

**Department of Veterans Affairs  
COUNTY VETERANS' SERVICE OFFICES**

Item 165 from the Veterans'  
Farm and Home Building  
Fund

Budget p. 84 Program p. I-530

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Requested 1973-74 .....	\$500,000
Estimated 1972-73.....	500,000
Actual 1971-72 .....	497,993
Requested increase none	
Total recommended reduction .....	None

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**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

In the main support Item No. 161 we discussed the role of the county veterans' service offices. We believe these offices are essential to provide the veteran a point of contact and a fund of expertise to help him obtain those services and benefits to which he is legally entitled. The county veterans service offices provide assistance which is instrumental in obtaining monetary benefits paid by the federal Veterans Administration to California veterans in fiscal year 1971-72 in excess of \$211 million. In the current fiscal year it will approach \$232 million and for the budget year \$255 million. Much of these benefits represents assistance which might otherwise have had to be rendered directly by the state or the county and to that degree there has been relief to state and county taxpayers.

It is proposed that \$500,000 be appropriated from the surplus of the Veterans' Farm and Home Building Fund for this purpose. The request is for the same level as the current year and we recommend approval.

**Business and Transportation Agency**

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

Item 166 from the General  
Fund

Budget p. 87 Program p. I-545

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Requested 1973-74 .....	\$7,089,396
Estimated 1972-73.....	6,856,571
Actual 1971-72 .....	5,927,085
Requested increase \$232,825 (3.4 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Department of Alcoholic Beverage Control, a constitutional agency established in 1954, is headed by the Director of Alcoholic Beverage Control, who is appointed by the Governor with the consent of the Senate and serves at the pleasure of the Governor. Headquartered in Sacramento, the

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued**

department maintains a northern division office in San Francisco, which supervises 9 northern district offices and a southern division office in Pasadena, which supervises 10 southern district offices. Departmental staff is presently authorized at 443.3 positions.

The State Constitution provides that the department shall have exclusive power in accordance with laws enacted by the Legislature to license the manufacture, importation and sale of alcoholic beverages in California, and to collect license fees on account thereof. The department is given discretionary power to deny, suspend or revoke licenses for good cause.

Responsibilities of the agency are discharged under a single program entitled, "Administration of the Alcoholic Beverage Control Act" which consists of three elements: (1) licensing, (2) compliance, and (3) administration. Each element, together with selected workload data, is described below.

**Licensing Element**

The objective of licensing premises wherein alcoholic beverages are produced, sold, or consumed is to prevent unqualified persons from engaging in the sale, manufacture or importation of such beverages and to prevent such operations in locations where the peace and quiet of the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of applicants' background, character, and financing to assure that those who qualify will be less likely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 52 different licenses.

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Hearings. The hearing officer prepares a proposed decision which, if adopted by the director, becomes the department's decision. Departmental decisions on these and other matters may be appealed to the Alcoholic Beverage Control Appeals Board (a separate state agency) and the courts.

Table 1 contains selected workload and input data for the licensing element. The department expects an increase in licensing workload during the current year (not reflected in Table 1) as a result of an amendment to Section 24074, Business and Professions Code, which requires that escrow documents be included in the transfer of all retail alcoholic beverage licenses. In the past, these documents have been required in the transfer

**Table 1**  
**Selected Workload Data, Licensing Element**

<i>Detail</i>	<i>Calendar year</i>			
	<i>Actual 1971</i>	<i>Estimated 1972</i>	<i>Estimated 1973</i>	<i>Estimated 1974</i>
Total applications.....	14,207	14,250	14,500	14,750
Applications denied.....	277	300	300	300
Applications withdrawn.....	1,341	1,550	1,550	1,550
Licenses issued.....	12,693	13,000	13,000	13,000
Total active licenses.....	49,549	49,600	49,650	49,700

of limited licenses only. The department states that it can absorb the projected workload increase within existing resources.

During the current year, the department revised its budget data to reflect more accurately the cost and man-year allocations of personnel on the basis of activities performed. This increased the man-year figure for the licensing element by 13.7 in the 1972-73 fiscal year (201.1 compared to the 187.4 level shown in last year's budget) and reduced the man-year allocations for the compliance and administrative elements by 4.6 and 9.1, respectively. Table 2 shows cost and staffing data for the licensing element.

**Table 2**  
**Cost and Staffing Data, Licensing Element**

Detail	Fiscal year		
	Actual 1971-72	Estimated 1972-73	Estimated 1973-74
Man-years .....	193.2	201.1	201.1
Cost .....	\$2,500,739	\$2,935,356	\$3,046,269

### Compliance Element

The objective of the compliance or "enforcement" element of the department's program is to prevent the operation of premises dealing in alcoholic beverages from becoming police problems; to prevent practices jeopardizing public safety and welfare; to prevent sales to minors and intoxicated persons and to restrict activities detrimental to public morals. Enforcement comprises investigation of complaints, imposition of disciplinary action and suppression of various trade or business practices proscribed by law. The department shares law enforcement responsibilities with local police and other law enforcement agencies. Table 3 shows selected departmental enforcement data.

**Table 3**  
**Selected Workload Data, Compliance Element**

Detail	Calendar Year			
	Actual 1971	Estimated 1972	Estimated 1973	Estimated 1974
Complaints investigated .....	2,618	3,000	3,000	3,000
Accusations filed .....	2,311	2,500	2,500	2,500
Hearings held .....	968	1,400	1,400	1,400
Licenses revoked .....	202	225	225	225
Arrests .....	1,730	1,600	1,600	1,600

As noted above, the man-year level for compliance activities in the current year is down 4.6 (150.6 to 146) from the level originally proposed in the 1972 budget. The department proposes to maintain this level in the budget year, although compliance workload could increase as the result of a recent U.S. Supreme Court decision (*California et al. v. LaRue et al.*), which held that the Department of Alcoholic Beverage Control has the authority, under the 21st Amendment of the United States Constitution, to control the manner and circumstances under which liquor by the drink may be dispensed. The case concerned departmental rules and regulations prohibiting lewd or naked entertainment in bars and nightclubs. The department indicates, however, that with expected assistance from local

## DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

law enforcement agencies, it will be able to handle with existing staff any increased budget-year workload associated with the court's decision. Table 4 shows cost and staffing data for the compliance element.

**Table 4**  
**Cost and Staffing Data, Compliance Element**

Detail	Fiscal Year		
	Actual 1971-72	Estimated 1972-73	Estimated 1973-74
Man-years .....	139.3	146.0	146.0
Cost .....	\$2,179,877	\$2,530,384	\$2,636,075

**Administration Element**

The administration element includes the department's executive staff and personnel responsible for licensing, accounting, legal, price posting, training and personnel duties. This element also drafts and reviews proposed legislation affecting the liquor industry and responds to inquiries from members of the Legislature and the general public. As mentioned previously, the department reduced the man-year figure for the administrative element by 9.1 positions during the current year, resulting in a 1972-73 staffing level of 90.2 instead of the 99.3 figure shown in the 1972 budget. The department plans to maintain this level in the budget year. Cost and staffing data for the administrative element are shown in Table 5.

**Table 5**  
**Cost and Staffing Data, Administrative Element**

Detail	Fiscal Year		
	Actual 1971-72	Estimated 1972-73	Estimated 1973-74
General Administration			
Man-years .....	85.6	90.2	90.2
Cost .....	\$1,359,855	\$1,468,071	\$1,502,292

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

For the budget year, the department proposes a General Fund expenditure of \$7,089,396, which is \$232,825 or 3.4 percent above estimated current-year expenditures. The department anticipates budget-year reimbursements of \$95,240, primarily representing fees it charges for (1) fingerprinting applicants, (2) transcripts of hearings, (3) copies of the Alcoholic Beverages Control Act, and (4) information concerning names and addresses of licensees. Last year, the department projected \$20,000 in such reimbursements for the current fiscal year, but it now anticipates current-year reimbursements totaling \$95,240 (an increase of \$75,240) as a result of Chapter 1309, Statutes of 1971, which authorized state agencies that are required to pay a fee to the Department of Justice for conducting criminal record searches for certain job and/or license applicants to charge applicants a fee to reimburse such costs.

The department's proposed budget-year increase in General Fund ex-

penditures consists of \$105,397 for operating expenses and equipment (primarily reflecting price increases) and \$127,428 for salaries, wages, and staff benefits.

The proposed expenditures for fiscal year 1973-74 will maintain departmental activity approximately at existing levels. Current-year adjustments in salaries and health benefits increased departmental costs by \$414,720 over the amount appropriated in the 1972 Budget Act.

#### Departmental Funding

The Department of Alcoholic Beverage Control is supported by the General Fund, but it is a revenue-producing agency. It collects and distributes fees under a schedule established by statute. Original license fees and license transfer fees, for example, are deposited directly into the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" are deposited in the Alcoholic Beverage Control Fund. In April and October of each year, money on deposit in this fund is divided 90 percent to the state's 58 counties and more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund.

The department estimates that deposits in the General Fund during fiscal year 1973-74 will amount to \$7,365,000, which exceeds the estimated departmental cost of operations for the same period by \$275,604.

### Business and Transportation Agency

#### ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 167 from the General  
Fund

Budget p. 88 Program p. I-551

Requested 1973-74 .....	\$148,518
Estimated 1972-73.....	145,884
Actual 1971-72 .....	131,266
Requested increase \$2,634 (1.8 percent)	
Total recommended reduction .....	None

#### GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954 to provide an administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relating to penalty assessments or to 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. The board members are salaried and meet regularly in Los Angeles, San Francisco and Sacramento. Board staff consists of two attorneys and two senior legal stenographers. Approximately 25 percent of the possible appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not

**ALCOHOLIC BEVERAGE CONTROL APPEALS —Continued**

subject to departmental control.

