

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 186 from the General Fund

Requested 1969-70 -----	\$5,850,159
Estimated 1968-69 -----	5,632,206
Actual 1967-68 -----	5,311,536
Requested increase \$217,953 (3.9 percent)	
Increase to improve level of service \$65,711	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

Following adoption of Section 22, Article XX, of the State Constitution in 1954, the Department of Alcoholic Beverage Control was established in 1955 and succeeded to the subject matter jurisdiction formerly assigned to the Board of Equalization in governing the importation and sale of alcoholic beverages in the state.

The department consists of its Sacramento headquarters with 76.4 authorized positions plus a Northern Division office in San Francisco and a Southern Division office in Los Angeles, each of which supervises 10 district offices located in principal cities. The field staff, consisting of 369 authorized positions, represents more than 80 percent of the department's employees.

Licensing Function

The department's single program of law administration is composed of (1) licensing and (2) compliance. Department statistics show that there are currently approximately 47,700 active licenses, including licenses for the manufacture, importation, sale, purchase, possession and transportation of alcoholic beverages. Forty-seven kinds of licenses are currently issued. A partial listing of departmental licensing output is presented in Table 1.

**Table 1
Calendar Year Licensing Output**

Item	Actual		Estimated		
	1966	1967	1968	1969	1970
Total applications -----	14,336	14,552	14,570	14,570	14,570
Licenses issued -----	12,390	12,538	12,550	12,550	12,550
Total active licenses -----	47,735	47,713	47,725	47,750	47,775

The data for "licenses issued" do not include certain temporary and daily licenses.

Activities relating to the licensing function represent approximately one-half of the department's annual expenditures and involve about one-half of its personnel.

Compliance Function

The enforcement element of the department's program represents the other half of the department's expenditures and personnel. Its objective is to assure substantial compliance with the statutes and rules regulating the alcoholic beverage industry. The department shares the law enforcement responsibility with local police and other law enforcement

Department of Alcoholic Beverage Control—Continued

agencies because many Alcoholic Beverage Control Act violations are offenses punishable in the courts. A partial measurement of departmental compliance activity is indicated in Table 2.

Table 2
Calendar Year Compliance Output

Item	Actual		Estimated		
	1966	1967	1968	1969	1970
Accusations filed	2,209	2,243	2,243	2,243	2,243
Arrests (departmental)	1,286	1,425	1,425	1,475	1,525
Arrests (joint)	163	188	190	200	210
Complaints investigated	14,706	12,232	12,232	12,232	12,232
Hearings held	1,574	1,495	1,500	1,500	1,500

ANALYSIS AND RECOMMENDATIONS

The Department of Alcoholic Beverage Control is supported by the General Fund. However, it is a revenue-producing agency. Certain fees, including those for new licenses and license renewals, are paid into the Alcoholic Beverage Control Fund. In April and October of each year, money on deposit in this fund is divided 90 percent to cities and counties and 10 percent to the state's General Fund. For fiscal year 1967-68, the state's 10 percent-share amounted to \$1,286,961. Estimates for succeeding years are not yet available.

Other fee income, such as license transfer and business practice fees, is paid directly into the General Fund. For fiscal year 1967-68, this amount of General Fund income was \$3,866,909. Total General Fund income from both sources for that fiscal year amounted to \$4,153,869, which was \$1,157,667 short of the total department expenditures of \$5,311,336. However, as a result of legislative adjustments in license fee schedules last year, the department estimates that General Fund income for the budget year will exceed projected General Fund expenditures by \$1,135,841.

During the budget year the department proposes to spend \$5,850,159 which exceeds estimated expenditures for the current year by \$217,953 or 3.9 percent.

Positions Proposed to be Upgraded

We recommend approval of the proposal to increase enforcement activity.

The proposed increased level of expenditure for the budget year results in part from the department's plan to place greater emphasis on the compliance element of the department's program. Included within the proposed increase in level of enforcement activity are the following:

<i>Reclassification of 40 investigation positions to senior level</i>	\$42,000
<i>Increase in traveling in-state</i>	13,711
<i>Increase in funds to secure evidence</i>	10,000

Under legislation adopted in 1963, the department was specifically charged with enforcing code provisions regulating "business practices", with particular emphasis on fair trade and price posting laws and statutes forbidding financial ties between wholesalers and retailers referred to as "tied-houses."

Department of Alcoholic Beverage Control—Continued

Chapter 1026, Statutes of 1963, appropriated \$283,000 to the department to fund the business practices program and raised certain license fees to finance the costs. This resulted in the addition of 35 new positions to the department staff to cover the increased activity.

Three special area units were organized to implement the new law, but this arrangement subsequently was abandoned and the responsibility was placed generally on district offices, as part of the routine work of regular investigators. However, lack of adequate background and experience on the part of the average investigator with respect to complex licensing and enforcement activities has proved a hindrance to adequate enforcement. In an effort to secure better enforcement of the law, the department now proposes to examine, reclassify to senior level, and specially train two men in each of the 20 district offices to undertake investigations of the more complex cases, including business practices violations, tied-house relationships, corporate ownerships, hidden ownerships (by racketeers, etc.) and fair-trade violations. The proposed reclassification plan has been approved by the Department of Finance and the State Personnel Board.

Recruiting Problem

The department advises us that it has a recruiting problem with reference to investigators. During calendar year 1968, for example, it was able to recruit only 21 such employees from a list of 123 eligibles. In the same year, 18 investigative personnel left the department to accept law enforcement positions in other state and local agencies paying higher salaries. The department states that it is presently operating at an average of 18-20 positions below the authorized level of 211 investigator positions because of recruitment and retention problems.

The department states that the reclassification of the positions will provide promotional opportunities which do not now exist, will make the positions more attractive because of greater compensation and will motivate more employees to remain with the department. We support these views.

Additional Increases

Two additional items of increased expense under budget year proposals are the following:

1. *Clerk-typist I* ----- \$4,524

We recommend approval of the position.

The department has presented workload justification noting that in the Van Nuys district office investigators are frequently called upon to type reports because of the lack of clerical help when they should more appropriately be spending time in the field on regularly assigned duties.

Printing increase ----- \$12,397

We recommend approval.

The department proposes to reprint the entire Alcoholic Beverage Control Act during the budget year to reflect recent changes in the law. Ten thousand copies of this booklet will be published and distributed.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 187 from the General Fund

Requested 1969-70	\$135,268
Estimated 1968-69	130,892
Actual 1967-68	125,688
Requested increase \$4,376 (3.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board is a constitutional body which serves as an intermediate appellate agency between the Department of Alcoholic Beverage Control and the appellate courts. Its mission is to provide administrative review for any person aggrieved by a decision of the department relating to penalty assessments or the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license.

The board consists of a chairman and two members appointed by the Governor with the consent of the Senate and serving at the Governor's pleasure. Staff is authorized at seven positions. Board meetings are held regularly in Sacramento, San Francisco and Los Angeles.

Board activity is measured in part by the number of appeals and decisions issued as shown in Table 1.

Table 1

Appeals Received and Decisions Rendered by the ABC Appeals Board

<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
1967-68	229	237

Our review indicates that approximately 25 percent of the possible appealable decisions rendered by the department are actually appealed to the board.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board is requesting for expenditure during budget year 1969-70 the sum of \$135,268, which exceeds estimated expenditures for the current year by \$4,376 or 3.3 percent. The increase is due primarily to merit salary adjustments, increased costs for duplicating services, and telephone tolls.

STATE BANKING DEPARTMENT**Item 188 from the Banking Fund**

Requested 1969-70	\$1,340,197
Estimated 1968-69	1,336,545
Actual 1967-68	1,258,160
Requested increase \$3,652 (0.3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Section 200 of the Financial Code provides that 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." The department's mission is to protect the public from financial loss resulting from bank and trust company failures. Some banking operations in California are, by choice, regulated by federal rather than state authority. The code provides for three classes of banks—commercial, savings, and trust companies. Savings banks, however, no longer exist in California. They differed from commercial banks in that they could not provide checking services or issue unsecured loans.

The State Banking Department is headquartered in San Francisco and maintains a branch office in Los Angeles. The department is administered by the Superintendent of Banks who is appointed by the Governor. The currently authorized staff consists of 85 positions.

Regulation of the banking business began in California in 1878. In 1909 the department was established and with some modifications has been continued in existence since that date.

Activities of the department are classified as follows:

- (1) Licensing and supervision of banks and trust companies
- (2) Supervision of transmitters of money abroad
- (3) Certification of securities as legal for investment
- (4) Assistance to small business
- (5) Departmental administration

Licensing and Supervision of Banks and Trust Companies

This program involves three elements, the first being the investigation of applications for new facilities. In order to minimize risk of loss to depositors and customers, prior approval of the superintendent is required to establish a new bank, new trust company, a new trust department of an existing bank, a new title insurance company, new branches of existing banks and trust companies, and branches and representative office of foreign banking corporations.

An indication of the volume of activity in this regard is shown in Table 1.

State Banking Department—Continued

Table 1
Bank and Trust Company Applications Processed

<i>Item</i>	<i>Actual 1967-68</i>	<i>Estimated 1968-69</i>	<i>Estimated 1969-70</i>
For new banks.....	5	10	10
For new branches.....	81	65	75
For new trust facilities.....	4	5	5

Program element two is described as continuing supervision of existing banks and number three as continuing supervision of trust activities. Procedures are much the same under both elements. All banks and trust companies are examined at least annually and their quarterly reports to the department are carefully reviewed. Immediate remedy is sought by the department for unsafe conditions or practices discovered as the result of these examinations. Measurement of activity under these elements is best made by noting the number of man-years devoted to the activity as shown in Table 2.

Table 2
Man-Years Devoted to Supervision of Banks and Trust Companies

<i>Program Element</i>	<i>Actual 1967-68</i>	<i>Estimated 1968-69</i>	<i>Estimated 1969-70</i>
Bank supervisors	64.3	64.8	63.2
Trust company supervisors	5.3	5.5	5.6

Transmitters of Money Abroad

Although sellers of checks (such as traveler's checks, drafts, or money orders) are licensed and supervised by the Commissioner of Corporations, they must also be licensed and supervised by the Superintendent of Banks in order to transmit money to foreign countries. There are four companies presently so licensed and these companies have over 5,000 agents.

