively established during the current year and its continuance is requested.

1 Associate counsel (budget page 795, line 39) \$13,860

In its study "An Examination of the Department of Professional and Vocational Standards," dated September 1967, the Commission on California State Government Organization and Economy recommends that, "All licensing boards should utilize the in-house department counsel for all legal advice other than representation at hearings under the Administrative Procedure Act and litigation in the courts." We are informed that the department plans to convert the present position of administrative advisor to that of chief counsel who would advise the director and handle legislation. The chief counsel would also supervise

Department of Professional and Vocational Standards—Continued

house attorneys. There are two legal positions presently authorized. The department's current request is for a third position reporting to the proposed chief counsel.

Board requests are numerous and highly technical in many instances. The proposed position would replace service now provided in the Attorney General's office with the Attorney General's pro rata charges being reduced to offset salary cost. This is a proposed workload shift intended to result in closer control over the department by the director.

In conjunction with the establishment of the counsel position, the budget proposes the abolishment of part-time attorney services (0.6 man-year) for the Board of Dental Examiners at a saving of \$5,421.

1 *Financial examiner II (budget page 795, line 42)*----- \$8,952

Several of the boards and bureaus within the department have procedures which result in documents requiring financial analysis. For example, contractors' financial responsibility provisions, cosmetology on school operation, dry cleaners, collection agencies, private investigators, Cemetery Board. No staff has been budgeted for this and existing department staff has attempted to provide the analysis work necessary. A time study has indicated workload exists for a full-time examiner position which is proposed on a reimbursable basis and not within department pro rata collections.

We recommend approval of the requested positions as budgeted.

Data Processing

The department reports that major modifications of its present data processing equipment will be required in the near future and that repair parts will soon no longer be available from the manufacturer. A survey of department data processing requirements was made in fiscal year 1966-67 at a cost of \$24,500. However, no funds are proposed for this purpose in the 1968-69 budget.

Individual Agency Administration

Agency Budgets

Individual agency budget requests for fiscal year 1968-69 are shown in Table 1. The table shows agency personnel and number of licensees together with actual and estimated expenditure data.

The Athletic Commission and the Board of Guide Dogs for the Blind are supported by the General Fund. Each of the other agencies within the department is supported by its own special fund derived largely from application fees, license renewals and some revenue from penalties assessed against licensees. These boards, bureaus and commissions have no other source of income. Fee schedules are now being established on a range basis for most boards to enable revenue adjustments without frequent recourse to the Legislature. Most of the special fund fees are collected on a biennial basis.

Boards frequently require emergency authorizations to meet unanticipated financial needs. We have listed these authorizations for 1966-67 and 1967-68 in Table 1. In past analyses we have suggested that better budget estimating might reduce the need for many such authorizations.

Department of Professional and Vocational Standards—Continued

The following are specific comments with respect to certain agencies within the department.

ATHLETIC COMMISSION

ITEM 169 of the Budget Bill

Budget page 801

Requested appropriation	\$162,500
Estimated current expenditure	92,919
Increase (74.9 percent)	69,581

In 1967 the Legislature reduced the 1967-68 proposed appropriation of \$174,796 for this agency to \$90,000 which has limited the activity of the commission during the current year. In order to live within this reduced budget the commission has held vacant five positions and eliminated the services of the Division of Investigation. The appropriation requested for budget year 1968-69 reflects an increase of 74.9 percent over estimated current expenditures by the filling of the five vacant positions, the restoration of \$19,724 for inspection services, and an increase in pro rata charges which have advanced sharply this current year.

The Legislature reduced the Athletic Commission's budget for the current year, and we see no justification to warrant restoration. *Therefore, we recommend approval of the budget of the Athletic Commission in the amount of \$95,000 for a savings to the General Fund of \$68,500.*

BOARD OF COSMETOLOGY

ITEM 176 of the Budget Bill

Budget page 811

Requested appropriation	\$819,639
Estimated current expenditure	742,291
Increase (10.4 percent)	77,348

Operating expense for this agency in budget year 1968-69 shows an increase in printing, communications and data processing due to biennial license renewals for this agency which has the largest number of licensees within the department. The increase in investigation charges now reflect a "cost of service" rather than a pro rata charge, a new adjustment this year.

We recommend approval as budgeted.