The board's single program consists of providing an intermediate appeals forum between the department and the state's district courts of appeal to which an appellant has access upon a petition to review any board decision. Board workload data for the past several years are 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>
1964-65.....	267	222
1965-66.....	213	237
1966-67.....	258	213
1967-68.....	229	237
1968-69.....	161	214
1969-70.....	194	160
1970-71.....	223	196
1971-72.....	135	195

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The board proposes a budget-year expenditure of \$148,518, which is \$2,634 or 1.8 percent greater than estimated expenditures for the current year. This increase consists of \$2,260 for salaries, wages and staff benefits and \$374 for operating expenses.

In fiscal year 1971-72, as indicated in Table 1, the board received 135 appeals and issued 195 decisions. Twenty-nine of the decisions reversed actions of the department. The department sought court review of six of the reversals, and licensees sought court review of 31 cases in which the appeals board had sustained decisions of the department. Most of these cases represented issues involving application denials, violations of the alcoholic beverage minimum price law, and sales to or consumption by minors.

**Major Workload Decline**

The board advises that the large decline in appeals filed in the fiscal year 1971-72 (135 compared to 223 in the prior year) reflects the fact that fewer violators of Alcoholic Beverage Control laws, rules, and regulations desire to appeal departmental decisions because of a greater willingness by the department to accept compromise (penalty) payments in lieu of more stringent penalties such as suspension or revocation of licenses. The board also advises that the decline reflects a new departmental policy of giving violators more detailed and in-depth explanations of the legal nature of their violations which tends to make the violators more willing to accept departmental decisions.

A portion of the decline in appeals also represents a reduction in cases involving violations of departmental regulations prohibiting lewd or naked entertainment in bars or nightclubs pending a United States Supreme Court decision (*California et al. v. LaRue et al.*) on this matter. Now that the U.S. Supreme Court has upheld the department's rules (the

*LaRue* decision was rendered December 5, 1972), the appeals board expects a nominal increase in such cases based on challenges of the department's determination of what constitutes proscribed behavior and interpretation of the court's decision.

If the board's workload continues to decline in the budget year, it would be appropriate for the Legislature to reevaluate the need for continuing the board in existence or reduce its support to a level commensurate with the board's lower level of activity.

### Business and Transportation Agency STATE BANKING DEPARTMENT

Items 168 and 169 from the General Fund and the State Banking Fund

Budget p. 89 Program p. I-555

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State Banking Fund	
Requested 1973-74 .....	\$35,000
Estimated 1972-73 .....	32,500
Actual 1971-72 .....	26,482
Requested increase \$2,500 (7.7 percent)	
Total recommended reduction .....	None

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#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

Chapter 1483, Statutes of 1969, established a "local agency security" program under which the Superintendent of Banks is designated as the "Administrator of Local Agency Security" with the responsibility of supervising the handling of county, city and district funds by depository banks, both state and national (see analysis of Item 170).

Although the program is technically financed by the General Fund, there is no cost to the General Fund because the program is fully reimbursed by a loan from the State Banking Fund which is in turn reimbursed by fees assessed to participating banks.

The department's requested increase of \$2,500 for the budget year reflects rising operating costs.

STATE BANKING—Continued

**Business and Transportation Agency  
STATE BANKING DEPARTMENT**

Item 170 from the State Bank-  
ing Fund

Budget p. 89 Program p. I-553

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Requested 1973-74 .....	\$1,935,944
Estimated 1972-73.....	1,707,551
Actual 1971-72 .....	1,388,326
Requested increase \$228,393 (13.3 percent)	
Total recommended reduction .....	None

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

**GENERAL PROGRAM STATEMENT**

The primary responsibility of the State Banking Department is to protect the public from economic loss resulting from bank and trust company failures. Programs related to this responsibility are regulatory in nature. Not all banks in California are regulated by this department because some choose to operate under federal authority.

The law provides for three types of banking institutions in the state—commercial, savings, and trust companies. Savings banks no longer exist in California because these banks, unlike commercial banks, could not provide such banking services as checking accounts or issuance of unsecured loans.

The department is administered by the Superintendent of Banks, who is appointed by the Governor. Headquarters are located in San Francisco and the department's single branch office is in Los Angeles. Current authorized staff consists of 95 positions. As discussed later in this analysis, the department proposes a net addition of nine positions in the budget year. The department currently engages in the following five programs:

1. Licensing and supervision of banks and trust companies.
2. Regulation of transmitters of money abroad.
3. Certification of securities.
4. Administration of local agency security.
5. Departmental administration.

**LICENSING AND SUPERVISION OF BANKS AND TRUST COMPANIES**

This program consists of three elements: (1) investigation of applications for new facilities, (2) continuing supervision of existing banking facilities, and (3) continuing supervision of trust facilities.

**Investigation of Applications**

The establishment of new banking facilities tends to increase the potential risk of loss to the public. Therefore, all proposed new facilities, including new banks and trust companies, new trust departments of existing banks and title insurance companies, new branches of existing banks and

trust companies, and new branches and representative offices of foreign (out-of-state) banking corporations, must be approved by the superintendent.

Table 1 shows workload, cost and man-years devoted to this program element.

**Table 1**  
**Bank and Trust Company License Applications**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
New banks .....	36	40	40
New branches .....	75	80	90
New trust facilities .....	1	2	2
Applications for new foreign banking .....	12	5	5
Man-years .....	3.2	4.2	5.4
Cost .....	\$69,538	\$88,578	\$95,997

### Supervision of Banks and Trust Companies

The remaining program elements are (1) continuing supervision of existing banking facilities and supervision of trust activities and (2) periodic examinations (generally annually) of the records of banks and trust companies. The law requires all banks and court-established trusts to be examined at least annually and to submit quarterly financial reports to the department. Private trusts are examined on a random sample basis. "Problem" institutions are examined more frequently.

The examination procedure involves verification and evaluation of assets and identification of unsafe practices and statutory violations which must be corrected. Institutions in serious trouble may be placed in liquidation or under control of a conservator. Table 2 shows workload, cost and staffing data for these two elements.

**Table 2**  
**Number of Banks and Trust Companies Supervised**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Type of institutions			
Banks .....	97	110	123
Branches .....	690	730	775
Trust companies .....	9	10	11
Foreign bank corporations .....	28	33	38
International banking corporations .....	1	1	1
Bank supervision			
Man-years .....	56.6	64.5	70.5
Cost .....	\$1,209,952	\$1,454,249	\$1,670,351
Trust company supervision			
Man-years .....	5.2	5.8	6.6
Cost .....	\$111,260	\$133,724	\$153,596

### REGULATION OF TRANSMITTERS OF MONEY ABROAD

The Department of Corporations is responsible for the licensing and supervision of most check sellers and cashers (sellers of money orders, etc.). However, money transmitters (sellers of travelers' checks) who are not incorporated in California, but who engage in interstate and interna-

**STATE BANKING—Continued**

tional business from a California location, are subject to supervision and periodic examination by the State Banking Department. Workload, cost and staffing data are shown in Table 3.

**Table 3**  
**Regulation of Transmitters of Money Abroad**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Companies supervised .....	9	10	12
Agents licensed .....	6,000	7,300	8,500
Man-years .....	0.3	0.5	0.5
Program cost .....	\$7,500	\$13,000	\$13,000

**CERTIFICATION OF SECURITIES**

“Savings banks” no longer exist in California. However, many public retirement funds, employee benefit trust accounts, and state-chartered credit unions are still required by law to secure from the superintendent a certificate stating that particular securities are legal for investment by “savings banks” before such institutions may invest in them. It is the department’s view that under the current regulatory structure covering security issuance, continued supervision in this area by the banking department is no longer necessary. Legislation transferring this responsibility to the Department of Corporations, which is already authorized to supervise the issuance of securities, failed in the 1970 and 1971 legislative sessions. Table 4 shows program workload and cost data for the certification of securities element.

**Table 4**  
**Certification of Securities**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Applications received .....	113	120	125
Securities certified .....	108	115	120
Man-years .....	0.1	0.1	0.1
Program cost .....	\$2,500	\$3,000	\$,3000

**ADMINISTRATION OF LOCAL AGENCY SECURITY**

Chapter 1483, Statutes of 1969, established a new program relating to the management of the collateral required of banks which receive deposits of local agency funds. The law designated the Superintendent of Banks as the “Administrator of Local Agency Security” to act as agent for city, county and district treasurers in verifying the amount of collateral pledged by banks to secure deposits of funds from governmental units. This is a General Fund program the cost of which is fully reimbursed by the participating banks.

The department originally requested, and the Legislature authorized, five positions at a cost of \$73,500 to administer this program in fiscal year 1970-71. Two of the five positions were deleted from the budget on the basis of a departmental estimate that the program would require only the equivalent of three full-time positions. Based on subsequent workload

experience, the department transferred 2.1 of the remaining positions to other activities and reports that it needs only a part-time position (0.9 position) to administer the program at a budget-year cost of \$35,000 including travel and pro rata overhead charges.

Under the old method of handling collateralization of funds deposited by local agencies, each agency treasurer ascertained that collateral equivalent to 110 percent of the deposit was maintained by the depository. The new program centralizes this responsibility in the superintendent's office, and permits the use of pooled collateral, thereby simplifying administration and reducing local agency costs. Table 5 summarizes workload and cost data for the program.