Certification of Securities

The department states that prior to 1950 there was inadequate regulation of the issuance of securities and, as a result, statutes governing investment in securities by savings banks were enacted. While such banks no longer exist, certain public retirement funds and other agencies still invest in corporation securities, but in order to do so they must receive certification from the banking superintendent that the securities to be purchased are legal for investment by savings banks. Under present practices and regulations relating to securities, this requirement may no longer be necessary. The department has this program under study and is looking toward its possible termination.

Assistance to Small Business (New Program)

Chapter 1372, Statutes of 1968, established a pilot program to be administered by the superintendent, the purpose of which is to minimize unemployment in low-income areas through the promotion of small business enterprises and the development of entrepreneurial abilities by persons within such areas. The legislation states that the superintendent shall select and contract with private nonprofit associations to provide technical assistance to loan applicants in the form of consulting

State Banking Department—Continued

services, accounting services and advice on business management and financing.

This program, which is to terminate after adjournment of the 1970 Regular Session of the Legislature, was funded by an appropriation of \$150,000, one-half of which is being expended in the current year and the remainder is scheduled for expenditure in the budget year.

Departmental Administration

The administrative program contains three elements (1) executive direction and supporting activities for the operating programs, (2) drafting and evaluation of legislative bills and (3) revision of the banking law. The sum of \$5,000 was appropriated in the current-year budget to finance a revision of the banking law. This is a one-year program.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

For support during fiscal year 1969-70, the department requests the sum of \$1,340,197 which is \$3,652 or 0.3 percent greater than estimated expenditures for the current year. The requested amount, when added to the \$75,000 carry-over balance from last year's General Fund appropriation made by Chapter 1968 (Small Business Assistance), results in a total expenditure program of \$1,415,197.

The agency proposes to abolish three bank examiner II positions and to make permanent an assistant counsel position administratively established during the current fiscal year. This proposal results in a net reduction of two positions.

The State Banking Department is supported principally by the State Banking Fund, which in large part is derived from a percentage assessment placed on the reported assets of regulated firms. The assessment may not exceed 1/100 of 1 percent of a bank's assets adjusted by certain deductions. Revenues estimated to accrue to the fund for fiscal year 1969-70 will fall \$128,294 short of meeting projected expenditures from the fund. However, an existing accumulated surplus of \$770,450 will more than cover the apparent deficit.

DEPARTMENT OF CORPORATIONS**Item 189 from the General Fund**

Requested 1969-70	\$3,054,310
Estimated 1968-69	3,381,819
Actual 1967-68	3,034,395
Requested decrease \$327,509 (9.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Governor's Reorganization Plan No. 1, accepted by the Legislature in 1968, renamed the former Division of Corporations the Department of Corporations.

Department of Corporations—Continued

This department has the mission of protecting the public against (1) unfair schemes of investment in private corporate 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.

Reorganization Results in Greater Economy and Staff Reductions

During the past year and a half, the department has been reorganized. Previous to this reorganization, the department operated its offices in Sacramento, San Francisco and Los Angeles as semiautonomous units, each having its own staff sections responsible for the several programs of the department. Under the new plan, functions of the department are grouped into four units, each headed by a program supervisor, which operate on a statewide basis.

The reorganization involved not only the office changes noted above but also a complete administrative realignment, a series of staff-conducted cost studies which have resulted in substantial procedural changes and in several instances the substitution of mechanization for personnel. These changes resulted in abolition of 49 authorized positions in the current year. They also permit the elimination of an additional 71.2 positions as proposed in the budget for fiscal year 1969-70. Department workload has been reduced in part by the passage of the 1968 Corporate Securities Law by the Legislature and by legislative adoption of a series of departmental sponsored bills permitting flexibility in the scheduling of examinations of licensees, thus eliminating the previous requirement of annual examinations.

The department has assured us (1) that the level of protection for the public has not been reduced or jeopardized by the administrative and legislative changes discussed above or by the substantial reductions in staff and (2) that no departmental employee will lose his job by reason of position elimination. Normal job vacancy and attrition factors will account for most of the abolished positions. Other jobs are available in the few instances where attrition will not solve the job loss problem.

The Department of Corporations is administered by the Commissioner of Corporations appointed by the Governor and serving at his pleasure. Offices are maintained in Sacramento, San Francisco and Los Angeles with a branch of the Los Angeles office in San Diego. Staff is currently authorized at 366.2 position.

Security Sales Regulation

California was one of the first states to undertake regulation of security sales. The first legislation was enacted in 1913, and additional statutes were enacted in 1917 to include regulation of lender-fiduciary relationships. The 1968 corporate securities law contains the first major changes since 1917.

Not all security transactions are subject to departmental regulation. Exempted are (1) those securities issued by banks, savings and loan associations and insurance companies which are under the jurisdiction of the Superintendent of Banks, the Insurance Commissioner or the

Department of Corporations—Continued

Savings and Loan Commissioner; (2) those subject to approval of the Public Utilities Commission or certain federal agencies and (3) those of the type certified for investment by savings banks which are reviewed by the Districts Securities Commission.

Department Programs

The Department of Corporations discharges its responsibilities under three programs: (1) securities program, (2) lender-fiduciary program, and (3) administration program.

Securities Program

This program has four objectives (1) to determine if the proposed plan of business of an applicant is fair, just and equitable and that the business will be conducted fairly and honestly, (2) to determine if the proposed issuance of securities is fair, just and equitable and that the method used for issuing and disposing of these securities will not defraud the purchaser, (3) to prevent violations of the Corporate Securities Law of 1968 and (4) to prevent unqualified persons from engaging in business as brokers, agents or investment advisers.

The securities program contains two elements: (1) qualification and (2) regulation and enforcement. Anyone desiring to sell a security in California must apply to the commissioner. A security may be qualified for sale by a permit procedure or by a process of coordination or notification in the case of securities which are already registered with the Federal Securities and Exchange Commission. Activity in this element is shown in Table 1.

Table 1
Securities Qualification Output

<i>Item</i>	<i>Actual 1967-68</i>	<i>Estimated 1968-69</i>	<i>Estimated 1969-70</i>
Permits issued	21,599	16,500	6,681
Other procedures			
Coordination	--	600	1,207
Notification	--	80	161
Notices—small issue exemptions.....	--	6,400	12,590
Orders issued	15,523	15,000	15,000

Table 2 shows departmental activity under the regulation and enforcement element.

Table 2
Departmental Licensing and Enforcement Activities

<i>Item</i>	<i>Actual 1967-68</i>	<i>Estimated 1968-69</i>	<i>Estimated 1969-70</i>
Individual licenses issued.....	23,528	24,688	25,849
Enforcement cases processed.....	1,005	1,001	1,500

Lender-Fiduciary Program

The department has two objectives under this program: (1) to evaluate the character, reputation, experience and financial responsibility of applicants for licenses and to ascertain that the applicants have a plan of business conforming to the particular law under which they propose to operate and (2) to make periodic examinations of the books

Department of Corporations—Continued

and records of each licensed entity to determine that the licensee is conducting its business in accordance with law and to act upon suspected or alleged violations of law. Table 3 shows departmental activity under the lender-fiduciary program.

Table 3

Licenses Issued and Investigations Conducted Under Lender-Fiduciary Laws			
Item	Actual 1967-68	Estimated 1968-69	Estimated 1969-70
<i>Check Sellers and Cashers Law</i>			
Licensed locations -----	38	40	40
Investigations -----	32	38	40
<i>Credit Union Law</i>			
Licenses -----	634	641	648
Investigations -----	520	641	648
<i>Escrow Law</i>			
Licensed locations -----	513	520	530
Investigations -----	439	450	460
<i>Industrial Loan Law</i>			
Licensed locations -----	242	245	250
Investigations -----	224	230	240
<i>Personal Property Brokers and Small Loan Law</i>			
Licenses -----	1,876	1,920	1,970
Investigations -----	1,824	1,900	1,950
<i>Retirement Systems Law</i>			
Licenses -----	654	685	700
Investigations -----	189	250	300
<i>Trading Stamp Law</i>			
Licenses -----	32	37	39

Administration Program

Two types of departmental activity are classified under the administration program (1) general office activity by the commissioner and his staff and (2) accounting and personnel management.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

The department has requested for expenditure during fiscal year 1969-70 the sum of \$3,054,310 which is \$327,509 or 9.7 percent less than estimated expenditures for the current year.

Part of the reduced costs results from the proposed abolition of 71.2 authorized positions previously discussed.

The decrease in personnel and the accompanying reduction in personal service costs is offset partially by increased operating expenses. There are substantial increases in the items of general expense and in data processing. The change in cost emphasis is illustrated by the fact that 10 legal stenographer positions are being abolished for an estimated annual savings of \$62,040. In substitution for the services performed by this group, the department will lease 10 programmed typewriters at \$3,000 each annually for an annual cost of \$30,000. The net saving is therefore estimated at \$32,040. The \$30,000 lease cost appears as an addition to general expense.

Department of Corporations—Continued

Similarly, greatly expanded use of data-processing equipment, while contributing to reductions in personnel, results in added cost to the data-processing item. Hearing reporter positions are being replaced by greater use of the Office of Administrative Procedure.

Although this department is supported from the General Fund, reimbursements and revenues resulting from fees charged by the department more than offset the costs of departmental operation. The department has advised us that revised estimates for the current year indicate that revenues will exceed the \$3,825,935 originally anticipated. Revenues estimated for the budget year total \$4,286,789.

DISTRICTS SECURITIES COMMISSION

Item 190 from the General Fund

Requested 1969-70 _____	\$219,936
Estimated 1968-69 _____	187,819
Actual 1967-68 _____	154,468
Requested increase \$32,117 (17.1 percent)	
Total recommended reduction _____	\$36,060

SUMMARY OF RECOMMENDED REDUCTIONS

	<i>Amount</i>	<i>Analysis page</i>
Abolish 1 clerical and 2 engineering positions plus related expenses _____	\$36,060	685

GENERAL PROGRAM STATEMENT

This commission is composed of the Attorney General, the Director of Water Resources, the Superintendent of Banks, the State Treasurer and three other members appointed to four-year terms by the Governor. Authorized staff consists of 13.1 positions. The commission's office is located in San Francisco.

The commission is given statutory responsibility for supervising certain fiscal affairs and construction projects of irrigation districts, California water districts, water storage districts and certain other types of districts and local entities within the state.

Activity of the commission is carried forward under the following four program elements:

- (1) Examination and reporting on debt proposals of irrigation and water districts,
- (2) Examination and approval of financing programs of water storage districts,
- (3) Examination and approval of bonds of local districts, and
- (4) Issuance of financial feasibility reports on projects involving land reclamation by cities and counties.