BOARD OF DENTAL EXAMINERS

ITEM 177 of the Budget Bill

Budget page 812

The Commission on California State Government and Economy recommended in its report "Examination of the Department of Professional and Vocational Standards" that:

"2. The staff position of attorney should be abolished and the Board obtain legal services from the Department and the Attorney General.

"3. The investigative staff of the Board should be transferred to the Division of Investigation."

Item 180**Professional and Vocational Standards****Board of Dental Examiners—Continued**

Both of these recommendations are incorporated in the board's budget request for fiscal year 1968-69. The abolition of the part-time (0.6) attorney position will result in a saving of \$5,421 annually. One senior special investigator and one investigator position are transferred to the Division of Investigation.

The abolition of the attorney position is related to the establishment of house counsel procedures at the department's administrative level.

We recommend approval as proposed.

BUREAU OF EMPLOYMENT AGENCIES**ITEM 180 of the Budget Bill**

Budget page 817

Requested appropriation	\$136,223
Estimated current expenditure (part year)	74,475
Increase (82.9 percent)	61,748

This bureau was created and placed in the department by Chapter 1505, Statutes of 1967. Employment agencies as a business group have been under state regulation for many years and until the 1967 legislation were under the supervision of the State Labor Commissioner in the Department of Industrial Relations.

The Bureau of Employment Agencies is requesting the following new positions as current staff for its operations. These positions were administratively established for the current year and continuance is now requested.

<i>Board member per diem (budget page 817, line 51)</i>	<i>\$ 2,100</i>
<i>1 Assistant chief (budget page 817, line 52)</i>	<i>11,736</i>
<i>1 Senior clerk (budget page 817, line 53)</i>	<i>6,672</i>
<i>1 Intermediate stenographer (budget page 817, line 54) ..</i>	<i>5,651</i>
<i>1 Intermediate clerk (budget page 817, line 55)</i>	<i>5,700</i>
<i>0.2 Temporary help (budget page 817, line 56)</i>	<i>1,000</i>

Provision is being made in bureau operating expenses to cover costs of three investigators in the Division of Investigation. The new bureau will be administered by the chief of the Bureau of Electronic Repair Dealer Registration as an added responsibility.

When regulation of employment agencies was under the Labor Commissioner, considerable workload was generated by a "controversy" settlement procedure having to do with fee collections. In transferring the licensing function to the Department of Professional and Vocational Standards the 1967 legislation repealed the controversy procedure which has reduced the workload. However, we have no basis upon which to predicate staffing needs and no way of knowing whether the proposed staff will be adequate. During the current fiscal year \$74,475 was transferred to the Department of Professional and Vocational Standards from the Department of Industrial Relations.

We recommend approval as budgeted.

Professional and Vocational Standards**Items 182, 186-188,
190, 199, 200****BUREAU OF FURNITURE AND BEDDING INSPECTION****ITEM 182 of the Budget Bill****Budget page 820**

Requested appropriation	\$448,765
Estimated current expenditure	306,194
Increase (46.5 percent)	142,571

The 1967 Legislature reduced this bureau's proposed appropriation of \$578,531 for the 1967-68 fiscal year to \$300,000.

The appropriation requested for budget year 1968-69 is an increase of 46.5 percent above the current level of service established by the Legislature. Increases proposed are in printing, communications, pro rata charges, data processing and investigations.

The 1967 Legislature reduced the bureau's level of support because of dissatisfaction with its inspection and investigation procedures. We have been presented with no information or data to warrant restoring the services previously provided by the bureau.

In accordance with previously expressed legislative intent, we recommend approval of the budget in the reduced amount of \$312,194 for a savings of \$136,571 in the Bureau of Furniture and Bedding Inspection Fund.

BOARD OF MEDICAL EXAMINERS**ITEMS 186, 187 and 188 of the Budget Bill****Budget page 825**

Requested appropriation	\$1,048,340
Estimated current expenditure	940,925
Increase (11.4 percent)	107,415

The requested appropriation shows increases in (1) general expense, (2) printing, (3) communications (postage), (4) pro rata charges, and (5) investigations. The first three categories show increases because of the mandatory publication of the professional directory. Pro rata charges have been sharply increased during the current year. Investigations now show "cost of service" charges rather than an arbitrary pro rata charge.

We recommend approval as budgeted.