**Table 5**  
**Local Agency Security Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Participating banks.....	140	145	150
No. of agency depositors.....	1,500	1,500	1,500
Aggregate deposits.....	\$4.5 billion	\$5.0 billion	\$5.5 billion
Man-years.....	0.9	0.9	0.9
Program costs.....	\$26,482	\$32,500	\$35,000

#### DEPARTMENTAL ADMINISTRATION

This program has three elements: (1) executive and administrative services, (2) legal and legislative services, and (3) information services. The cost of this program is distributed to the other operating programs. Staffing and cost data are shown in Table 6.

**Table 6**  
**Administrative Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Man-years.....	14.2	15	15
Cost.....	\$257,094	\$298,370	\$311,714

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The department proposes an expenditure of \$1,935,944, which is a net increase of \$228,393 or 13.3 percent above estimated current-year expenditures. However, reimbursements estimated at \$35,000 in the budget year (representing recovery of the cost of administering the local agency security program) will produce a total expenditure program of \$1,970,944. The increase consists of \$181,613 in salaries, wages and staff benefits, and \$49,280 in operating expenses. The major portion of the salary increase (\$145,020) is attributable to a proposed total of 10 new examiner positions. This request, combined with the deletion of one authorized clerical position, results in a net increase of nine positions.

**STATE BANKING—Continued****New Positions (Examiners)**

The department is requesting 10 new examiners to meet an examination workload that has continued to grow substantially since 1968. The assets of commercial banks subject to examination by the department have increased annually. Increases are estimated to be 14.5 percent for the current year and 15.1 percent for fiscal year 1973-74. Consequently, during the past three years the department has not been able to comply with statutory requirements to examine each bank once each calendar year. This staff increase is in addition to the 10 new examiner positions which were authorized in the current year. In 1971, the department was unable to examine 26 of the 86 banks (with assets of \$1.0 billion) under its supervision, and in 1972 it failed to examine 30 of the 100 banks (with assets of \$1.9 billion) under its supervision.

A similar workload problem exists in the trust examination element. The department anticipates that with presently authorized staff it will be able to examine in the current year only 23 of the 30 banking trust departments which are under its supervision. During the last four years, the department has examined the records of none of the more than 7,300 agents of transmitters of money abroad and in 1972 it was unable to make any of the required examinations of data processing departments within banks. We support the acquisition of the 10 new examiner positions requested. In our judgment, this is the maximum number that can be effectively trained during the budget year although the department states that additional examiners can be justified on a workload basis.

**Departmental Funding**

The department is supported by the State Banking Fund, which consists of assessments (now at 60 percent of the authorized maximum rate) paid by banks and trust companies, license and application fees and service charges. Budget-year revenues accruing to the fund are estimated at \$1,824,250, which is \$111,694 more than proposed expenditures. The fund will have an estimated surplus of \$911,912 at the end of the budget year. Pursuant to Chapter 434, Statutes of 1971, fines for noncompliance of Local Agency Security regulations are levied by the Superintendent upon participating banks and deposited in the General Fund. Such fines are estimated to total \$2,000 for the 1973-74 budget year.

**Business and Transportation Agency  
DEPARTMENT OF CORPORATIONS**

Item 171 from the General  
Fund

Budget p. 91 Program p. I-559

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Requested 1973-74 .....	\$3,693,641
Estimated 1972-73.....	3,419,706
Actual 1971-72 .....	3,053,615
Requested increase \$273,935 (8.1 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

The Department of Corporations is administered by the Commissioner of Corporations, who is appointed by the Governor. Headquartered in Sacramento, the department maintains branch offices in San Francisco, Los Angeles and San Diego. Authorized staff currently consists of 274 positions; however, the department proposes an increase of 23 for a total of 297 positions in the budget year. The department is comprised of four divisions—corporate finance, lender-fiduciary laws, trading and markets, and administration.

The department's two operating programs (a securities and franchise program and a lender-fiduciary program) protect the public from (1) unfair investment schemes and dishonest or fraudulent sales practices in securities or franchises and (2) dishonest and unsound business practices by certain regulated companies or entities that lend money or hold it in a fiduciary capacity.

The department does not regulate all security transactions. Exempted from its jurisdiction are (1) securities issued by public agencies and (2) securities subject to regulation by the Federal Securities and Exchange Commission or such state agencies as the State Banking Department, the Department of Savings and Loan, and the Public Utilities Commission. Numerous other exceptions are specified in the law.

**SECURITIES AND FRANCHISE PROGRAM**

The Corporate Finance and Trading and Markets Divisions administer the Corporate Securities Law and the Franchise Investment Law, which require disclosure to the investing public of relevant financial and legal information concerning proposed security issues and franchise offers. The program consists of three elements: securities qualification, franchise registration, and regulation and enforcement.

**Securities Qualification**

The Corporate Securities Law provides that all proposed security issues, with certain exceptions, must be "qualified" (approved) by the corporation commissioner before they may be sold in California. Securities which need not be qualified include certain issues offered to a limited number of purchasers under conditions specified in the Corporations Code. To ascertain compliance with the law, the department reviews notices of

**DEPARTMENT OF CORPORATIONS—Continued**

intent filed by corporations which propose issuance of such securities. Upon application for qualification of nonexempt securities, the commissioner reviews the applicant's business history and financial condition and determines whether the proposed plan of business and security issuance is fair, just and equitable. If he so determines, he allows the proposed issue to become effective, either by issuing a permit or by a process known as "coordination" or, in cases where the securities are already registered with the federal Securities and Exchange Commission, by "notification." Unless the commissioner issues a stop order, authorization to issue such securities is automatically given at the same time that the federal registration becomes effective under the coordination procedure and at the end of 10 days under the notification procedure. Workload and costs of this activity are shown in Table 1.

**Table 1**  
**Securities Qualification Workload and Cost Data**

<i>Security issues approved</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Permit method.....	6,281	7,200	7,500
Coordination method.....	1,988	3,000	3,000
Notification method.....	257	500	500
Notices of exempt offerings.....	14,687	16,500	18,150
Orders issued.....	8,313	10,000	11,000
Personnel man-years.....	102.3	103.3	110.3
Cost.....	\$1,838,403	\$2,011,802	\$2,118,038

**Franchise Registration**

The franchise system of merchandising, whereby the right to transact business under a plan and trademark is acquired for a fee, is regulated under the provisions of the Franchise Investment Law. The law provides for the registration of franchises which are offered for sale and requires the disclosure of pertinent information to prospective buyers. The department reviews applications for registration to determine whether the franchise offer would constitute fraud or misrepresentation or be unfair to prospective franchisees.

**Table 2**  
**Franchise Workload and Cost Data**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Franchise registration.....	141	150	200
Personnel man-years.....	2	2.2	2.2
Cost.....	\$32,386	\$35,030	\$35,895

**Regulation and Enforcement**

To transact business in California, broker-dealers, agents, commodity advisers and investment advisers must apply to the department for licenses or certificates and all applicants, other than agents, must file financial statements. The department reviews the background and financial information contained in the applications and issues a certificate or license to qualified applicants. This element also investigates complaints filed by

the public and takes disciplinary action or institutes criminal proceedings against licensees as required. Table 3 shows workload and cost data for the regulation and enforcement element.

**Table 3**  
**Regulation and Enforcement Data**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Licenses issued.....	31,176	34,600	36,000
Consents to transfer.....	8,239	8,500	9,000
Enforcement actions			
Formal-enforcement cases.....	663	700	805
Broker-dealer inspections.....	243	250	260
Mutual fund inspections.....	—	—	45
Other regulatory matters.....	1,188	1,550	1,600
Personnel man-years.....	61	63.5	71.5
Cost.....	\$841,501	\$920,825	\$1,032,791

#### LENDER-FIDUCIARY PROGRAM

This program, administered by the Division of Lender-Fiduciary Laws, consists of seven elements, each of which involves the enforcement of one or more of the following regulatory statutes and the licensing of participants thereunder: Check Sellers and Cashers Law, Credit Union Law, Escrow Law, Industrial Loan Law, Personal Property Brokers' Law and California Small Loan Law, Retirement Systems Disclosure Law, and Trading Stamp Law. Applicants for licensing are investigated as to financial responsibility, experience, and character, and the books and records of licensees are examined to determine compliance with law. Table 4 indicates the total workload, man-year, and cost data for the lender-fiduciary program. The data for each program has remained relatively constant with the exception of the Credit Union Law element. Credit unions have experienced phenomenal growth in recent years.

Assets of state-chartered credit unions have increased 15 percent since 1971 and now exceed \$1.25 billion.

**Table 4**  
**Lender-Fiduciary Workload, Man-Year and Cost Data**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Licensed locations.....	3,787	3,984	4,478
Investigations and examinations conducted.....	2,112	2,255	2,453
Personnel man-years.....	84.5	86.0	94.0
Cost.....	\$1,444,547	\$1,581,873	\$1,719,062

#### ADMINISTRATION

The department's administration program is comprised of two elements. The general office element establishes departmental policy, suggests legislation or amendments to current laws, and directs the allocation of personnel between program elements. The accounting and personnel office element prepares the department's budget, maintains financial records, and prepares payroll documents. The administration program, which has an authorized staff of 14 positions, is requesting a 1972-73

**DEPARTMENT OF CORPORATIONS—Continued**

budget of \$199,286, an increase of approximately \$9,490 over current-year expenditures. Administrative costs are prorated to the department's two operating programs.

**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The request of \$3,693,641 is \$273,935 or 8.1 percent above estimated expenditures for the current year. The department anticipates budget-year reimbursements of \$1,212,145, primarily representing fees for examining financial records of licensees, resulting in a total proposed expenditure program of \$4,905,786. The department also expects a salary saving of \$63,948.