Our review of the number of district applications approved, volume of certification and other reports made, and the number of districts reporting to the commission indicates that the annual workload is relatively stable.

District Securities Commission—Continued
ANALYSIS AND RECOMMENDATIONS

The commission is supported by the General Fund, but fees which it charges to districts for services rendered are scheduled to cover the costs to the General Fund. For the 1969-70 fiscal year, the commission proposes to expend the sum of \$219,936. This exceeds estimated current expenditures by \$32,117, or 17.1 percent. However, the request is actually less than the \$225,842 appropriation made last year for the support of the commission. This results from the fact that the commission now anticipates for the current year a larger salary savings than was originally estimated. The estimate is now \$29,474 and represents 2.8 authorized positions (0.8 of a clerical position and 2 engineering positions) that will not be filled. In contrast, the original estimate of salary savings for the current year, as shown in the Governor's 1968-69 Budget, was only \$2,484. Salary savings for the budget year are estimated at \$3,000. Thus, the difference between the level of salary savings estimated for the budget year and the much higher level of salary savings now estimated for the current year accounts for the major portion of the \$32,117 budgetary increase requested for 1969-70.

Three Vacant but Funded Positions Not Needed Next Year

We recommend abolition of the one clerical and two engineering positions together with related expenses for a saving of \$36,060.

We are advised by the agency that it desires to continue to hold vacant these three positions on the basis that workload may increase during the budget year if the federal government provides funding for certain local construction projects. Such additional workload is not projected in the budget because it is contingent solely on future federal budgetary decisions, but the proposal to retain the authorized positions would encumber approximately \$36,060 of General Fund money which more properly should be applied to higher priority requirements.

In the event that federal funding of certain projects reviewable by the commission should be resumed during the budget year, financing from the Emergency Fund could be made available for the support of required additional personnel.

HORSE RACING BOARD

Item 191 from the Fair and Exposition Fund

Requested 1969-70	\$334,345
Estimated 1968-69	316,551
Actual 1967-68 (Fair and Exposition Fund)	238,089
Actual 1967-68 (General Fund)	27,418
Requested increase \$17,794 (5.6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Horse Racing Board is established pursuant to Section 19(b), Article IV, of the State Constitution, which authorizes

Horse Racing Board—Continued

horseracing and wagering thereon. The board consists of three members appointed to four-year terms by the Governor. Board members receive travel expenses but otherwise are not compensated for their services. Board headquarters is in Los Angeles. Currently authorized staff, headed by an executive secretary, consists of 23.2 positions. Two mobile offices (one maintained permanently in the northern and one in the southern part of the state) are moved from track to track as the racing season progresses. These offices are staffed by licensing clerks and investigators.

The program of the board is the regulation of all horserace meetings where parimutuel wagering is conducted. Such regulation encompasses licensing racing associations and participants, assigning racing dates and charity days, adjudicating controversies, enforcing laws and regulations and collecting daily the state's share of money derived from the race meeting.

Specifically the board's program consists of three elements (1) licensing, (2) enforcement, and (3) administration.

Licensing

Participant licensing output is indicated in Table 1, which is derived from the board's statistical statement.

Table 1
Selected Statistical Data, Horse Racing Board

	<i>Actual</i>		<i>Estimated</i>	
	1966-67	1967-68	1968-69	1969-70
Number, racing days-----	573	668	700	800
Occupational licenses issued-----	11,325	13,859	14,000	14,500
Fees collected -----	\$83,325	\$105,892	\$107,000	\$110,000

Racing associations are also licensed by the board. Fees for such licenses are collected daily during a racing meet and are based on a formula applied to the parimutuel "handle" which is the total amount of money wagered at the track. Approximately 85 percent of the handle is returned to winning ticket holders while the remaining 15 percent is divided on an approximately even basis between the racing association and the state according to a complex formula.

Enforcement

Supervision of racing activities and of all individuals within the race-track grounds is the responsibility of the board's bureau of investigation. The bureau chief is a peace officer. Intelligence information is maintained on racing participants and on those persons whose presence within the track is considered undesirable. Liaison is maintained with law enforcement agencies. Table 2 shows statistics on the bureau's enforcement activities.

Table 2
Selected Enforcement Statistics, House Racing Board

<i>Item</i>	<i>Actual</i>	<i>Estimated</i>	<i>Estimated</i>
	1967-68	1968-69	1969-70
Ejected patron hearings-----	56	56	56
License penalty hearings-----	28	34	34

Horse Racing Board—Continued
Administration

The board's administrative and business service activities encompass the usual responsibilities of policy and control.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

The state revenue collected by the board is distributed as shown in Table 3.

Table 3
Distribution of Horseracing Revenue

Item	Actual 1967-68	Estimated 1968-69	Estimated 1969-70
Total revenue	\$54,800,427	\$60,258,344	\$62,965,000
To Fair and Exposition Fund	7,946,973	8,444,609	8,401,303
To General Fund	46,103,454	50,724,735	53,713,697
To Wildlife Restoration Fund	750,000	750,000	750,000
To State Fair Fund	--	339,000	--

The board is supported by the Fair and Exposition Fund, which also provides, pursuant to continuing appropriations in the Business and Professions Code, support and capital outlay moneys for county, district and other fairs and shows within the state. Because all of the money in this fund is continuously and totally appropriated by law, with the ending balance transferred to the General Fund, it was necessary for the board to secure an emergency loan of \$27,418 from the General Fund in 1967-68 to finance added staff necessitated by 1967 legislation which increased the number of racing days.

For the budget year, the board requests an appropriation of \$334,345, which is \$17,794 or 5.6 percent greater than estimated expenditures for the current year. Most of the requested increase results from salary and price increases.

DEPARTMENT OF INSURANCE

Item 192 from the General Fund

Requested 1969-70	\$4,216,041
Estimated 1968-69 (General Fund and Insurance Fund)	4,099,590
Actual 1967-68 (General Fund and Insurance Fund)	3,817,578
Requested increase \$116,451 (2.8 percent)	
Increase to improve level of service—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Department of Insurance regulates insurance companies authorized to do business in California for the purpose of protecting investors, policyholders, and beneficiaries under policies written by such companies.

Department of Insurance—Continued

The department is administered by the Commissioner of Insurance who is appointed by the Governor with the consent of the Senate for a term of four years coextensive with the term of the office of Governor. Department staff consists of 306.5 authorized positions. Headquarters is in San Francisco with branch offices in Sacramento and Los Angeles as required by Section 12905 of the Insurance Code. A district office is maintained in San Diego.

Regulation of the insurance industry in California began in 1868 with the creation of the Office of Insurance Commissioner. In 1929, this office was made a division of the then newly established Department of Investment (abolished by Reorganization Plan No. 1, 1968). In 1941 under Section 12906 of the Insurance Code, the agency was removed from the Department of Investment and established as the Department of Insurance.

As related to the program budget concept, this department has three programs (1) the regulation of insurance companies, (2) the regulation of insurance producers (agents, brokers, etc.) and (3) administration. Departmental activities are distributed among six staff divisions which are briefly described hereafter. The number of insurance companies regulated by the department and the annual volume of business acquired under insurance policies written is tabulated for a three-year period in Table 1.

Table 1
Number of Insurers and Volume of Premiums Written

Item	1965	Calendar Years	
		1966	1967
Number insurers authorized -----	866	882	895
Premiums written -----	\$4,942,706,000	\$5,248,931,000	\$5,681,623,000

Administration Division

This division provides executive, fiscal, personnel, and actuarial services for the department, and it administers insurance companies in conservation or liquidation. Its staff consists of 52.9 authorized positions.

Rate Regulation Division

This division conducts field audits of insurance companies and rating bureaus with reference to fire, inland marine, casualty and workmen's compensation rates to determine practices, rate impact (rates in California are set by competition subject to department supervision), compliance with law and related matters. Division staff consists of 18 authorized positions. Division workload is measured by the number of rate audits completed. In calendar year 1967, the division conducted 48 audits compared to 56 in 1966 and 43 in 1965.

Legal and Compliance Division

This division reviews applications to do business in California, applications to issue securities, applications to withdraw from business, insurance policy forms and various orders and legal documents. It processes disciplinary matters, handles complaints and related matters. Staff consists of 112.3 authorized positions. Table 2 contains workload data for this division.

Department of Insurance—Continued

Table 2
1967-68 Legal Division Workload Statistics (1)

	<i>San Francisco</i>	<i>Los Angeles</i>
Applications for admission	25	28
Stock permits	38	38
Withdrawal permits	17	9
Amended certificates	27	19
Policy examinations	5,848	—
Disciplinary proceedings	309	241
Investigations ¹	1,637	3,184
Cases completed ¹	1,972	3,878
Pending cases ¹	460	472
Policyholders cases ¹	3,510	7,830
Inquiries received	14,216	24,577

¹ Excludes workload data of the Sacramento and San Diego offices.

License Division

It is the responsibility of this division to process all applications for licenses, to determine eligibility of applicants, to give examinations and keep license records. Staff for this division is authorized at 74.3 positions.

Table 3
License Division Workload for Selected Years

<i>Item</i>	<i>1965-66</i>	<i>1966-67</i>	<i>1967-68</i>
Total licenses issued	88,517	91,263	87,496
Examinations given	20,363	20,226	20,016
Bail licenses issued	1,165	1,108	1,056

Field Examiner Division

Personnel of this division are responsible for making field audits of insurance companies admitted to do business in California or seeking such admission. These audits are conducted, frequently out of state, in accordance with procedures adopted by the National Association of Insurance Commissioners (NAIC). The procedures are designed to protect the public and to insure that California receives tax revenue due the state, which currently exceeds \$100,000,000 annually. Division staff is authorized at 52 positions. Workload volume for this division amounted to 73 examinations in calendar year 1965, 61 examinations in 1966 and 86 examinations in 1967.

Company Information and Analysis Division

This division is responsible for collecting and studying information about insurance companies in order to be informed of potential financial difficulty and to recommend corrective measures. The division also insures that the state collects the appropriate premiums and surplus line (insurance written by companies not admitted to do business in California) broker taxes and that correct stockholder and proxy statements are filed. Twenty-four positions are assigned to this division.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

For the budget year, the department requests \$4,216,041, which is \$467,321 or 12.5 percent greater than estimated expenditures for the current year.

Department of Insurance—Continued

One insurance examiner position requested.