BOARD OF OPTOMETRY**ITEM 190 of the Budget Bill****Budget page 830**

Requested appropriation	\$71,526
Estimated current expenditures	64,121
Increase (11.5 percent)	7,405

The requested appropriation shows increases in: (1) general expense, (2) communications, (3) pro rata charges, (4) investigations. Comments made elsewhere in this analysis with reference to pro rata charges and investigations apply to this request.

We recommend approval as budgeted.

BOARD OF VOCATIONAL NURSE EXAMINERS**ITEMS 199 and 200 of the Budget Bill****Budget page 843**

Requested appropriation	\$272,580
Estimated current expenditures	267,516
Increase (1.9 percent)	5,064

Board of Vocational Nurse Examiners—Continued

Proposed New Position. The board requests that the position of intermediate typist-clerk administratively established during the current year be continued.

1 Intermediate typist-clerk (budget page 843, line 54) ----- \$4,980

This position was established on the basis of increased application workload resulting from an opinion of the Attorney General relaxing educational requirements. Applications increased from 4,539 in 1965-66 to 9,586 in 1966-67 necessitating extra staff to meet the clerical workload. The increased workload is anticipated to continue.

We recommend approval of the requested position.

Further Recommendations of the Commission on
California State Government and Economy

In its recent study entitled "An Examination of the Department of Professional and Vocational Standards" the commission makes a series of brief recommendations (1) that certain licensing agencies whose activities and processes are similar be combined, and (2) that certain agencies be abolished, generally because no significant public protection is provided.

Boards Recommended for Combination

Beginning at page 24 of its report, the Commission on California State Government and Economy suggests that the following boards be combined as indicated below.

<i>Boards</i>	<i>1968-69 Budgets</i>	<i>Estimated Savings</i>
Barber Examiners with Cosmetology	\$418,561	\$58,400
Cemetery Board with Funeral Directors and Embalmers	819,639	
	74,813	22,982
Structural Pest Control Board with Contractors' License Board	110,001	
	491,392	40,659
Optometry with Medical Examiners	2,354,476	
	71,526	22,982
Vocational Nurse Examiners with Nursing Education and Nurse Registration	1,048,340	
	272,580	25,406
	632,223	
Totals	\$6,293,471	\$170,429

The estimates of savings from these combinations are our own and they were derived by eliminating the position of executive secretary, one stenographer and a lump sum for in-state travel in the case of the five boards with the smaller budgets in the combinations.

We agree with the commission and recommend that the Legislature give consideration to the proposed combinations in the public interest and from the standpoint of efficiency and economy.

Boards Recommended for Abolition

Beginning at page 24 of its report, the commission suggests that the Legislature abolish the following boards on one of the following grounds depending upon the particular board: (1) the program offers no significant public protection, (2) the program appears to have accomplished its initial purpose, (3) protection should be lodged in a

Public Utilities Commission

Items 202, 203

Board of Vocational Nurse Examiners—Continued

more appropriate agency, (4) if licensing is required, it should be the responsibility of another agency, and (5) only use of a title is regulated, not the practice of the occupation.

<i>Agency</i>	<i>Savings (1968-69 Budget)</i>	<i>Reason to Abolish</i>
Board of Dry Cleaners -----	\$347,523	No protection afforded.
Bureau of Electronic Repair Dealer Registration -----	261,607	Purpose accomplished, local problems
Bureau of Furniture and Bedding Inspection -----	448,765	Health agency more appropriate.
Board of Landscape Architects -----	31,596	Other agency appropriate; title regulation only.
Bureau of Marriage Counselors -----	14,535	No protection afforded; title regulation only.
Certified Shorthand Reporters Board --	31,310	No protection afforded.
Board of Social Work Examiners -----	54,928	No protection afforded; title regulation only.
Yacht and Ship Brokers' Commission --	30,744	No protection afforded.
Total savings -----	\$1,221,008	

We agree with the commission and recommend that the Legislature give consideration to the proposed abolition of the listed agencies for the reasons assigned. The total of the budget requests for fiscal year 1968-69 represents annual savings which could be realized. There would be offsetting costs to those agencies which would inherit any of the functions now carried out by the above boards or bureaus.