**New Positions (Qualifications)**

The department requests an increase in staff of seven positions for this element. The augmentation consists of three counsel positions (\$39,996), one auditor position (\$10,104), two stenographic positions (\$12,408), and one clerical position (\$6,060). The department states that the new positions are needed to absorb increased workload in complex tax shelters, i.e., oil and gas offerings, real estate syndications, cattle syndications and crop syndications. Mutual funds and real estate investment trusts have also increased the workload of this element.

**New Positions (Regulation and Enforcement)**

The department requests four new staff positions—one counsel (\$13,332), one auditor (\$10,104), one stenographic position (\$6,204) and one clerical position (\$6,060)—in order to more adequately handle investigations and enforcement activities. The requested staff augmentation reflects an estimated 15 percent increase in essential enforcement actions during the 1973-74 budget year. The need to include the inspection of mutual funds in the broker-dealer inspection program prompts the department to request four additional staff positions for this element. The request consists of one counsel position (\$13,332), two auditor positions (\$20,208) and one stenographic position (\$6,204). In August the department committed itself to a joint inspection program with the Securities and Exchange Commission for the purpose of improving the coordination of inspections of mutual funds companies. According to the department, it has been unable to honor this commitment because of lack of staff.

**New Positions (Credit Union Law)**

The department requests eight new positions for the credit union law element because of projected extraordinary growth (11 percent) in the total number of licensed locations during the budget year. The department states that six new auditor positions (\$60,624), one stenographic position (\$6,204) and one clerical position (\$6,060) are needed to absorb increased workload and protect the public in this area.

While the department is requesting 23 new staff positions for 1973-74, seven positions (two clerical, two auditor, two counsel, and one special investigator) were eliminated in the 1972-73 budget because of projec-

tions of reduced workloads. Revised workload projections now indicate that the staff reduction was too severe.

**Departmental Funding**

The Department of Corporations is supported by the General Fund. However, the revenue which it produces for the fund through license fees and related charges (exclusive of the reimbursements mentioned above) exceeds the annual cost of departmental operations as shown in Table 5.

**Table 5  
Departmental Revenue and Expenditures**

	<i>Revenue</i>	<i>Expenditures (net)</i>
1971-72 (actual) .....	\$6,285,214	\$3,053,615
1972-73 (estimated) .....	6,824,250	3,419,706
1973-74 (proposed) .....	6,653,050	3,693,641

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

Item 172 from the General Fund

Budget p. 92 Program p. I-567

Requested 1973-74 .....	\$1,680,137
Estimated 1972-73.....	1,391,346
Actual 1971-72 .....	1,067,005
Requested increase \$288,791 (20.8 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis page*

1. Reporting Direct Inspection Costs. Recommend department report direct inspection costs and general assistance costs separately in future budget proposals. 356
2. Mobilehome Parks and Accessory Structures. Recommend approval of the 15-position increase in this element needed to complete required biennial inspections and meet workload demands of increased construction activity. 357
3. Mobilehome Manufacturers. Recommend department submit a followup report to the Legislature before December 1, 1973 on the effect of the inspection staff increase in the mobilehome manufacturers element. 358

**GENERAL PROGRAM STATEMENT**

The responsibilities of the Department of Housing and Community Development are divided between the following two divisions:

1. The Division of Codes and Standards administers the codes and standards program which establishes, enforces and interprets uniform health and safety standards to insure a proper housing and living environment for Californians at all socioeconomic levels, and

**Table 1**  
**Staff and Expenditures of Codes and Standards Program**

<i>Program elements</i>	<i>Man-years</i>			<i>Expenditures</i>		
	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
State Housing Law and Earthquake Protection Law	5.1	7.1	7.1	\$99,372	\$130,842	\$134,772
Employee housing and labor camps.....	9.3	9.5	9.5	164,114	172,480	177,235
Mobilehome parks and accessory structures .....	31.0	31.0	46.0	549,080	602,262	862,477
Mobilehome manufacturers .....	45.5	69.9	71.4	844,907	1,252,698	1,322,676
Factory-built Housing Law .....	4.6	6.7	7.7	95,880	129,807	154,065
Special Projects <sup>1</sup> .....	2.4	2.8	2.8	50,473	56,666	58,775
Totals .....	97.9	127.0	144.5	\$1,803,826	\$2,344,755	\$2,710,000
Reimbursements:						
Federal .....				—	\$13,062	—
Other .....				\$919,047	1,252,698	\$1,322,676
General Fund cost.....				\$884,779	\$1,078,995	\$1,387,324

<sup>1</sup> Includes Earthquake Protection Law in 1971-72 fiscal year.

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

2. The Division of Research and Assistance administers the department's technical assistance program to serve as a catalyst and technical consultant in seeking solutions to California's housing problems.

Rules and regulations of the department are promulgated by a nine-member Commission of Housing and Community Development. Members of the commission are appointed by the Governor from among leaders in the building and housing field. They form a link between the private and public sectors in providing guidance on policies and programs.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

## CODES AND STANDARDS PROGRAM

This program, composed of six elements, provides for the development, interpretation and enforcement of regulations for structures and vehicles used for human habitation. The proposed staff and expenditures of these elements are summarized in Table 1.

As shown in Table 1, total proposed expenditures for the budget year are \$365,245 (15.6 percent) above the current year level. Most of this increase (\$260,215) is in the mobilehome park element which is largely supported by revenues derived from inspection fees. Revenue estimates and projected costs for each element for the budget year are shown in Table 2. It will be noted that costs are rising somewhat faster than fee revenues except in the case of mobilehome manufacturers and factory-built housing.

**Table 2**  
**Revenues and Expenditures, Codes**  
**and Standards Program**  
**1972-73 and 1973-74**

Program elements	1972-73		1973-74	
	Estimated inspection revenue	Total cost	Estimated inspection revenue	Total cost
State Housing Law and Earthquake Protection Law .....	\$50,000	\$130,842	\$50,000	\$134,772
Employee housing and labor camps	90,000	172,480	90,000	177,235
Mobilehome parks and accessory structures .....	610,000	602,262	820,000	862,477
Mobilehome Manufacturers <sup>1</sup> .....	1,252,698	1,252,698	1,322,676	1,322,676
Factory-built Housing Law .....	129,807	129,807	159,158	154,065
Special projects .....	—	56,666	—	58,775
Totals .....	\$2,132,505	\$2,344,755	\$2,441,834	\$2,710,000

<sup>1</sup> This element is budgeted on a reimbursement basis, all other elements receive General Fund support with fees treated as General Fund revenues.

The code and standards program encompasses both direct inspection and "general assistance" activities. A total of 127 man-years is allocated to this program for 1972-73, including 70 district representatives whose primary responsibility is the direct inspection function. Forty-one of these representatives, whose time is devoted exclusively to inspection, are as-

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

signed to the mobilehome program element which is budgeted on a reimbursement basis. The remaining 29 representatives divide their time among the other five program elements. These 29 inspectors are primarily responsible for the enforcement of the law, but also provide "general assistance" in the fields of employee housing, mobilehome parks and accessory structures, factory-built housing, as well as state housing and earthquake protection laws.

General assistance, includes such activities as: (1) preparation and dissemination of housing standards information to local officials, (2) direct assistance to local governments on the interpretation of housing standards, and (3) special projects which have statewide implications. These activities receive General Fund rather than fee support.

**Reporting of District Inspection Costs**

*We recommend that program subelements be established within each program element to separate direct inspection costs from general assistance costs.*

Since 1969, the Legislature has maintained the policy that direct inspection costs of all codes and standards elements be fee supported. The division, however, does not report inspection costs and general assistance costs separately, primarily because both functions may be performed by the same individuals. The division requires, however, that district representatives maintain time records and report hours expended on each of these functions. We recommend that the division establish subelements in this program and use existing time reporting procedures and records as a basis for allocating costs between the direct inspection and general assistance functions. Reporting of actual and budgeted costs in these categories will enable the Legislature to evaluate the extent of compliance with the policy of self-support for direct inspection costs.

**State Housing Law and Earthquake Protection Law**

The objective of this element is to establish, interpret and enforce statewide minimum building, housing and earthquake protection standards. Enforcement responsibilities include issuance of building permits, inspection and fee collection. In all but three remaining counties, the enforcement responsibility for this function has been assumed by the local jurisdictions. The Counties of Mariposa, Sierra and Trinity have chosen not to assume this inspection responsibility, and the department remains the primary inspection authority in these areas. It is proposed that the current level of 7.1 man-years remain unchanged for the budget year.

**Employee Housing and Labor Camps**

The objective of this element is to protect the health and safety of labor camp residents and other employee housing residents in the state. The department has inspection responsibility for this function unless it is voluntarily assumed by the local jurisdiction. With the addition of San Joaquin, Sacramento and Monterey Counties this year, six counties have now taken over their own employee housing inspection.

Current law requires annual registration and inspection of all active

labor camps with five or more occupants. Legislation enacted in 1970 imposed inspection fees, based on the number of occupants.

In our 1972-73 analysis we reported that inspection and enforcement of regulations was inadequate due to insufficient staff and the unequal distribution of workload among the five inspection elements. For example, as a result of an increase in the number of mobilehome parks under construction, district representatives spent a disproportionate amount of time in mobilehome park inspection to the detriment of employee housing and other elements.

In our 1972-73 analysis we recommended that staff workload be equalized to enable district representatives to spend more time monitoring employee housing. Since that time, the department has evaluated and revised workload schedules to assure more effective inspection and enforcement. The department has also increased the number of Spanish-speaking inspectors and has attempted to make information on permanent rural housing more readily available to migrant farm labor.

The department proposes to maintain the current level of 9.5 man-years in the employee housing element for the current year.