1 Insurance examiner III ----- \$11,688

The department requests this position for the Company Information and Analysis Division staff. The position will be used to audit tax returns from insurance companies, respond to insurance companies protesting penalty and interest assessments and rule on requests for extension of time on late-filed returns. The Governor's Budget states that the Auditor General and Department of Finance auditors have noted considerable backlog in this area of activity.

Financing of Department Transferred from Insurance Fund to General Fund

The Insurance Fund, which formerly provided the support for this department, is derived primarily from fees collected by the department. In 1950, this fund was limited by the Legislature to a balance of \$2 million, all money in excess of this amount being transferred each year to the General Fund. In 1964, the surplus line tax revenue was diverted to the General Fund. In lieu of this diversion, the department was granted an annual appropriation from the General Fund of approximately \$100,000 to compensate for the department's tax collecting activity.

By 1965, the surplus balance in the Insurance Fund had declined substantially and, at the time of our analysis last year, the Insurance Fund was estimated to be \$1,125,000 short of meeting proposed departmental expenditures for fiscal year 1968-69. The Legislature devoted considerable time to reviewing the problem of departmental support.

As a result of this legislative review, two steps were taken. First, the conference committee on the 1968 Budget Bill reduced the department's budget by \$284,000 and eliminated approximately 20 positions, most of which were vacant. Second, the Legislature enacted and the Governor signed Chapters 548, 549 and 550, Statutes of 1968. These three measures raised some of the fees collected by the department. In addition, Chapter 549 added Section 12975.7 to the Insurance Code which provides that although all fees collected by the insurance commissioner shall continue to be deposited in the Insurance Fund, any balance remaining in the Insurance Fund after payment of any refunds is to be transferred to the General Fund on order of the State Controller. The effect of this legislation is to transfer departmental support entirely to the General Fund, with the Insurance Fund serving now as a feeder fund whose revenues will offset partially the General Fund expenditures. Fiscal year 1969-70 is the first year during which this transfer is fully reflected in the budget. An expenditure of \$350,870 was made from the Insurance Fund in the current year. When Chapter 549 became effective, an Insurance Fund balance of \$490,754 was transferred to the General Fund.

General Fund revenues through the Insurance Fund are estimated at \$3,901,866 in the current year and \$4,400,000 in the budget year.

**BOARD OF PILOT COMMISSIONERS FOR
THE HARBOR OF SAN DIEGO**

Item 193 from the General Fund

Requested 1969-70	\$1,200
Estimated 1968-69	1,200
Actual 1967-68	1,075
Requested increase—None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Board of Pilot Commissioners for the Harbor of San Diego has the statutory responsibility for licensing and regulating pilots who serve San Diego Harbor. The board has the further responsibility, after reviewing reports from the pilots, of fixing pilotage rates for the harbor within the range provided by law. Currently there are four licensed pilots, although the commissioners may license a total of six.

This three-member board is appointed by the Governor to serve at his pleasure for terms not to exceed four years. Members include the Mayor of San Diego, ex officio, a nautical person and a resident of the City of San Diego.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

This board, unlike similar boards at San Francisco and Eureka, is supported by the General Fund. Its budgeted expenditures are more than offset by support fees collected from pilots licensed by the board. Revenue for the budget year is estimated at \$7,000 as against \$6,095 collected during fiscal year 1967-68.

For expenditure during the budget year, the board requests the sum the \$1,200, the same amount as is estimated for expenditure during the current year. The board's costs include per diems and limited secretarial services.

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

Item 194 from the Pilot Commissioners' Special Fund

Requested 1969-70	\$27,472
Estimated 1968-69	29,371
Actual 1967-68	26,641
Requested decrease \$1,899 (6.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The licensing of individuals competent to pilot ships sailing on the waters of San Francisco, San Pablo and Suisun Bays and the regula-

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

tion of the pilots' activities is the statutory responsibility of this Board of Pilot Commissioners. There are currently 25 licensees.

In addition to its regulatory program, the board provides staff services to the Pilotage Rate Committee. This committee, appointed by the Governor, meets biennially and prepares recommendations for pilotage rates for submission to the Legislature. Because of the cyclical schedule of this committee, the board's budget reflects a biennial increase in the years when audits and hearings must be conducted.

The Pilotage Rate Committee is composed of five members, two representing the licensed pilots, two representing the shipping industry and one the public. The public member draws a \$50 per diem and travel expenses for days served in committee work.

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

Board activity is supported by the Pilot Commissioners' Special Fund, which is derived from a percentage assessment of fees collected by pilots. Assessments are scheduled on a basis to cover board costs. It is estimated that the fund will show an accumulated surplus of \$41,419 at the end of fiscal year 1969-70.

ANALYSIS AND RECOMMENDATIONS

We recommend approval as budgeted.

The sum of \$27,472 is requested for expenditure by the board during fiscal year 1969-70, which is \$1,899 or 6.5 percent less than estimated expenditures for the current year. The decrease reflects the lack of pilotage rate committee activities proposed for the budget year.

BOARD OF HARBOR COMMISSIONERS FOR HUMBOLDT BAY**Item 195 from the General Fund**

Requested	\$2,940
Estimated 1968-69	2,940
Actual 1967-68	2,800
Requested increase—None	
Total recommended reduction	\$2,940

GENERAL PROGRAM STATEMENT

For a number of years, the State Department of Public Works assumed the responsibility of keeping records of the activities of Humboldt Bay and Eureka Harbor and for liaison with the United States Corps of Engineers which provided maintenance of the navigable channels. The Legislature in 1945 created the Board of Harbor Commissioners for Humboldt Bay and transferred the responsibilities of the Department of Public Works to that board.

Board of Harbor Commissioners for Humboldt Bay—Continued

The board consists of three members appointed by the Governor for four-year terms with a salary of \$1,400 for one member as secretary of the board and ex officio surveyor of the port and \$400 each for the other two. Subsequently, these salaries were increased in 1964 to \$1,800 and \$500 respectively.

The board became inactive in 1954 and there was no appropriation for its support in that year or thereafter until the Governor administratively reactivated the board in 1962. Since that time, there has been an annual appropriation for the three board members, although no other operating expenses are included. We have repeatedly recommended discontinuance of state support for this board.

ANALYSIS AND RECOMMENDATIONS

We recommend that the item be deleted for a savings of \$2,940.

The Port of Eureka on Humboldt Bay is the only port in California for which the state makes a direct appropriation. Other major navigable ports such as San Diego are operated entirely under local control and local support. We suggest again that the benefits to the local economy in the Humboldt Bay and Eureka area from the presence of the Port of Eureka are more than adequate to justify local financing of any activities that are required to maintain the port and its channels in an adequate and navigable condition, with the exception of the assistance provided by the United States Corps of Engineers.

DEPARTMENT OF PROFESSIONAL AND VOCATIONAL STANDARDS

Items 196 through 230 from various funds

Requested 1969-70	\$14,214,506
Estimated 1968-69	14,056,685
Actual 1967-68	11,911,507
Requested increase \$157,821 (1.3 percent)	
Total recommended reduction	\$77,214

SUMMARY OF RECOMMENDED REDUCTIONS

	Amount	Analysis page
Reduce level of support for Bureau of Furniture and Bedding Inspection	\$71,214	--
Transfer Board of Guide Dogs for the Blind to Department of Rehabilitation or Department of Social Welfare.		

GENERAL PROGRAM STATEMENT

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 a semi-independent status, departmental administration provides such centralized services as accounting, budgeting, personnel management, data processing, internal auditing and legal assistance as well as investigative and inspection activities where required.

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

Item No.	Operating unit	Currently authorized man-years	1969-70 estimated number of licenses	1967-68 expenditures (actual)	Emergency authorization (included in expenditures)	1968-69 expenditures (estimated)	Emergency authorization (included in expenditures)	1969-70 proposed budget	Percent increase or decrease 1969-70 over 1968-69
	Departmental administration ¹								
196	Division of Administration -----	63.2	--	\$(707,172)	--	\$(809,177)	--	\$(830,156)	--
--	Data processing -----	12	--	(241,640)	--	(409,418)	--	(343,598)	--
--	Building maintenance and operation -----	3.1	--	(484,777)	--	(591,106)	--	(522,305)	--
--	Division of Investigation -----	128.2	--	(1,498,795)	--	(1,605,937)	--	(1,683,980)	--
	Agencies								
197	Board of Accountancy -----	13.9	27,000	278,350	--	340,888	10,040	359,759	5.5
198	Board of Architectural Examiners -----	7.4	7,029	100,016	--	143,054	--	146,776	2.6
199	Athletic Commission ² -----	13.1	1,300	90,589	--	163,864	--	177,607	8.4
200	Board of Barber Examiners -----	13.2	43,075	385,003	45,417	463,332	33,262	472,236	1.9
201	Cemetery Board -----	4.4	1,725	69,151	--	74,781	--	76,429	2.2
--	Certified Clinical Social Workers -----	--	--	15,010	--	--	--	--	--
202	Board of Chiropractic Examiners -----	4.2	4,400	91,188	--	105,957	--	106,122	0.2
203	Collection Agency Licensing Bureau -----	9.2	625	156,992	39,328	205,718	--	213,004	3.5
204	Contractor's License Board -----	162.5	90,000	2,228,122	24,267	2,464,231	48,414	2,513,728	2
205	Board of Cosmetology -----	29.8	178,000	721,498	36,974	926,534	93,774	816,750	-11.8
206	Board of Dental Examiners -----	7.9	18,390	189,686	11,233	209,927	--	237,380	13.1
207	Board of Dry Cleaners -----	9.6	20,000	314,511	9,872	355,292	7,577	347,884	-2.1
208	Bureau of Electronic Repair Dealer Registration -----	11.2	5,800	245,203	--	269,611	--	274,537	1.8
209	Bureau of Employment Agencies -----	5.2	1,720	--	--	114,669	4,993	143,290	25
210	Board of Funeral Directors and Embalmers -----	6.5	4,625	99,318	761	110,049	2,039	110,146	0.1
211	Bureau of Furniture and Bedding Inspection -----	16.6	23,400	294,217	--	381,205	--	467,214	22.6
212	Board of Registration for Geologists -----	2	--	--	--	49,000	--	55,449	13.2