PUBLIC UTILITIES COMMISSION

ITEMS 202 and 203 of the Budget Bill

Budget page 847

FOR SUPPORT OF THE PUBLIC UTILITIES COMMISSION
FROM THE GENERAL FUND AND THE
TRANSPORTATION RATE FUND

Amount requested -----	\$11,104,863
Estimated to be expended in 1967-68 fiscal year -----	10,917,450
Increase (1.7 percent) -----	\$187,413
TOTAL RECOMMENDED REDUCTION, GENERAL FUND -----	\$20,265
TOTAL RECOMMENDED REDUCTION, TRANSPORTATION RATE FUND -----	38,953

Summary of Recommended Reductions

	<i>General Fund</i>	<i>Transportation Rate Fund</i>	<i>Budget Page</i>	<i>Line</i>
1 Duplicating machine operator ----- Limit to 6/30/70			848	56
1 Junior engineer -----	\$1,704	\$6,816	851	19
2 Associate transportation rate expert -----	4,364	17,356	851	21
1 Senior clerk -----	1,037	4,147	851	23
1 Assistant transportation representative --	1,704	6,816	851	25
1 Public utilities counsel II -----	11,456	3,818	852	17

Public Utilities Commission—Continued

GENERAL PROGRAM STATEMENT

The Public Utilities Commission, created by Section 22 of Article XII of the Constitution, has as its responsibility the control, supervision and regulation of such private corporations, individuals or groups as are declared to be public utilities by the Legislature. The commission states its objectives to be the protection of the public against unreasonable or discriminatory rates and charges and to insure adequate and safe service and facilities.

Programs

The objectives of the commission are achieved through two main programs: (1) regulation of utilities, and (2) regulation of transportation.

The utilities regulated include privately owned communications, electric, gas, water and steamheat companies. Regulation includes:

1. Provision for just, nondiscriminatory and reasonable rates for services.
2. Assuring adequate services, sufficient equipment and facilities, and proper methods of operation.
3. Granting certificates to render service to companies of demonstrated ability.
4. Establishment and enforcement of safety regulations.
5. Assuring just compensation for acquisition of utility property.

The regulation of transportation is applied to over 16,000 transportation and warehouse companies including railroads, buses, trucks, and vessels transporting freight or passengers in intrastate commerce as well as warehousemen, wharfingers, careloaders and pipeline operators. Regulation includes:

1. Provision for lowest reasonable and nondiscriminatory rates.
2. Assuring adequate and appropriate facilities and vehicles that meet efficiency standards.
3. Limitation of entry into the field to able and financially qualified companies.
4. Accident reduction.
5. Assuring just compensation for acquisition of transportation property.

Agency administration is a third program including commissioners' activity, staff leadership and housekeeping services.

Support of the Commission

The commission is supported by two funds: the General Fund and the Transportation Rate Fund. Income for the Transportation Rate Fund is derived from fees paid by motor carriers hauling freight. Expenditures from the Transportation Rate Fund are limited by statute to administering and enforcing statutory provisions which give the commission jurisdiction over the rates, charges and practices of for-hire carriers of property.

Public Utilities Commission—Continued
Commission Organization and Staff

Utility type regulation by the state began in 1850 with the placing of certain requirements on public ferries and toll bridges. Utility regulation in its current form dates from 1911 and 1912 when the predecessor Railroad Commission was created by the Constitution and a Public Utilities Act passed by the Legislature.

The Public Utilities Commission is composed of five members appointed by the Governor to six-year terms with the advice and consent of the Senate. The commissioners annually elect one of their members as president. Headquarters is maintained in San Francisco as required by law, an area office is located in Los Angeles and 15 field offices as part of the Transportation Division's work with highway carriers are located in principal California cities. Of the currently authorized staff of 794.5 positions, 606 are located in San Francisco, 131 in Los Angeles and 57.5 are distributed among the 15 field offices.

Method of Operation

The commission passes judgment on all operating changes proposed by regulated utilities and upon complaints registered against utilities. It may initiate an investigation of a utility company upon its own motion. In all events data is accumulated by staff, hearings are held, decisions made and compliance secured through enforcement procedures. An application or complaint presented by or against a transportation company would be studied by the Transportation Division. Financial aspects in either instance would be reviewed and evaluated by the Finance and Accounts Division. Legal advice comes from the Legal Division, and the Examiners' Division has charge of hearings. The Administrative Division provides housekeeping services.

ANALYSIS AND RECOMMENDATIONS

The commission's request for budget year 1968-69 is \$11,104,863 which exceeds estimated current expenditures by \$187,418 or 1.7 percent. Of the budget request, \$5,845,944 would be appropriated from the General Fund. This amount exceeds estimated current expenditures from the General Fund by \$77,144 or 1.3 percent. The balance of the request or \$5,258,919 would be appropriated from the Transportation Rate Fund. This amount exceeds estimated current expenditures from this source by \$110,269 or 2.1 percent.