#### Mobilehome Parks and Accessory Structures

*We recommend approval of the proposed 15 position increase in the mobilehome park element needed to complete required biennial inspections and meet workload demands of increased construction activity.*

The department has the responsibility to provide and enforce uniform health and safety regulations for construction and operation of mobilehome parks and accessory structures. These regulations insure statewide standardized construction, utility hookup, and sanitation rules for the parks and allow manufacturers of accessory structures to receive a single state approval, acceptable to all enforcement agencies. Unless voluntarily assumed by the local jurisdiction, the state has primary inspection responsibility for mobilehome parks.

*Mobilehome Parks Construction Increases.* New construction has steadily increased the number of mobilehome parks under state jurisdiction since 1970-71. Table 3 shows the number of parks and spaces under state jurisdiction, the amount of new construction activity since 1970-71, and the man-years allocated to this program.

**Table 3**  
**Mobilehome Park Program**

Fiscal year	Under construction		Total state enforcement		Man-years
	Parks	Spaces	Parks	Spaces	
1970-71 .....	63	5,745	1,727	71,577	30.5
1971-72 .....	51	9,421	1,664	73,836	31.0
1972-73 (est.) .....	178	10,664	1,719	79,969	31.0
1973-74 (est.) .....	205	12,250	1,982	98,344	46.0

The number of mobilehome park spaces under construction has increased by 113 percent and the number of parks 225 percent since 1970-71. Although the construction activity has caused a significant workload increase there has been no corresponding increase in personnel. The depart-

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

ment now reports that its current staff level is unable to meet this inspection demand. Inspection of a mobilehome park under construction requires four times the man-hours required to complete a biennial park maintenance inspection. The department considers new construction inspection its first priority. As a result, the biennial inspections required by statute have not been completed.

In order to handle the increased construction activity and complete the biennial inspections, the department has requested 12 new positions. Eight of these positions are for district representatives, one is an engineering position for checking plans of proposed parks and three are clerical.

The department is also requesting three new assistant area supervisor positions in this element. These positions are requested in response to complaints of mobilehome park owners that laws are not interpreted uniformly throughout the state. To remedy this, the department proposes to increase the ratio of supervisors to district representatives and thereby improve communication and training.

Inspection fee revenues during 1972-73 are estimated to exceed the total cost of the mobilehome park element, including both direct inspection and general assistance costs, by about \$8,000. This situation results from the growth in mobilehome park spaces beyond the ability of the division to perform the required biennial park inspections with its present staff. Park operators, however, are required to pay annual fees for operating permits even though the required inspections may not have been performed. For 1973-74, the division estimates that total fee revenues will cover estimated existing direct inspection costs plus approximately two-thirds of the cost of the proposed new positions. The division plans to request legislation to authorize an increase in annual operating fees from \$1 to \$3 per park space. This increase will raise sufficient additional revenue to cover the remaining cost of the new positions. General assistance costs of approximately \$42,000 included in this element for 1973-74 will not be covered by inspection revenues and will require General Fund support.

**Mobilehome Manufacturers**

*We recommend that the Department of Housing and Community Development submit a followup report to the Legislature before December 1, 1973 on the effect of the inspection staff increase in the mobilehome manufacturers element.*

The mobilehome manufacturers element is responsible for enforcing construction and inspection standards prescribed by the Health and Safety Code. All mobilehome<sup>1</sup> units used in California must be approved by the department to insure compliance with safety regulations which cover electrical, gas, plumbing and structural standards. Inspections are made in manufacturing plants, dealer lots, and for private individuals upon request. This inspection function is supported on a reimbursement basis by inspection fees.

<sup>1</sup> The department used the term mobilehome to designate the semipermanent type of mobilehome as well as recreational vehicles used for human habitation (travel trailer and motor homes) and commercial coaches.

Prior to July, 1972, inspection of mobilehomes under construction was conducted by "spot checking". A department survey of its mobilehome factories and sales lots inspection and enforcement activities indicated that 94 percent of the units inspected were not in compliance with state safety regulations. Many of these units contained immediate health and safety hazards which indicated inadequate inspection and enforcement procedures.

On the basis of the survey results, the department revised its inspection procedures so that every mobilehome would be inspected at some stage of its construction process. To implement these procedures, the department requested and was given authorization for 22 new inspector positions in 1972-73 under provisions of Section 28, Budget Act of 1972. In August 1972, insignia fees were raised from \$3 to \$6 to cover the costs of this personnel increase.

We believe that the department should conduct a followup survey to determine the success of the additional inspectors and revised inspection procedures in correcting the deficiencies, and to report the results to the Legislature.

For 1973-74, the department proposes a 2.5-man-year increase above the current year level for clerical and training personnel. Workload data and inspection man-years for the mobilehome element is shown in Table 4, below.

**Table 4**  
**Mobilehome Production**  
**1970-71—1973-74**

<i>Fiscal year</i>	<i>Number units manufactured</i>	<i>Inspection man-years</i>
1970-71.....	121,528	32.5
1971-72.....	153,268	45.5 <sup>1</sup>
1972-73.....	173,000	69.9 <sup>2</sup>
1973-74.....	185,000	71.4

<sup>1</sup> Enforcement of structural, occupancy and fire safety regulations added in September 15, 1972.

<sup>2</sup> Includes the 22 inspector positions authorized in fiscal year 1972-73.

### **Factory-Built Housing**

The objective of this element is to encourage and regulate the manufacture and construction of factory-built housing. In 1969, the Legislature passed the Factory-Built Housing Law which authorized the department to approve plans, make in-plant inspections and issue insignia showing compliance with established regulations. Since June 1970, when the Factory-Built Housing Law went into effect, approximately 43 manufacturers have submitted plans for 159 models. During the last fiscal year, 1,198 units were produced.

A workload increase has occurred in this inspection element due to rapid expansion in the industry. A one man-year increase is proposed for the budget year to meet the inspection demands of new producers entering the field. The department reports that fees are expected to cover the entire cost of this program as well as the projected man-year increase. For the budget year a small surplus of revenues over costs is anticipated.

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued****Special Projects**

Activities in this element are generally short-term projects which may include the provision of technical assistance to local governments, interpretation of housing standards, aid to local building inspection agencies in times of natural disaster, and legislative liaison work concerning issues which relate to the Division of Codes and Standards. It is proposed the 2.8 man-years for this element remain unchanged for the budget year.

**TECHNICAL ASSISTANCE**

The objective of this program is to improve the quality and quantity of housing in California through research, technical assistance and dissemination of information. Information is provided, upon request, to governments, industry and the general public. Legislation requires the division to provide assistance regarding the nature and availability of federal aid for housing, community development and housing technology.

Program elements include statewide housing activities, low- and moderate-income housing including housing for the elderly, statewide community development activities, rural housing and general assistance.

Table 5 summarizes the various elements in this program and shows their proposed staff and expenditures. Further discussion of the various elements and subelements appear below.

**Statewide Housing Activities**

This program element includes various statewide housing activities. Legislation requires the department to prepare a statewide housing element—a statement of basic housing policy, goals, and methods of implementation. Work on the housing element is in progress. Concurrently, a statewide housing information system is being established which includes data collected for the housing element. A federal grant from the Department of Housing and Urban Development partially supports this activity.

Legislation enacted in 1970 required the department to adopt guidelines for local governments to follow in developing housing elements for their local general plans. These guidelines were adopted in 1971. The department provides technical assistance to approximately 20 cities and counties preparing local housing elements.

A California community development study is being made in the current year to determine the feasibility of forming a California Community Development Corporation. This study will be completed June 30, 1973 and no funds are proposed for this function for the budget year.

Training of local citizens and officials, has been accomplished through grantsmanship workshops conducted in eight cities in California. The intent of these workshops is to teach local officials how to apply for federal funds effectively. The department reports that approximately 500 local officials have participated. Expenditures for the workshops are reimbursed in part by federal funds.

Activities in the research and statistics subelement include gathering

**Table 5**  
**Personnel and Expenditures of the Technical Assistance Program**

Program elements*	Man-years			Expenditures		
	Actual 1971-72	Estimated 1972-73	Proposed 1973-74	Actual 1971-72	Estimated 1972-73	Proposed 1973-74
1. Statewide Housing Activities:						
1A. Statewide housing element .....	4.2	4.5	4.2	\$84,030	\$97,745	\$97,795
1B. Local technical assistance .....	1.2	2	2	26,266	43,449	44,406
1C. California community development study .....	—	2	—	—	25,000	—
1D. Training of local citizens and officials .....	1	1.5	1.5	26,000	32,568	33,293
1E. Research and statistics .....	0.7	1	1	15,318	21,725	22,205
2. Low- and moderate-income housing including housing for the elderly .....	3.8	5.2	5.2	211,559	237,074	237,799
3. Statewide Community Development Activities:						
3A. Community and neighborhood development ....	1.1	2	2	24,074	43,449	44,406
3B. Housing relocation .....	0.4	1.8	1.8	8,758	36,521	36,649
3C. Rehabilitation and code enforcement .....	0.5	1	1	10,950	21,725	22,205
4. Rural housing .....	0.5	1	1	10,950	21,725	22,205
5. General assistance .....	1	1	1	21,883	21,725	22,205
Totals .....	14.4	23	20.7	\$439,788	\$602,706	\$583,168
Reimbursements						
Federal .....				-\$199,070	-\$209,732	-\$209,732
Local .....				-58,492	-80,623	-80,623
General Fund cost .....				\$182,226	\$312,351	\$292,813

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued**

data on housing, marketing, and land use. The department reports that this does not duplicate, overlap, or conflict with other departmental activities.

A reduction in expenditures and staff for the statewide housing activities program is proposed for the budget year, due to the completion of the Community Development study.