213	Board of Guide Dogs for the Blind ² -----	0.1	18	960	--	2,373	--	2,783	17.3
214	Board of Landscape Architects ---	1	875	30,664	2,240	36,968	4,958	38,981	5.4
---	Bureau of Marriage Counselors ---	---	---	10,893	3,012	6,196	278	---	---
215-216	Board of Medical Examiners -----	30.8	65,687	849,088	23	1,060,733	8,827	1,029,875	-2.9
217	Board of Nursing Education and Nurse Registration -----	32.8	146,000	562,744	--	631,753	---	669,712	6
218	Board of Optometry -----	2.8	2,845	81,494	12,258	79,683	6,538	80,888	1.5
219	Board of Osteopathic Examiners -	--	345	9,208	1,000	9,505	1,516	9,794	3
220-221	Board of Pharmacy ³ -----	24.2	23,500	561,092	30,732	599,155	5,846	634,691	5.9
222	Board of Private Investigators and Adjusters -----	4.2	1,900	104,006	143	112,441	3,601	116,268	3.4
223-224	Board of Registration for Professional Engineers ³ -----	40.4	59,500	556,521	10,944	665,795	23,795	663,542	-0.3
225	Certified Shorthand Reporters Board -----	1.2	1,670	30,090	2,304	37,828	6,072	36,215	-4.3
---	Board of Social Work Examiners ---	---	---	27,584	1,406	17,151	707	---	---
226	Social Worker and Marriage Counselor Qualification Board -	3.5	6,330	---	---	45,442	---	68,495	50.7
227	Structural Pest Control Board ---	19.1	4,166	450,291	1,835	349,134	49,027	541,726	-1.3
228	Board of Examiners in Veterinary Medicine -----	1.2	3,000	73,925	20,788	80,955	13,029	84,597	4.5
229-230	Board of Vocational Nurse Examiners -----	13.7	46,248	241,743	32,322	302,853	44,434	297,647	-1.7
---	Yacht and Ship Brokers Commission -----	---	---	28,171	---	12,470	---	---	---
Totals-----				<u>\$3,959,853</u>		<u>\$10,628,547</u>		<u>\$10,793,525</u>	<u>1.6</u>
						(augmentation) ³		40,942	
								<u>\$10,834,467</u>	

695

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.

³ Budget request indicated does not include augmentation proposal as indicated below:

(a) Board of Pharmacy ----- \$25,942

(b) Board of Registration for Professional Engineers ----- 15,000

Total Augmentation ----- \$40,942

Department of Professional and Vocational Standards—Continued
Agency Programs—Licensing and Compliance

Agencies within the department are engaged in regulatory activities designed to protect society against fraudulent practices and professional incompetence. This activity consists of two programs—licensing and compliance. Licensing may involve a variety of activities such as establishment of curricula, school accreditation, and required experience periods; 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 governing business and professional conduct. Compliance activity includes inspection, investigations, administrative hearings for the suspension or revocation of licenses, and court proceedings where the act being administered so provides.

Departmental Organization

The department was established in 1929 for the purpose of placing many of the state's regulatory bodies under the administrative direction of one agency. The department is administered by a director appointed by the Governor and serving at his pleasure. Subject to the authority of the department director which is prescribed by statute, each constituent agency conducts its own program. The departmental staff, as distinguished from individual agency personnel, is currently authorized at 206.5 man-years. In addition to its Sacramento headquarters, the department maintains branch offices in San Francisco and Los Angeles.

For the purpose of conforming with program budget requirements, the department has arranged its constituent agencies into functionally related groups as follows: (1) Healing Arts, (2) Fiduciary, (3) Design and Construction and (4) Business and Sanitation. For purposes of this analysis, however, we have retained the traditional grouping of agencies in alphabetical order.

In Table 1 we have tabulated statistics indicating agency size and workload, together with actual and estimated expenditure data. Legislation enacted in 1968 made changes in a number of agencies and programs listed in Table 1. We have commented on the most significant of these changes in a subsequent section of the analysis.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the budgets proposed for departmental administration and the constituent agencies listed below.

Board of Accountancy
Board of Architectural Examiners
Athletic Commission
Board of Barber Examiners
Cemetery Board
Board of Chiropractic Examiners
Collection Agency Licensing Bureau
Contractors' License Board
Board of Cosmetology
Board of Dry Cleaners
Bureau of Electronics Repair
Dealer Registration

Board of Funeral Directors and
Embalmers
Board of Landscape Architects
Board of Nursing Education and
Nurse Registration
Board of Optometry
Board of Osteopathic Examiners
Bureau of Private Investigators
and Adjusters
Certified Shorthand Reporters Board
Structural Pest Control Board
Board of Examiners in Veterinary
Medicine

Department of Professional and Vocational Standards—Continued
Boards and Commissions Affected by 1968 Legislation
Board of Registration for Geologists (Item 212 of the Budget Bill)

We recommend approval as budgeted.

This board and its supporting special fund were created by Chapter 942, Statutes of 1968. To meet its cash needs in the current year pending receipt of fee revenues, the board has requested a General Fund loan of \$49,000. The increase of 13.2 percent in proposed expenditures for fiscal year 1969-70 results from the fact that the board's program level is not yet stabilized. An executive secretary and one stenographer II position and board per diems are included in the budget request.

Board of Medical Examiners (Items 215 and 216 of the Budget Bill)

We recommend approval of the two items.

The former "Registered Physical Therapists" program, which was administered by the Board of Medical Examiners and supported by a separate appropriation from the Medical Examiners' Contingent Fund, has been consolidated with the Licensed Physical Therapy Program. The resulting single therapy program will continue to be administered by the Medical Examiners Board and supported by the Physical Therapy Fund. This board also provides staff services for the Board of Osteopathic Examiners under contract.

Board of Pharmacy (Items 220 and 221 of the Budget Bill)

We recommend approval as budgeted.

The licensing of an estimated 100 firms manufacturing drugs in California, which was formerly a function of this board, was transferred by Chapter 1463, Statutes of 1968, to the Department of Public Health. Loss of fee revenues to the board as a result of this transfer is estimated by the Department of Professional and Vocational Standards at approximately \$8,000. The department states that the change effected by legislation will not materially reduce workload.

The board is requesting an assistant executive secretary to relieve the executive secretary of administrative detail and coordinate Los Angeles and San Francisco field office activities. In addition to using services of the department's Division of Investigation, the board employs its own field investigative staff of 11 positions. A position of intern pharmacist director limited to June 30, 1971, is requested to examine the effectiveness of and to make recommendations to improve the intern pharmacist program.

Board of Registration for Professional Engineers (Items 223 and 224 of the Budget Bill)

We recommend approval as budgeted.

Chapter 444, Statutes of 1968, changed the name of this board from the Board of Registration for Civil and Professional Engineers to the title indicated above. In addition to its budget request of \$663,542, the board is requesting an augmentation of \$15,000 in operating expenses to provide for a special study of its operation. The study is expected to produce recommendations for improvement in agency operations and to provide a more adequate base for staffing.

Department of Professional and Vocational Standards—Continued**Social Worker and Marriage Counselor Qualifications Board (Item 226 of the Budget Bill)**

We recommend approval as budgeted.

Chapter 1348, Statutes of 1968, merged the Board of Social Work Examiners and the Bureau of Marriage Counselors and created the Social Worker and Marriage Counselor Qualifications Board. The Registered Social Worker Fund, the Certified Clinical Social Workers' Fund and the Marriage Counselor Fund were abolished by the same chapter and the balances in these funds were transferred to a new Social Worker and Marriage Counselor Fund which now will provide support for the programs of the combined agency. Staff work for the Bureau of Marriage Counselors has previously been performed under contract by the staff of the Board of Social Work Examiners.

Board of Vocational Nurse and Psychiatric Technician Examiners (Items 229 and 230 of the Budget Bill)

We recommend approval as budgeted.

The Board of Vocational Nurse Examiners has administered the Psychiatric Technician Program since the inception of that program in 1959. Chapter 1323, Statutes of 1968, provided the new board title which appears above and changed the name of the special supporting fund to the Vocational Nurse and Psychiatric Technicians Examiners' Fund. The two programs are still being kept separate in the board's accounting records.

Yacht and Ship Brokers Commission Removed from Department

Chapter 1459, Statutes of 1968 repealed Chapter 16 (beginning with Section 5900 of Division 3 of the Business and Professions Code) which provided for the Yacht and Ship Brokers' Commission as an agency within the Department of Professional and Vocational Standards. The commission's functions and fund balance were transferred by that chapter to the Department of Harbors and Watercraft.

Other Agency Budgets**Board of Dental Examiners (Item 206 of the Budget Bill)**

We recommend approval of this item.

The expenditure level proposed by this board for the budget year is 13.1 percent over estimated expenditures for the current year. Information submitted in justification of this increase indicates that the board will publish and mail its biennial directory of licenses during 1969-70 at increased printing and postage costs. Added use of data processing services is also part of the increase in proposed expenditures.

Bureau of Employment Agencies (Item 209 of the Budget Bill)

We recommend approval of this item.

The request of the Bureau of Employment Agencies for an increased level of expenditure during 1969-70, which is 25 percent greater than that estimated for the current year, reflects the fact that this agency is new and that its program level has not yet been reached. The proposed

Department of Professional and Vocational Standards—Continued

budget provides for one added clerical position and 3.5 man-years of investigative effort.

This bureau was established in the department by legislation enacted in 1967, and a staff was authorized by the current-year budget. Employment agencies have been under state regulation for many years, but until 1968 they were regulated by the State Labor Commissioner (Department of Industrial Relations) and supported by the General Fund. The 1967 legislation created a special fund and established a fee schedule for the support of the bureau. In order to finance the bureau's activities until fee revenues could be realized, the General Fund sum of \$74,475 was transferred to this fund from the 1967-68 budget of the Department of Industrial Relations.

Bureau of Furniture and Bedding Inspection (Item 211 of the Budget Bill)

In accordance with previously expressed legislative intent, we recommend approval of this item in the reduced amount of \$396,000 for a savings of \$71,214. The reduced amount, which provides a \$14,795 increase over estimated current-year expenditures to meet higher operating costs, will permit the Bureau of Furniture and Bedding Inspection to maintain its currently authorized level of service.

For fiscal year 1969-70, this bureau seeks a budget increase of \$86,000 or 22.6 percent over estimated expenditures for the current year. The major portion of the proposed budget-year increase is requested to restore approximately one-half of the investigative effort and the related expenses of securing evidence and conducting hearings that existed prior to 1967-68.

For fiscal year 1967-68, the Legislature reduced the requested appropriation of \$578,531 to \$300,000 because of dissatisfaction with bureau inspection and investigation practices. The current-year appropriation was \$375,000. We are recommending retention of the current level of service with a \$14,795 increase to meet higher operating costs.