Administrative Division

This division provides the centralized business and administrative services for all other divisions of the commission. It serves the commission directly by receiving and recording all official filings, processing and distributing all commission decisions and orders, and responds to other requirements as needed.

	<i>Total</i>	<i>General Fund</i>	<i>Transportation Rate Fund</i>
Requested appropriation -----	\$1,432,349	\$796,605	\$635,744
Estimated current expenditures	1,403,331	786,929	616,402
Authorized man-years -----	119		

Public Utilities Commission—Continued

Proposed New Positions

The commission requests approval of the following new position:

1 *Duplicating machine operator (budget page 848, line 56)*— \$5,220

The position is requested for operation of offset duplicating equipment in an experiment in printing minimum rate tariffs. If feasible, all tariffs will be printed by this method. Savings in printing costs and elimination of time lag through the State Printing Plant are anticipated.

This proposed project appears to have considerable merit. However, we do not believe that a full-time permanent position should be established to conduct a limited experiment. *We therefore recommend that a two-year limitation be placed on this proposed position so that the situation may be reviewed in the budget request for fiscal year 1970-71.*

Utilities Division

This division performs the commission's staff work in the regulation of privately owned public utilities other than those classified within the transportation field.

General Fund only

Requested appropriation	\$2,413,600
Estimated current expenditures	2,382,190
Authorized man-years	171

Proposed New Positions

The commission requests approval of the following proposed new positions:

Gas and Electric Branch

1 *Associate utilities engineer (budget page 849, line 37)* \$11,400

Stenographic Unit

1 *Intermediate stenographer (budget page 849, line 39)* — 5,100

The federal Department of Transportation is proposing regulations on construction and operation of gas transmission and distribution pipelines. The proposed engineering position is requested as an analyst and coordinator of state and federal safety regulations and as the staff man to inspect gas holders and pressure vessels which are a part of the pipeline network.

The field in which this proposed engineering position would be scheduled to work is a growing and developing area of public safety and one for which the commission bears responsibility. *We recommend approval of the engineering position as budgeted.*

The Utilities Division has the responsibility for preparing considerable material for the extensive commission hearings on utility rate matters. During the past two years the clerical workload in the division has increased approximately 10 percent with no increase in personnel. *We recommend approval of the proposed stenographer position.*

Public Utilities Commission—Continued

Finance and Accounts Division

This division supervises the various accounting procedures prescribed by the commission as they apply to public utilities and conducts rate, cost and financial studies.

	Total	General Fund	Transportation Rate Fund
Requested appropriation -----	\$748,742	\$588,222	\$160,520
Estimated current expenditures---	708,402	558,630	149,772
Authorized man-years -----	49		

Proposed New Positions

The commission requests approval of the following new positions:

3 Public utility examiner II (budget page 850, line 20) ---	\$26,856
1 Intermediate typist-clerk (budget page 850, line 21) ---	4,740

The budget request states that the three financial examiner positions are intended to help overcome deficiencies in accounting activity resulting from past deferments. Inability to conduct informal audits of utilities has resulted in a steady deterioration in the quality of utility accounting records. The average examiner can make 55 audits a year. The commission states that as many as 26 percent of annual utility reports filed in calendar year 1966 showed deficiencies. Utilities and carriers subject to the commission's accounting procedures total 2,280. The goal is to audit each one a minimum of once every five years. This standard is not currently being met. The typist-clerk position is intended as a support for the three proposed technical positions.

Accounting records are the basis upon which the commission relies in the performance of its regulatory function in ratemaking, authorization of security issues, mergers and consolidations. They indicate whether or not a company is financially able to provide adequate service to the public. They are the only source of information for investors and are the basis for assessed valuation determinations for tax purposes. The record of report deficiencies for several years indicates that attention to the problem has been inadequate. *We recommend approval of the proposed positions as budgeted.*

Transportation Division

This division performs staff functions for the Public Utilities Commission in its regulation of rates, services and operating conditions of for-hire carriers of passengers and freight.