**Low- and Moderate-Income Housing**

This element includes activities in low- and moderate-income housing including market aggregation, housing for the elderly, and low-income home management training. The department has answered approximately 300 requests for information regarding low- and moderate-income housing in the last year. Market aggregation activities include participation in Operation Breakthrough, a federally funded, factory-built housing project, and dissemination of housing market information. The department has provided technical assistance to Operation Breakthrough projects in San Jose, San Bernardino and Long Beach, in addition to the prototype development in Sacramento. During the first half of 1973, it is anticipated that the project in Sacramento will be fully occupied, providing 407 housing units. The department's participation in Operation Breakthrough is partially funded by a \$25,000 grant from the federal Department of Housing and Urban Development.

The low-income home management training program was established by the Legislature in 1969. Since then five local sponsor groups have conducted training programs in home management for 750 low-income families. Seventy-five percent of the cost of this program is supplied by a grant from the Department of Health, Education, and Welfare. Expenditures for this program element are proposed to remain unchanged for the budget year.

**Statewide Community Development Activities**

Activities in this program element include community and neighborhood development, housing relocation, and rehabilitation and code enforcement.

The department presently has contracts with three cities to assist them in their community development programs. Numerous other cities have requested such assistance and the department estimates that by the end of fiscal year 1972-73, 20 cities will be receiving contractual assistance.

Ten local jurisdictions are currently receiving technical assistance in developing and implementing relocation plans for families displaced by government action. Department staff will participate on local task forces organized to deal with relocation problems related to specific projects. A portion of the cost of this relocation assistance is to be reimbursed by the State Division of Highways.

The department provides information to government and the private sector on the availability of federal grants for the rehabilitation of existing housing.

**Rural Housing**

This program element seeks to solve the problems of California's permanent farm labor families and other rural residents. Solutions are sought through the identification of rural housing needs and assistance to local jurisdictions in obtaining available federal and private financing to increase the rural housing supply. The department estimates that 10 to 20 nonprofit groups will be assisted this year.

**General Assistance**

The department reports that it receives approximately 50 to 75 requests a year for assistance in subjects not covered by any of the above areas. These requests are categorized as general assistance and have recently included information relating to the current topics of consumerism, the environment and housing.

**ADMINISTRATION**

The administrative staff consists of the director, the deputy director, administrative assistant and the accounting officer, supported by clerical help. Policy and operating guidance are provided by the Commission of Housing and Community Development.

**Freeze on Federal Housing Subsidies**

An 18-month moratorium on new federal commitments for subsidized housing and major community development programs was recently announced by the administration in Washington. As of this date the extent of the freeze is not certain, and the impact on the technical assistance program of the Department of Housing and Community Development cannot be determined. There are no indications at this time that the federal funds supporting various activities within the program will not be continued.

**Business and Transportation Agency  
DEPARTMENT OF INSURANCE**

Item 173 from the General  
Fund

Budget p. 93 Program p. I-577

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Requested 1973-74 .....	\$3,845,000
Estimated 1972-73.....	3,286,151
Actual 1971-72 .....	4,292,288
Requested increase \$558,849 (17 percent)	
Total recommended reduction .....	None

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**GENERAL PROGRAM STATEMENT**

Insurance is the only interstate business which is wholly regulated by the states rather than by the federal government. As a California industry, its worth is estimated at \$8 billion. Regulation of the insurance industry in California began in 1868 with the creation of the office of Insurance Commissioner, and has been continuous since that time.

**DEPARTMENT OF INSURANCE—Continued**

The present department, established in 1941, is administered by the Commissioner of Insurance who is appointed by the Governor with consent of the Senate for a term of four years coextensive with the term of the Governor. Headquarters is in San Francisco with branch facilities located in Los Angeles, San Diego and Sacramento. The department has a currently authorized staff of 304.5 positions and, as discussed later in this analysis, is requesting the restoration of eight examiner positions, and the addition of two rate analyst positions in the budget year.

The department is responsible for regulating the activities of 1,000 insurance and title companies and 125,000 agents and brokers. It collects annually over \$180 million in taxes and over \$5 million in fees.

The department administers three programs: (1) regulation of insurance companies, (2) regulation of insurance producers (agents and brokers), and (3) administration. The costs of administration are prorated to the two operating programs.

**REGULATION OF INSURANCE COMPANIES**

The objectives of this program are the prevention of losses to policy holders, beneficiaries or the public resulting from the insolvency of insurers and the prevention of unlawful or unfair business practices as defined in the statutes. This program consists of the following three elements:

1. *Company Consumer Services.* This element processes general inquiries and complaints from the public regarding the actions of insurance companies. Most complaints and inquiries concern the handling of claims under policies, and questions about insurance rates.

**Table 1**  
**Regulation of Insurance Companies**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Company consumer services			
Rating complaints investigated and adjusted .....	708	700	700
Rating inquiries .....	5,535	5,500	6,000
General complaints formally investigated and closed .....	17,793	19,394	21,139
General inquiries .....	63,391	65,292	67,251
Tax collection			
Taxes collected (millions) .....	\$162.9	\$180	\$195
Deficiency assessments .....	220	230	240
Extensions granted or denied .....	127	50	50
Refunds .....	61	50	50
General regulation			
Examinations of domestic insurers .....	50	60	63
Examinations of foreign insurers .....	30	35	40
Insurers under special surveillance .....	183	180	180
Rating examinations .....	51	50	55
Proxy forms reviewed .....	17	19	19
Companies being liquidated .....	10	11	11
Companies under conservatorship .....	5	6	6
Certificates of authority and applications for licenses reviewed .....	42	40	40
Stock permits processed .....	43	45	48
Mergers, etc. ....	31	33	35
Disciplinary actions .....	35	40	45
Policy submissions processed .....	8,177	8,250	8,350

2. *Tax Collection.* This element collects premium, retaliatory, and surplus line broker taxes from insurance companies.
3. *General Regulation.* This element conducts field examinations of insurers every three years and rating examinations every five years. This element also attempts to minimize events or conditions that might lead to insolvency by reviewing proxy statements, other solicitations, and policy forms. Financially distressed companies may be placed under the conservatorship of the commissioner who may attempt to rehabilitate a company or supervise its liquidation.

Selected workload data for the company regulation program are contained in Table 1. Allocation of man-years to each element is not included because the new cost accounting system installed in October 1972 is not yet producing this data. However, we expect man-year information to be available once the system is fully operational.

### REGULATION OF INSURANCE PRODUCERS

The objective of this program is to protect the public and policyholders from discrimination and unlawful and fraudulent practices through the licensing and regulation of insurance agents and brokers. The program consists of two elements:

1. *Producer Licensing.* This element prepares, schedules, administers, and grades licensee examinations and issues and renews licenses. Life and disability licenses are renewed biennially in odd-numbered years, and fire and casualty licenses are renewed in even-number years.
2. *Producer Compliance.* This element investigates complaints from the general public concerning agents and brokers. An investigation may result in a formal hearing under the Administrative Procedure Act. If the violation of a criminal statute is involved, the case may be referred to the appropriate law enforcement body.

Table 2 contains workload data for the producer regulation program. Again, allocation of man-years is not yet available.

**Table 2**  
**Regulations of Insurance Producers**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Producer licensing			
Applicants examined .....	21,794	22,448	23,121
Licenses issued:			
New .....	32,737	33,719	34,731
Renewed .....	49,310	79,669	50,789
Producer compliance			
Investigations .....	3,515	3,691	3,876
Criminal cases .....	19	21	25
Licenses revoked .....	32	34	37
Licenses suspended .....	28	29	31
Licenses restricted .....	127	127	134
Miscellaneous disciplinary actions .....	165	174	184

## DEPARTMENT OF INSURANCE—Continued

## ADMINISTRATION

This program directs, coordinates, and provides common services for the agency's two operating programs. Administrative costs are prorated to the two operating programs. Cost and staffing data is shown in Table 3.

**Table 3**  
**Administrative Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Man-years .....	37.1	38.7	38.1
Cost (distributed) .....	(\$629,670)	(\$753,161)	(\$754,319)

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The request of \$3,845,000 is \$558,849 or 17 percent above estimated expenditures for the current year. However, the department anticipates budget-year reimbursements of \$1,705,196, primarily representing fees for examining insurance companies, resulting in a total proposed expenditure program of \$5,550,196. The proposed increase in expenditures consists primarily of \$332,727 for automation of the department's recordkeeping and licensing operation.

## Tax Collection

The department requests restoration of one insurance examiner III position (\$15,024) to assist in the review of company tax returns. This position was eliminated in the current year pursuant to Section 20 of the Budget Act of 1972. This section requires the Department of Finance to eliminate positions which remained vacant from October 1, 1971, to July 1, 1972. The department states that increased backlog could preclude review of all tax returns. Failure to complete required reviews could result in loss of revenue to the General Fund because of a four-year statute of limitations applicable to insurance company tax returns.

## Field Examination

The department requests restoration of seven insurance examiner I and II positions which were eliminated (pursuant to Section 20, Budget Act of 1972). According to the department, these positions are needed to maintain examination schedules of domestic and out-of-state insurers. The cost for the positions is \$75,735. However, the department is totally reimbursed through examination fees collected from insurance companies which are examined.

## Rate Regulation

The department requests the addition of one rate analyst II position and one rate analyst III position to assist in the examination of rating organizations (at least once every five years by law). Total cost to the department for the two requested positions is \$30,972. Again, \$23,229 will be recovered through examination fees collected from rating organizations which are

examined.