Board of Guide Dogs for the Blind (Item 213 of the Budget Bill)

We recommend that this board, which provides a protective service to the blind, be transferred to the Department of Rehabilitation which presently provides clerical services for the board.

The function of this board is to regulate the activities of persons who train, sell, hire or operate a business of supplying guide dogs for the blind. The board has 18 licensees.

The Division of Rehabilitation of the Blind in the Department of Rehabilitation provides several services for the benefit of blind persons. These services include training in independent travel, use of braille, typing, and activities of daily living. The department maintains a staff of counselor-teachers and orientation-mobility specialists who work with the blind. There is a logical relationship between these programs and the functions of the Board of Guide Dogs for the Blind, and we therefore believe that the board should be transferred to the Department of Rehabilitation.

PUBLIC UTILITIES COMMISSION

Items 231 and 232 from the General Fund and the Transportation Rate Fund

Requested 1969-70	\$12,063,055
Estimated 1968-69	11,581,549
Actual 1967-68	10,587,817
Requested increase \$481,506 (4.2 percent)	
Total recommended reduction	\$54,372

	Amount		Analysis page
	General Fund	Transportation Rate Fund	
1 Stenographer II	\$3,233	\$2,119	706
1 Assistant utilities engineer	9,852		706
1 Financial examiner III	7,136	4,264	706
1 Associate transportation rate expert	2,873	8,527	707
1 Senior legal stenographer	5,408	1,108	707
Delete funds for 1 assistant utilities engineer but authorize position contingent on availability of federal financing	9,852		705
Total	\$38,354	\$16,018	

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. *Need to Relate Staffing Requirements to Tangible Workload Data*

The commission should improve its workload justification material by identifying the relationship between (1) the existing staff and workload and (2) the projected workload and new positions. (Analysis page 703)

2. *Development of Uniform Reporting System for Air Carriers*

We recommend that the commission be directed to utilize existing staff to formulate and implement a uniform financial accounting procedure for air carriers. (Analysis page 707)

GENERAL PROGRAM STATEMENT

The Public Utilities Commission, created by a constitutional amendment in 1911, is responsible for the regulation of privately owned public utilities. The term "public utility" includes such business entities as truck, bus, and airline companies, pipeline corporations, electric companies, telephone companies, warehouse companies, and gas companies. The primary objective of commission regulation is to insure adequate facilities and services for the public at reasonable and equitable rates consistent with a fair return to the utility on its investment. The regulatory activities and powers of the commission relate to:

- a. Adequacy of service
- b. Rates to be charged
- c. Minimum safety standards
- d. Sale or encumbrance of useful utility property

Public Utilities Commission—Continued

- e. Issuance of certificates to operate or construct facilities
- f. Issuance of securities
- g. Financial accounting procedures on which rate decisions are based

Commission Organization

The commission is composed of five members appointed by the Governor with the consent of the Senate to staggered six-year terms. The commissioners annually elect one of their members as president.

For workload purposes, the commission's authorized staff of 802.5 positions is organized into the following six divisions: Administrative, Transportation, Utilities, Finance and Accounts, Examiner, and Legal. Approximately 70 percent of the staff is located in the San Francisco headquarters office, 15 percent in the Los Angeles area office, and the remainder in 15 Division of Transportation field offices located throughout the state.

Programs

The commission's two major programs are (1) regulation of transportation companies and (2) regulation of utilities. Direct operating responsibility for these two programs is handled, respectively, by the Transportation Division and the Utilities Division, each of which receives supportive services from the other four divisions.

Operating Procedures

The commission passes judgment on all changes in operating methods and rate schedules proposed by regulated utilities and transportation companies. It investigates complaints registered against utilities or may initiate an investigation of a utility company on its own volition. In all such cases, data are accumulated by the staff, hearings are held, decisions rendered, and compliance secured through enforcement procedures. No state court may review a commission decision except the California Supreme Court, whose review power is limited to questions of law.

An application or complaint presented to the commission by or against a transportation company, for example, would be studied by the Transportation Division. Any financial implications would be reviewed and evaluated by the Finance and Accounts Division. The Legal Division would advise the commission on legal matters and the Examiner Division would conduct the hearings. The Administrative Division provides staff supervision, administers commission policies, and maintains housekeeping services.

Support of the Commission

The commission is supported by the General Fund and the Transportation Rate Fund. The Transportation Rate Fund finances only those commission activities relating to the rates, charges and practices of motor carriers hauling freight. All other commission functions are supported by the General Fund.

Revenues for the Transportation Rate Fund are derived from a fee paid by the regulated motor carriers which is equal to one-third of

Public Utilities Commission—Continued

1 percent of their gross operating revenues. Additional revenue to the Transportation Rate Fund is produced by a \$4 quarterly "filing fee" which is paid by all motor and rail freight carriers at the time they file with the commission their reports on gross operating revenue. Other revenues are derived from a miscellany of penalties, application fees for permits and certificates, and from the sale of documents.

ANALYSIS AND RECOMMENDATIONS

(1) *We recommend approval of the General Fund item in the reduced amount of \$6,692,831.*

(2) *We recommend approval of the Transportation Rate Fund item in the reduced amount of \$5,315,852.*

Sharp Increase Proposed in General Fund Support

The commission's total request for the budget year is \$12,063,055, which exceeds estimated current-year expenditures of \$11,581,549 by \$481,506 or 4.2 percent. Approximately \$87,000 of this increase represents the costs of 10 proposed new positions (discussed later in this analysis), and the balance generally reflects increased operating costs and salary adjustments. Of particular budgetary significance, however, is the proposed budget-year allocation of costs between the General Fund and the Transportation Rate Fund. Of the total proposed budget, \$6,731,185 or 55.8 percent is requested from the General Fund. This is an increase of \$586,331 or 9.5 percent over estimated General Fund expenditures for the current year. The remaining budget portion of \$5,331,870, which is 44.2 percent of the total proposed expenditure, is requested from the Transportation Rate Fund. This is a decrease of \$104,825, or 1.9 percent less than estimated expenditures from this fund in the current year.

Table 1 shows the commission's total proposed expenditure program and the funds from which it is derived.

Table 1
Funding of the Commission

REQUESTED 1969-70		
General Fund -----		\$6,731,185
Transportation Rate Fund -----		5,331,870
Total -----		\$12,063,055
ESTIMATED 1968-69		
General Fund -----		\$6,144,854
Transportation Rate Fund -----		5,436,695
Total -----		\$11,581,549
ACTUAL 1967-68		
General Fund -----		\$5,789,235
Transportation Rate Fund -----		4,798,582
Total -----		\$10,587,817
Requested 1969-70 Increase:		
General Fund -----		\$586,331 (9.5%)
Transportation Rate Fund -----		-104,825 (-1.9%)
Total -----		\$481,506 (4.2%)

Public Utilities Commission—Continued

The commission's staff in all divisions except the Utilities Division performs both General Fund and Transportation Rate Fund activities, thus necessitating an allocation of their costs to the two funds based on the nature of the work involved. In order to make such an allocation of costs, the commission utilizes a time-reporting system under which all technical personnel (senior level and below) in every division (except the Utilities and Administrative Divisions) maintain daily records of their activities. From these reports, the commission determines the number of man-years devoted to utility and transportation functions, converts these data to a cost ratio which is automatically applied to clerical and administrative functions, and then allocates total commission costs to the two funds accordingly. The commission states that this time-reporting procedure results in the budget-year adjustments between the General Fund and the Transportation Rate Fund because it shows that a greater portion of staff time is being used for General Fund functions.

Need to Improve Workload Justification

On the basis of available information, it is not possible to identify specific workload factors that account for the higher General Fund costs because the commission measures workload very broadly in terms of the number of man-years devoted to particular functions. The commission prepares tables showing adjustments in division staffing patterns to reflect changing workload requirements among various programs, but it does not relate the staffing patterns to tangible workload data. Table 2, which was supplied to us by the commission, illustrates the manner in which workload data are presented.

Table 2
Utilities Division Workload Statistics *
Comparative Data by Major Work Programs

Program	Man-years				
	1967-68 actual	1968-69 approved budget			1969-70 request
		(1)	(2)	(3)	
Regulation of rates.....	72.2	63.8	71.4	74.2	75.6
Service and facilities.....	18.0	14.4	16.0	16.4	16.7
Licensing and certification.....	10.1	11.7	14.2	11.0	11.0
Safety	5.7	6.6	7.4	7.4	7.7
Enforcement of regulations.....	--	3.6	--	--	--
Just compensation proceedings...	--	0.3	--	--	--
Common to all programs.....	--	8.6	--	--	--
Total man-years	106.0	109.0	109.0	109.0	111.0

(1) Man-years as approved in the budget.

(2) Man-years as reallocated to work programs.

(3) Man-years as adjusted for present view of workload conditions.

* Work statistics included for professional positions below supervising engineer level.

The commission's narrative accompanying the data in Table 2 included the following statement:

“[The table] contains workload statistics of comparative data in man-years for the current year 1968-69 as approved and as adjusted for present work programs and present view of current workload,

Public Utilities Commission—Continued

and as requested for the budget year. Accelerating inflationary trends and increases in taxes and cost of money have caused more utility companies to seek rate relief and at the same time have slowed down real estate development, resulting in fewer requests for certification of new water utilities. Therefore our present view is that it will be necessary to shift personnel in the current year from certification work to rate regulation.”

The commission does not identify, however, the specific workload elements or measurements which necessitate the reassigning of personnel or the adding of new personnel.

New Positions Requested

The commission is requesting a total of 10 new positions as follows:

<i>Division</i>	<i>New positions</i>
Administration-----	1 Associate data processing systems analyst 1 Stenographer II
Utilities-----	2 Assistant utilities engineers
Finance and Accounts-----	1 Financial examiner III
Transportation-----	1 Associate transportation rate expert 1 Assistant transportation rate expert 1 Senior clerk
Legal-----	2 Senior legal stenographers

Recommendations on New Positions

(1) *We recommend approval of the following four new positions on a workload and backlog basis: one associate data processing systems analyst (Administration Division); one assistant transportation rate expert and one senior clerk (Transportation Division); one senior legal stenographer (Legal Division).*

The associate data processing systems analyst position is requested to work with the commission's existing budget analyst and management analyst positions in the development of a work measurement system, which would provide a working base for program evaluation and productivity measurement. The commission urgently needs a work measurement system to improve its budgeting procedures, and for this reason we recommend approval of the position.