	Total	General Fund	Transportation Rate Fund
Requested appropriation -----	\$4,916,083	\$941,128	\$3,974,955
Estimated current expenditures	4,806,456	958,738	3,907,718
Authorized man-years -----	352.5		

Proposed New Positions

The commission requests approval of the following proposed new positions:

Engineering Economics Branch

1 Junior engineer (budget page 851, line 19) -----	\$8,520
--	---------

Public Utilities Commission—Continued

Rate Branch

2 Associate transportation rate experts (budget page 851,
line 21) ----- 21,720

1 Senior clerk (budget page 851, line 23) ----- 5,484

License and Compliance Branch

1 Assistant transportation representative (budget page
851, line 25) ----- 8,520

The junior engineer position is requested to assist the Freight Cost Section to meet an increasing, and in several cases, unanticipated workload. Duties will consist of field surveys and motor carrier performance studies.

The two associate rate experts and senior clerk positions are requested on the basis that the number of documents handled, tariff pages prepared and other matters are on the increase and that more adequate data bank input and better use of output is sought in rate studies.

The transportation representative is sought on the basis of an increasing number of applications for licensing of motor carriers. A review of workload data indicates the number of applications is a fluctuating figure rather than an increasing one and is shown below:

<i>Fiscal year</i>	<i>Number of Applications</i>
1962-63 -----	4,180
1963-64 -----	4,326
1964-65 -----	4,312
1965-66 -----	4,438
1966-67 -----	4,119

The justification material presented to us as support for the five proposed positions does not present adequate information as to the workload of existing staff, what workload is projected and how the existing and proposed staff would handle this projected workload.

We recommend deletion of the five proposed new positions for a saving of \$44,244.

Legal Division

This division provides legal services for the commission, staff counsel in certain proceedings and represents the commission in the courts.

	<i>Total</i>	<i>General Fund</i>	<i>Transportation Rate Fund</i>
Requested appropriation -----	\$689,194	\$514,167	\$175,033
Estimated current expenditures -----	656,407	490,959	165,448
Authorized man-years -----	37		

Proposed New Positions

The commission requests approval of the following proposed new positions:

1 Public utilities counsel II (budget page 852, line 17) ---- \$15,276
1 Senior legal stenographer (budget page 852, line 18) ---- 6,204

The counsel II position is requested for assignment to the American Telephone and Telegraph Co. investigation now being conducted by the Federal Communication Commission. This request is similar to one made for the current budget year which was not approved. Staffing

Public Utilities Commission—Continued

for the commission's participation in this investigation has been provided by reducing staff in two legal sections. We can find nothing that indicates that the current legal staff is insufficient or incapable of handling this particular investigation. *We therefore recommend deletion of the requested counsel position for a saving of \$15,276.*

The senior legal stenographer position is requested partly to support the requested counsel position and partly to improve the secretary-attorney ratio which now stands at approximately 1 to 3½ as compared to the Attorney General's ratio of 2 to 3.

We agree that the present secretary-attorney ratio is not adequate and *recommend approval of this position as budgeted.*

Examiner Division

This division provides hearing examiners to assure due process to those seeking formal relief from the commission, and provides parties an ample hearing and insures that proceedings will be conducted in compliance with the law.

	Total	General Fund	Transportation Rate Fund
Requested appropriation	\$700,955	\$463,743	\$237,212
Estimated current expenditures.....	698,307	462,759	235,548
Authorized man-years	41		

No request is made for added positions.

Reporting Section

This section provides hearing reporters and transcribers for commission proceedings.

	Total	Fund General	Rate Fund Transportation
Requested appropriation	\$203,931	\$128,476	\$75,455
Estimated current expenditures.....	202,357	128,595	73,762
Authorized man-years	25		

No request is made for added positions.

DEPARTMENT OF CONSERVATION

ITEM 204 of the Budget Bill

Budget page 855

FOR SUPPORT OF DEPARTMENT OF CONSERVATION
FROM THE GENERAL FUND

Amount requested	\$32,395,947
Estimated to be expended in 1967-68 fiscal year.....	33,753,447
Decrease (4.2 percent)	\$1,357,500

TOTAL RECOMMENDED REDUCTION \$108,323

Summary of Recommended Reductions

	Amount	Budget Page	Line
Delete funds for Red Bluff Air Attack Base.....	\$31,492	860	37
	12,361	860	8
Reduce positions and equipment at La Panza			
Forest Fire Station	14,400	860	47
	21,250	860	8
Reduce support of Staff to the Director.....	28,820	856	83