#### **Automation of Licensing Function**

The Governor's Budget provides for the expenditure in the budget year of \$332,727 for the continued automation of the department's agent, broker, and licensee file. According to the budget, it is estimated that current-year expenditures for this purpose will be \$46,000, of which \$10,000 is for a study (which has been completed) to determine the feasibility of automating the licensing function. The remaining \$36,000 represents the estimated cost of system design and computer programming efforts scheduled during the current year.

#### **System Outmoded**

Since 1947 the Department of Insurance has been considering methods for improving its licensing function, including the implementation of automated processes. The department's manual system has remained virtually unchanged since that time. This system centers about the use of large and open "tub files" which contain approximately 300,000 five-by-eight-inch ledger cards. These cards contain many items of detailed information on insurance agents, brokers, and companies.

The department has maintained for some time that the system is outmoded and that continued reliance on the use of the tubs: (1) impedes efficiency of operation, (2) limits the ability of the department to use effectively the information contained in these files, (3) constitutes an unsafe condition (we understand that tubs have on occasion fallen off of their stands and caused injury to department personnel), and (4) does not provide adequate security and backup of information contained in the file.

We have examined this filing system and concur with the department's contentions. Based on our review of this operation, we discussed the problem in last year's Analysis and recommended an augmentation to permit the department to acquire the services of a systems analyst to define the department's information needs and study the feasibility of automating the licensing function.

#### **Feasibility Study Completed**

As we had recommended, the department entered into an interagency agreement with the Department of General Services and secured a data processing systems analyst services to conduct a feasibility study. The study was completed in November 1972 and has been submitted to the Department of Finance for approval as required by Section 4 of the Budget Act of 1972.

The feasibility study recommends the development of an automated system characterized by: (1) key entry of data at the Department of Insurance, (2) manual delivery of encoded data to another facility for processing by computer (most likely a consolidated data center in Sacramento), and (3) the use of microfilm generated through a computer output to microfilm (COM) process to replace the manual information now kept in the tub files. Advantages of the recommended system include: (1) elimination of the tub files and related safety and security problems, (2) the automatic preparation of licenses and renewal notices, and (3) the

**DEPARTMENT OF INSURANCE—Continued**

ability to make a more efficient and expanded use of the information contained in the files.

The study indicates that several alternatives were considered, including that of remote computer processing via a terminal operation. This alternative, while somewhat more sophisticated and offering the most advantages, is costlier. The alternative which has been selected will in our judgment satisfy the department's current needs at a lesser cost. It also takes advantage of recent technological developments in the COM process and provides a base upon which an on-line system may eventually be established if this approach can be cost-justified.

According to the feasibility study approximately \$65,000 will be required in the 1974-75 fiscal year to complete system implementation in addition to the \$378,727 budgeted for the current and budget years. Once the system is operational, annual operating costs including system maintenance, are estimated at \$310,463. It is anticipated that this operating cost will be offset annually by direct savings of \$52,608, revenues of \$180,000 from the sale of name lists, and cost avoidance of \$112,250.

The feasibility study indicates that a rather thorough analysis of the licensing and filing function and alternative methods of performing this function has been performed. Quarterly progress reports regarding the development of this system will be provided to us in accordance with the provisions of Section 4 of the Budget Act of 1972.

**New Cost Accounting System**

We recommended in our Analysis last year that the Department of General Services review and upgrade the Department of Insurance's cost accounting system to adequately identify the costs associated with program elements. General Services commenced the study on May 15, 1972, and will submit a final report on May 1, 1973, to the Department of Insurance and the Joint Legislative Budget Committee. Under the new system (operative October 1972) the number of program elements has been reduced to better reflect the department's objectives and enable the department to accurately determine and report the personnel time devoted to each program element. Evaluation of the new system at this time would be premature because of the system's recent implementation. However, as the department acquires experience under the system we will be able to evaluate its ability to accurately identify and reflect work actually performed by the program elements.

**Business and Transportation Agency**  
**RIOT AND CIVIL DISORDERS INSURANCE**

Item 174 from the General  
 Fund

Budget p. 95 Program p. I-585

Requested 1973-74 .....	\$1,000,000
Estimated 1972-73.....	933,144
Actual 1971-72 .....	1,750,000
Requested increase \$66,856 (7.1 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The 1967 riots and civil disturbances in American cities resulted in such abnormally high losses to the insurance industry that reinsurance for companies writing policies on property situated in many inner city areas became impossible or uneconomic to obtain. This lack of a reinsurance facility for insurers resulted in high premium rates and inadequate coverage for many inner city property owners seeking to insure against fire, vandalism and other perils.

**Federal Act**

In response to this situation, Congress passed the 1968 Urban Property Protection and Reinsurance Act. The act established a program making reinsurance available to companies operating in states where reinsurance has been difficult or impossible to obtain because of potential riot losses, provided that the states agree to share a portion of the losses.

Under this act, insurance companies participating in a state program buy reinsurance policies from the federal Secretary of Housing and Urban Development, paying the secretary a premium equivalent to approximately 0.3 (originally 1.25) percent of their earned premiums. As a condition of eligibility for the reinsurance, the companies also agree to establish and maintain membership in a state FAIR (Fair Access to Insurance Requirements) plan, a facility fashioned along federal guidelines which is designed to provide basic property insurance to those who cannot obtain such insurance in the normal market.

**Sharing of Losses**

Under the reinsurance policies, the companies agree to retain approximately 2.5 percent of earned premiums as their share of a loss. If riot losses occur, the companies involved pay their retained share of the loss, and the federal secretary then pays, out of reinsurance premium payments made by all of the insurers of the state in which the riot occurred, the additional loss, if any.

In the event of a loss which exceeds the insurers' retentions and their accumulated reinsurance premium payments, the state is required by the federal reinsurance act to pay the difference up to a limit of 5 percent of the aggregate earned property insurance premiums paid in the state for the preceding year. (Based on a projected premium base of \$1 billion in

**RIOT AND CIVIL DISORDERS INSURANCE—Continued**

1972, the liability of California could reach approximately \$50 million in the budget year.) Because their risk of loss is thus limited, the companies are willing to sell basic property insurance policies at more reasonable rates to owners of high-risk properties.

**California's Participation**

Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970), established California's program. This legislation (1) created the California Riot and Civil Disorders Association, a self-supporting agency, membership in which is required of all companies writing lines of insurance which are reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the association to insure the state's potential liability under the program. The premium for this insurance protection in the budget year, based on 5 percent of the state's liability limit, is the amount requested in this item.

Table 1 shows earned annual property insurance premiums in California, the state's potential liability for riot losses, and the premium for insurance to cover that liability.

**Table 1**  
**Components of State Liability for Riot Losses**

<i>Fiscal year</i>	<i>Earned annual property insurance premiums</i>	<i>Maximum state liability for loss (5% of earned premiums)</i>	<i>State premium cost</i>
1969-70 .....	\$578,252,000	\$30,000,000	\$1,500,000
1970-71 .....	635,000,000	32,000,000	1,600,000
1971-72 .....	732,820,000	36,640,000	1,750,000
1972-73 .....	840,000,000	42,000,000	1,650,000
1973-74 (est.) .....	1,000,000,000	50,000,000	1,000,000

The premiums for fiscal years 1969-70 and 1970-71 were both paid in 1970. Hence, under the Controller's bookkeeping system, the total of the two premiums (\$3,100,000) is shown as a 1970-71 expenditure in the budget document. For purposes of clarity, we show the premiums as originally appropriated (\$1.5 million in 1969 by Chapter 649, Statutes of 1969, and \$1.6 million by the 1970 Budget Act).

**Refund Provisions**

Based on riot loss experience, the state's insurance contract with the association provides for annual partial refunds of the premium payments beginning January 1, 1975. The first such refund, assuming no losses, will be 15 percent of the total premium paid during the first five contract years. Upon termination of the program, the association must refund all retained premiums (total premiums minus losses and refunds) in excess of 25 percent of the total premium. Thus, the state may eventually recover 75 percent of its premium costs. The association has had no losses to date.

**Program Termination**

The federal law requires the Secretary of Housing and Urban Development on April 30, 1978, or as soon thereafter as possible, to submit a plan to Congress for the liquidation and termination of the reinsurance pro-

gram.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The \$1,000,000 requested for the state's insurance premium for fiscal year 1973-74 represents an increase of \$66,856 or 7.1 percent from the current-year premium of \$933,144.

Table 2 illustrates how the riot insurance program would operate in the event of losses based on the data shown in Table 1 for year 1972.

**Table 2**  
**Illustration of Operation of Riot and Civil Disorders Insurance Program**

Assumed net insured loss from a riot .....	\$80,000,000
Apply participating companies' retention at 2.5 percent of earned premiums (2.5 percent of \$1 billion) .....	25,000,000
Loss balance .....	55,000,000
Apply reinsurance premium deposits held by HUD at 1.25 percent of earned premiums .....	12,500,000
Loss balance representing the state's liability which is covered by insurance.....	42,500,000

The state's \$50 million liability unit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$7,500,000. Losses exceeding the state's \$50 million liability limit would be covered by loans from the U.S. Treasury to the Secretary of HUD, to be repaid out of future reinsurance premiums received.

#### FAIR Plan Impact Study Required

The Supplementary Report of the Committee on Conference (Budget Bill of 1972) recommended that "the department study the impact of the Riot and Civil Disorders Insurance Program and the California FAIR Plan on the availability, adequacy, and cost of property insurance in high risk areas and report thereon to the Legislature no later than September 1, 1972."

In this report, the department states that the FAIR Plan reached a high point in May 1972 when 80,000 policyholders were covered by almost \$3 billion of insurance, which represented \$11.6 million of annual premiums.