The assistant transportation rate expert and the senior clerk positions are needed to handle backlog in the data bank input function involving the maintenance of data on traffic flow. The procedure consists of coding a random sample of freight bills for the purpose of ascertaining traffic flow patterns on which rate adjustments may be based. With existing staff, the commission has been able to process approximately only 50 percent of the freight bills selected for coded input and, as of January 1969, had an accumulated backlog of 26,000 documents.

The senior legal stenographer position is needed to improve the secretary-attorney ratio in the Legal Division. Last year, we recommended approval of one stenographer and the deletion of one attorney position, both of which were requested by the commission. The Legislature approved the attorney position but deleted the stenographer. As discussed in a subsequent section of this analysis, we believe that the

Public Utilities Commission—Continued

Legal Division, which has an authorized staff of 27 attorneys, should have a secretary-attorney ratio of 3 to 1. The stenographer position which we are recommending for approval would provide that ratio.

(2) *We recommend approval of one assistant utilities engineer position (gas section, Utilities Division) subject to the availability of federal funds to finance its costs.* This position is requested to conduct an office review of gas company reports relating to the safety of gaslines in the southern California area and to ascertain compliance with gasline construction standards promulgated by the commission under certification by the federal Department of Transportation. The requested position also would conduct some field investigations and inspections of gas holders and pressure vessels which are part of the gasline network.

Pursuant to the federal "Natural Gas Safety Act of 1968," the U.S. Department of Transportation is in the process of developing national standards for gasline construction and adequacy of gas service. In the meantime, however, the department has adopted as interim standards those previously adopted by the California Public Utilities Commission and has authorized the commission to continue with the enforcement of those standards pending implementation of the federal program. We understand that the U.S. Department of Transportation received a \$500,000 appropriation in 1968 to develop standards and to establish an agency to administer the program. When it is fully operational, the federal program will function on a cooperative basis with state agencies (with the Public Utilities Commission in the case of California) and provide matching money on a 50-50 basis to finance gas safety programs.

Last year, we recommended and the Legislature authorized one associate utilities engineer to act as coordinator between the commission and the federal government with respect to the gas safety program and to review company reports and construction methods. The commission has advised us that federal funding for this program may be available by the end of the current fiscal year, and we recommend that the proposed new position be authorized on that contingency.

(3) *We recommend deletion of the following five new positions because of inadequate workload justification:*

<i>Division</i>	<i>Position</i>
Administration	Stenographer II
Utilities	Assistant utilities engineer
Finance and Accounts	Financial examiner III
Transportation	Associate transportation rate expert
Legal	Senior legal stenographer

The commission's workload information provides no meaningful basis for evaluating the need for these proposed positions. We reviewed the original workload data presented by the commission and attempted to establish a relationship between the existing workload, the projected workload, and the positions requested. We discussed these matters with the commission on several occasions and requested additional workload documentation. However, the supplementary material added little to that originally submitted. We discuss each of the five positions below.

Public Utilities Commission—Continued

New Positions Not Justified

Administrative Division

We recommend the deletion of one stenographer II for a saving of \$5,352 plus related expenses.

This position is requested to support the associate data processing systems analyst position which we are recommending for approval. The Administrative Division has a currently authorized staffing level of 120 positions of which 95 are clerical in nature. In view of this ratio, we can find no justification for an additional clerical position.

Utilities Division

We recommend the deletion of one assistant utilities engineer position for a savings of \$9,852 plus related costs.

This position is requested to work on utility financial reports which are analyzed continuously by the commission for the purpose of considering rate changes. The commission states that workload in this area is increasing. In response to our request for information on the workload to be handled by the new position, the commission prepared the data shown in Table 3.

Table 3
Analysis of Major Utility Operating Reports

Item	Actual				Estimated	
	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
No. of reports analyzed.....	57	72	72	75	81	85
No. of major utilities.....	16	19	19	21	21	21

This table shows that last year the commission increased from 19 to 21 the number of major utilities (selected from the approximately 1,200 utilities in the state) whose financial reports it reviews. These 21 utilities submitted 75 reports for analysis in 1967-68, and will submit an estimated 81 such reports in the current year. The commission currently has four utility engineers reviewing these reports. The review process consists of analyzing the operating efficiency of the utilities, the reasons for proposed construction, depreciation, wage changes, and the reliability of the reports. The budget-year workload is estimated to increase by only four reports, and it is on this basis that the commission seeks the new engineering position. We do not believe that this small workload increase is sufficient justification.

Finance and Accounts Division

We recommend the deletion of one financial examiner III position for a savings of \$11,400 and related costs.

This position is proposed to handle workload generated by the Passenger Air Carriers Act (Chapter 736, Statutes of 1965), which placed intrastate air carrier routes under the commission's jurisdiction. In acting on applications for air routes, the commission is required to consider such matters as the business experience of the applicant, financial stability, insurance coverage, type of aircraft used, schedules and fares to be established, service to be provided, and the need for such service.

In fiscal year 1965-66, 21 requests for certification were received

Public Utilities Commission—Continued

by the commission but these did not require formal action because the 1965 legislation exempted existing air routes from commission certification. Since then, the commission has acted on four requests in fiscal year 1966-67 and 37 requests in fiscal year 1967-68. The commission estimates that for the current and budget years the number of requests or certification will stabilize at 35 to 40, which is approximately the current workload level being handled by the existing staff. We have discussed with the commission the nature of the financial review process which serves as the basis for certifying applications for air routes. The commission states that review of the airline reports is complicated by the fact that the airlines do not follow uniform accounting and reporting procedures in submitting their reports, thus necessitating considerably more time and effort by the commission's staff to evaluate them.

We recommend that the commission be directed to utilize existing staff to formulate and implement a uniform financial accounting and reporting procedure for air carriers.

The commission should give priority to the development and implementation of a uniform financial accounting and reporting system for air carriers (as it has for utilities) in order to facilitate reviews of financial reports. The Financial and Accounts Division currently has an authorized staff of 31 financial examiners, three of which were authorized last year. This staff should be sufficient to develop such a system.

Transportation Division

We recommend the deletion of one associate transportation rate expert for a savings of \$11,400 plus related costs.

This position is requested on the basis of an increase in the number of formal filings made by transportation utilities for adjustments in rates. The workload data given us by the commission in support of this position shows filings of 115 in 1964-65, 162 in 1965-66, 137 in 1966-67, and 171 in 1967-68.

The commission states that it expects the number of filings to remain at approximately the 1967-68 level in the current and budget years. For this reason, we see no justification for adding the new position.

Legal Division

We recommend deletion of one senior legal stenographer for a savings of \$6,516 plus related expenses.

We have recommended approval of one senior legal stenographer in a previous section of this analysis, but the workload of the Legal Division does not justify two such new positions. Last year the Legislature refused to authorize any additional stenographic positions for this division. The division has a currently authorized attorney staff of 27 positions and eight legal stenographers plus a secretary to the chief counsel and a clerk-typist. The addition of one legal stenographer previously recommended would provide a 3 to 1 attorney-stenographer relationship. We believe that this is a sufficient ratio for this type of legal work.

Public Utilities Commission—Continued

General Fund Revenues

The commission estimates General Fund revenues totaling \$314,700 in the budget year compared to estimated revenues of \$324,700 in the current year.

Transportation Rate Fund Condition

It is estimated that as of July 1, 1969, the Transportation Rate Fund will have an accumulated surplus of \$2,235,612. Estimated revenues amounting to \$5,205,350 will be added to the fund during the budget year, providing a total of revenue and surplus ample to finance the proposed expenditures of \$5,331,870.

DEPARTMENT OF REAL ESTATE**Item 233 from the Real Estate Fund**

Requested 1969-70	\$2,995,172
Estimated 1968-69	3,016,249
Actual 1967-68	2,779,717
Requested decrease \$21,077 (-0.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Under the Governor's Reorganization Plan No. 1 of the 1968 Regular Session of the Legislature, the Division of Real Estate was renamed the Department of Real Estate.

The department's objective is to protect the public in offerings of subdivided property, real property securities and in real estate transactions handled through agents.

A commissioner, appointed by the Governor, heads the department's currently authorized staff of 250.4 positions. The department is headquartered in Sacramento but maintains a branch office in Los Angeles and district offices in five other California cities. A branch office in Oakland was closed during the current year and its functions transferred to the San Francisco office for an annual rental savings of approximately \$7,800.

The first attempt to regulate real estate activity in California occurred in 1917 under an act later declared to be unconstitutional. Legislation in 1919 created the present type of regulation, the first of its kind in the United States. In 1933 subdivisions were placed under regulation and in 1935 the Real Estate Commission was established. This body consists of the Real Estate Commissioner as chairman and eight other members appointed by the Governor. The commission is an advisory group whose members receive travel expenses but are not otherwise compensated for their services.

Program Objectives and Performance

The department has established four programs whose purposes and objectives are described briefly below. In addition, we have selected

Department of Real Estate—Continued

from workload statistics presented in the Governor's Budget certain data showing current and estimated program activity. These data appear in the tables accompanying the program descriptions.

1. *Transaction Activities Program.* This program which is designed to protect the public in its dealings with brokers and salesmen, has two elements (a) licensing and (b) regulatory and recovery. The licensing element reviews qualifications of applicants for brokers' or salesmen's licenses, examines qualified applicants, and issues licenses to those successful in the examination. The regulatory and recovery element investigates complaints and disciplines licensees who have been found to be in violation of real estate law or regulations.

Complainants who sustain losses through the fraud of a licensee may be indemnified through the recovery fund portion of the Real Estate Education, Research and Recovery Fund. This fund will pay unsatisfied judgments against real estate licensees when such judgments are based on fraud, misrepresentation or deceit accomplished while performing acts for which a real estate license is required. Under this procedure, certain requirements must be met and a court hearing is held. 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 which is described in the analysis of the next budget item.

Table 1
Selected Workload Data, Transaction Activities Program

Item	Actual 1967-1968	Estimated 1968-1969	Estimated 1969-1970
Total licenses -----	145,000	153,200	155,000
Examination given -----	33,203	39,000	39,800
Complaints -----	4,966	5,100	5,000
Revocations -----	249	260	270
Recovery claims -----	44	50	62

2. *Offerings and Securities Program.* The objective of this program is to protect the public with respect to offerings of subdivided property and real property securities such as notes secured by trust deeds, real property sales contracts and out-of-state subdivisions.

Subdividers of in-state lands must obtain a departmental report evaluating the conditions of the proposal before such land may be offered for sale. To secure this report, the subdivider must follow required procedures designed to protect buyers against fraud.

Procedures also are provided for review by the department of proposed sales in California of subdivided land outside the state. Anyone desiring to sell notes secured by trust deeds must also conform to a procedure administered by the department. Proposed budget year expenditures of \$696,440 are slightly less than estimated current-year expenditures of \$701,811.

Department of Real Estate—Continued

Table 2
Selected Workload Data, Offerings and Securities Program

Item	Actual 1967-68	Estimated 1968-69	Estimated 1969-70
Subdivision filings -----	1,985	2,062	2,239
Standard reports issued -----	1,576	1,680	1,850
Out-of-state subdivisions -----	36	18	18
Securities applications approved -----	2	3	3

3. *Education and Research Program.* This program has as its purposes the improvement of professional competence and knowledge of real estate practitioners and the conduct of research in matters relating to real estate such as marketing, financing, land use, and urban problems.

Table 3
Education and Research Program Activities (1969-70)

Item	Junior Colleges	University of California	State Colleges	Other Universities
Programs administered -----	78	7	13	3
Research projects -----	-	-	10	8

Funding for the education and research program is provided by the Real Estate Education, Research and Recovery Fund. For the support of this program in the budget year, the department proposes and expenditure of \$251,654, which is the same amount estimated to be expended in the current year.

In addition to these direct program costs for education and research activities, the statutes provide that the State Controller shall make an annual allotment out of the fund to the University of California for research purposes in an amount determined by the Commissioner of Real Estate. The sum of \$133,200 is proposed for allocation to the university in the budget year. An identical amount is estimated to be allocated in the current year.

4. *Administration Program.* This program includes the department's executive staff and activities which support the department's operating programs. These include personnel management, business administration, accounting and publications. Proposed expenditures of \$397,209 reflect a reduction of approximately \$20,000 from estimated current year expenditures.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

The Department of Real Estate derives its support from two funds: the Real Estate Fund and the Real Estate Education, Research and Recovery Fund. Approximately 11 percent of the department's support comes from the latter fund. The Real Estate Fund is composed of license and other fees collected by the department. The Real Estate Education, Research and Recovery Fund is composed of a percentage of license fees transferred from the Real Estate Fund. As noted previously this fund is analyzed in the following budget item.

Department of Real Estate—Continued

Our review of these funds indicates that if estimated revenue and expenditures are reached and maintained, both funds will be in a satisfactory condition during the budget year.

The department proposes an appropriation from the Real Estate Fund in the sum of \$2,995,172 for expenditure during fiscal year 1969-70, which is \$21,077 or 0.7 percent less than estimated expenditures of \$3,016,249 for the current year.

Improved Efficiency and Reduced Workload Permit Staff Reductions

Increased operating efficiency, elimination of one district office, and a lower level of activity in the real estate and construction industry have enabled the department to reduce its staff by more than 30 positions over the last two fiscal years. For the budget year, the department proposes the elimination of three additional positions—two clerical and one deputy commissioner. The proposed position reductions are from the licensing and regulatory programs.

DEPARTMENT OF REAL ESTATE

Item 234 from the Real Estate Education, Research and Recovery Fund

Requested 1969-70	\$512,854
Estimated 1968-69	492,854
Actual 1967-68	575,707
Requested increase \$20,000 (4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Several of the program activities of the Department of Real Estate are supported by the Real Estate Education, Research and Recovery Fund as indicated in the analysis of the preceding item. This fund receives as revenue one-fourth of the fee collected for each real estate license issued or renewed by the department. This is paid into the State Treasury for credit to the fund. The law provides that the fund is to be used for (1) support of the department's education and research program and (2) payment of claims based upon unsatisfied court judgments obtained as the result of fraudulent activity by a licensee of the department.

Eighty percent of the available resources in the fund is earmarked by law for purposes of real estate education and research. The remaining 20 percent is earmarked for claim payments under the recovery program. The Real Estate Commissioner is authorized by statute to transfer from this fund to the Real Estate Fund annually any amount in the recovery portion in excess of \$400,000. It is further provided that should the balance in the recovery portion of the fund fall below \$200,000, a special fee may be levied upon licensees of the department as their licenses are renewed.

**Department of Real Estate—Continued
ANALYSIS AND RECOMMENDATIONS**

We recommend approval of this item.

The total amount requested by the department from the Real Estate Education, Research and Recovery Fund for expenditure during fiscal year 1969-70 is \$512,854. This is \$20,000 or 4 percent greater than the estimated expenditures for the current year. The amount requested is subject to allocation by the Department of Finance in such amounts as it finds necessary within the following limits:

To the department for education and research	\$251,654
To the department for recovery judgment claims	128,000
To the University of California	133,200
Total	\$512,854

The law provides that the annual allocation to the University of California shall not exceed the amount designated by the Real Estate Commissioner. When the allocation is determined, the money is transferred directly to the university by the State Controller. The amount of the proposed allocation also appears in the budget of the university.

DEPARTMENT OF SAVINGS AND LOAN

Item 235 from the Savings and Loan Inspection Fund

Requested 1969-70	\$2,797,368
Estimated 1968-69	2,722,955
Actual 1967-68	2,583,623
Requested increase \$74,413 (2.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The former Division of Savings and Loan was renamed the Department of Savings and Loan by the Governor's Reorganization Plan No. 1 of the 1968 Regular Session of the Legislature.

The mission of this department is to protect the funds of the investing public by administering and enforcing the laws relating to the incorporation, organization, operation, consolidation, dissolution, and liquidation of savings and loan associations licensed by the state pursuant to Section 5250 of the Financial Code.

The department is administered by the Savings and Loan Commissioner who is appointed by the Governor and serves at his pleasure. Headquarters is in Los Angeles and a branch office in San Francisco. Authorized staff in the current year consists of 188.5 positions, which reflects a reduction of 23 positions from the previous year. A further reduction is proposed for the budget year as noted below.

Institutions of the savings and loan type have existed in California since 1865. By 1891 there were 130 "building and loan" associations and in 1893 they became subject to a board of commissioners. One hundred ninety-two associations are presently licensed.

Department of Real Estate—Continued

Regulation is now conducted under a single program described as Supervision and Regulation. This program is composed of two operating elements (1) examination and (2) appraisal. A third element provides administrative services.

Examination Program Element

Under the examination portion of its program, the department obtains, compiles and analyzes information relating to the financial conditions of savings and loan associations, the soundness of their operations, the accuracy of their accounting records and their adherence to accepted accounting standards. Three types of examinations conducted include the regular annual examination, an interim examination of so-called "problem" associations (the costs of which are reimbursed to the department) and the examination of holding companies to which savings and loan associations may be subsidiary. The examination program is giving increasing attention to association management problems and techniques as well as accounting practices. The selected data in Table 1 provide partial measurement of examination activity.

Table 1
Selected Examination Data, Department of Savings and Loan

Item	Actual 1967-68	Estimated 1968-69	Estimated 1969-70
Annual examinations	194	186	182
"Problem" association examinations	42	50	42
Holding company examinations.....	146	146	90
Value of assets examined	\$18.9 (billion)	\$19.3 (billion)	\$19.8 (billion)

Appraisal Program Element

Under the appraisal element of its program the department seeks information relative to the nature and current value of real estate assets and real estate loan securities held by associations. Such information provides a basis for department decisions relative to portfolio value, adequacy of reserve, compliance with statutory loan to value ratios and association appraisal policies and practices. The department also examines applicants who propose to perform appraisal services for associations. Table 2 presents selected data for the department's appraisal activity.

Table 2
Selected Appraisal Data, Department of Savings and Loan

Item	Actual 1967-68	Estimated 1968-69	Estimated 1969-70
Appraisal reports	9,105	6,000	6,500
Policy analyses	—	92	92
Appraiser applications	300	350	400

Administration

The department has classified under administration the activities of the executive office of the commissioner and business management functions such as departmental accounting, purchasing, budgeting and personnel management. Also included in this classification is the activity of the department in approving new associations and branches of existing associations and the merger of associations.

Department of Savings and Loan—Continued
ANALYSIS AND RECOMMENDATIONS

We recommend approval of this item.

The department is supported by the Savings and Loan Inspection Fund which derives its revenue through an annual assessment by the Commissioner on all state-licensed associations. This is a percentage assessment proportional to the assets of each separate association. The fund also receives fees paid for the examination of the problem associations. The amount of the assessment is determined on the basis of the operating cost of the department. The proposed expenditures by the department for fiscal year 1969-70 will exceed estimated revenue for that year according to the fund condition statement in the Governor's Budget. However, at the beginning of the budget year the fund will have an estimated accumulated surplus almost sufficient to finance the agency's activities for a full year.

The department has requested for expenditure during fiscal year 1969-70 the sum of \$2,797,368 which exceeds estimated expenditures for the current year by \$74,413 or 2.7 percent. The increase in expenditures is due primarily to merit salary adjustments and price increases. Because of improved utilization of personnel and reduced workload in the area of examination of problem associations and savings and loan holding companies, the department proposes to abolish in the budget year eleven authorized funded positions, all of which are currently vacant. This reduction represents a workload adjustment of \$91,113.

DEPARTMENT OF CONSERVATION

Items 236 and 237 from the General Fund

Requested 1969-70	\$36,161,249
Estimated 1968-69	35,732,068
Actual 1967-68	33,240,345
Requested increase \$429,181 (1.2 percent)	
Increase to improve level of service \$1,733,105	
Total recommended reduction	\$659,419

SUMMARY OF RECOMMENDED REDUCTIONS

	Amount	Analysis page
1. Various Division of Forestry programs. Reduce augmentation for trainee program. (Item 236)	\$111,532	721
2. Fire control, state responsibility land program. Finance augmentation for helicopters and crews by reduction in ground attack. (Item 236)	\$131,427	724
3. Various Division of Forestry programs. (Item 237)		
Reduce automotive equipment replacement	\$375,000	725
Reduce additional equipment	\$36,000	725
4. Forest, range and watershed management. Delete \$8,190 for a foreman II position at Mountain Home State Forest and substitute \$2,730 for temporary help. (Item 237)	\$5,460	728
5. Geology and mineral resources. Reduce appropriation to require reimbursement from Department of Real Estate for review of subdivision applications. (Item 237)	Indeterminate	732