It should be noted, however, that the plan writings account for less than 1½ percent of the total property insurance writings throughout the state, according to the report. Utilization of the plan in the center city area is approaching 10 percent and this utilization increases to 25 percent of the risks located in hazardous brushfire area.

The department concludes in the report that this program has made essential property insurance available to persons who would otherwise be unable to obtain such insurance on their real or personal property on a reasonable basis.

The Federal Insurance Administration has also reviewed the FAIR Plan on a number of occasions and found that although the plan is efficient in operation, specific remedies in such areas as expanded voluntary writings throughout the state and the creation of a more viable sales force in the center city areas are required.

The department acknowledges the desirability of increased volume and

**RIOT AND CIVIL DISORDERS INSURANCE—Continued**

plans to increase publicity regarding the FAIR Plan as one method of increasing participation.

We concur with the need for an increased premium volume and believe that a definite campaign to get better FAIR Plan participation is essential in order to justify continued state participation.

**CRIME INSURANCE****SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis*  
*page*  
372

1. Crime Insurance Pool. Contingent upon repeal of Chapter 415, Statutes of 1971, recommend that the State of California withdraw from its contract with the Crime Insurance Pool upon expiration of the current term in June 1973, and any funds remaining from the original \$500,000 appropriation be returned to the General Fund.

**Appropriations from Budget Act of 1972**

The Budget Act of 1972 contained an appropriation of \$50,000 for continued support of the Crime Insurance program. In addition, a previous appropriation of \$500,000 (pursuant to Chapter 415, Statutes of 1971) is available for expenditure in the budget year.

Since there is no item of appropriation in the Budget Act of 1973, we discuss this program under the item for Riot and Civil Disorder Insurance in order to bring our recommendation to the attention of the Legislature.

**GENERAL PROGRAM STATEMENT**

Chapter 415, Statutes of 1971 (operative July 29, 1971), enacted the Crime Insurance Act of 1971, requiring all carriers writing crime insurance (burglary, robbery, theft, etc.) in California to participate in a Crime Insurance Pool which, by sharing profits and losses among all participating companies, would make crime insurance available for risks which would not otherwise be insurable at reasonable rates in the regular insurance market because of the high degree of risk involved.

Pursuant to this legislation, a contract was negotiated between the Crime Insurance Pool and the State of California whereby the state agreed to reimburse the Crime Insurance Pool up to \$500,000 should the combined losses and expenses of the pool exceed 105 percent of earned premiums. Should losses exceed this level of state participation, the Crime Insurance Pool would be liable for any remainder. Federal guidelines established by the Federal Insurance Administration are followed in determining the eligibility of risks and policy rates.

**ANALYSIS AND RECOMMENDATIONS**

*Contingent upon the repeal of Chapter 415, Statutes of 1971, we recommend that the State of California withdraw from its contract with the Crime Insurance Pool upon expiration of the current term in June 1973.*

The 1968 Federal Urban Property Protection and Reinsurance Act authorized the Secretary of Housing and Urban Development to establish, in cooperation with the states, programs making basic property insurance available to property owners in certain high-risk urban areas. The act originally applied only to fire and extended coverage insurance but was later expanded to include losses resulting from vandalism. In December 1970, Congress passed Public Law 91609 authorizing the Secretary of Housing and Urban Development to make available crime insurance (including the perils of burglary, robbery, theft and larceny, but excluding automobile insurance losses from embezzlement) at affordable rates where such insurance is not offered by the private market.

Currently, 10 states (including New York, Massachusetts, Ohio, Illinois, and Pennsylvania) designated as "critical" crime areas by the Federal Insurance Administration have federal crime insurance plans. California, originally designated as a "critical" area by FIA, ceased to be eligible for a federal program when the State Crime Insurance Pool was established under Chapter 415. We have discussed this program with the administrators of the federal Crime Insurance Act and have been advised that should the state-subsidized Crime Insurance Pool cease to offer crime insurance according to federally established guidelines, the federal government would be obliged by the terms of the 1970 law to offer such insurance to citizens of California. Such a program could be established within two months' time.

During the first 15 months of its operation, the state pool has sold approximately 452 policies having a total premium value of \$44,587 which represents only a small fraction of the total crime insurance premium volume (about \$123 million) written in the state. Approximately 91.3 percent of this \$123 million total represents crime insurance protection generally included as part of multiple peril, inland marine, and allied fire policies.

The state derives approximately \$2,890,500 in premium tax revenue (2.35 percent of gross premiums) on the \$123 million in crime insurance premiums. Although it is possible that some premium tax revenue might be lost as a result of federal involvement in crime insurance (due to the fact that premiums payable to the federal government are not subject to the state tax), it is unlikely that an appreciable amount of the existing crime insurance premium volume would be "forfeited" by the private insurance industry through diversion of business to the federal program. The fact that only 452 crime insurance policies (with a total premium value of \$44,587) have been written under the state pool, suggests that most of the crime insurance now in force covers "standard risk" situations and would likely be retained by the private insurers.

It does not appear equitable that California citizens should be required to assist in the funding of crime insurance programs in other states through their federal taxes (assuming that the federal program incurs deficits) and at the same time be asked to support California's own program through subsidy to the Crime Insurance Pool.

The Governor's Budget estimates that total expenditure for Crime Insurance in the current year will be \$8,300. Based on the availability of

**CRIME INSURANCE—Continued**

federal crime insurance plans and the limited participation in the California program, we recommend as we did in last year's Analysis that the State of California withdraw from its contract with the Crime Insurance pool and that any funds remaining from the original \$500,000 appropriation be returned to the General Fund.

**Business and Transportation Agency  
DEPARTMENT OF REAL ESTATE**

Items 175 and 176 from the Real Estate Fund and the Real Estate Education, Research and Recovery Fund

Budget p. 96 Program p. I-586

Requested 1973-74 .....		\$4,731,086
Real Estate Fund .....	4,160,685	
Education, etc. Fund .....	570,401	
Estimated 1972-73.....		4,606,149
Real Estate Fund .....	3,757,748	
Education, etc. Fund .....	848,401	
Actual 1971-72 .....		3,768,874
Real Estate Fund .....	3,384,563	
Education, etc. Fund .....	384,311	
Total recommended reduction .....		\$38,076

<b>SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS</b>	<i>Analysis page</i>
1. <i>Delete New Positions. Reduce \$22,800.</i> Recommend two of proposed deputy commissioner II positions for the subdivisions element be deleted.	379
2. <i>Delete New Position. Reduce \$15,276.</i> Recommend proposed deputy commissioner IV position be deleted.	379
3. <i>Fund Surplus.</i> Recommend department use a portion of its surplus to develop real estate consumer education programs.	379

**GENERAL PROGRAM STATEMENT**

The Department of Real Estate is responsible for the protection of the public in the sale of subdivided property, real property securities and in real estate transactions handled by agents. The department permits only trained persons to act as agents in real estate transactions and sets minimum standards for offerings of subdivided properties, real estate securities, and real estate syndicate securities.

The department is administered by the Real Estate Commissioner, who is assisted by a currently authorized staff of 233 positions. A proposed budget-year addition of 25 new positions is discussed later in this analysis. Headquartered in Sacramento, the department maintains offices in San

Francisco, Fresno, Los Angeles and San Diego.

The department conducts four operating programs: (1) transaction activities, (2) offerings and securities, (3) education and research, and (4) administration. The cost of administration is prorated to the other three programs.

**I. TRANSACTION ACTIVITIES PROGRAM**

The objective of this program is to protect the public in dealings with real estate brokers or salesmen. The program contains two elements: (1) licensing, and (2) regulatory and recovery.

The licensing element prepares, administers and scores examinations for brokers and salesmen; maintains license records; and responds to inquiries from licensees and the public.

The regulatory and recovery element disciplines licensees and facilitates the recovery of moneys for complainants if an investigation reveals that a violation of real estate law has occurred. Formal action against a licensee may be taken by the department and may result in suspension or revocation of the license or placing restrictions upon it.

If a complainant sustains a financial loss and obtains a fraud judgment against a licensee who is unable to pay the judgment amount, the injured party may then file a claim against the Real Estate Education, Research and Recovery Fund which is administered by the department. The department investigates the claim to determine its eligibility for payment.

**Table 1  
Licensing Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Total licenses.....	184,515	200,000	210,000
Original applications.....	69,047	87,500	97,000
Renewal applications.....	30,253	32,000	33,000
License service.....	179,273	196,000	205,000
License record information.....	90,928	117,000	134,000
Examinations.....	59,788	70,000	77,000
Man-years.....	57.7	60	66
Cost.....	\$973,530	\$1,071,905	\$1,170,084

**Table 2  
Regulatory and Recovery Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Complaints.....	5,547	5,824	6,254
Precomplaint correspondence.....	6,733	8,815	9,697
General inquiries.....	81,044	85,096	92,755
Investigative audits.....	380	399	419
Trust account examinations.....	407	600	650
Revocations.....	169	178	196
Suspensions.....	81	86	95
Denials.....	78	82	92
Recovery claims.....	41	44	50
Man-years.....	76.1	80	89
Cost.....	\$1,570,508	\$1,728,997	\$1,914,719

**DEPARTMENT OF REAL ESTATE—Continued**

A court hearing is held, and if the court orders the claim paid, the license of the broker or salesman is suspended until he repays the claim against the Real Estate Education, Research and Recovery Fund with 4 percent interest. The operation of this fund is more fully explained in a subsequent portion of this analysis.

Table 1 shows workload, cost, and man-years devoted to the licensing element, and Table 2 shows the same information for the regulation and recovery element.

**II. OFFERINGS AND SECURITIES PROGRAM**

The Offerings and Securities Program provides protection to the public in the sales of in-state subdivided land and sales of real estate securities such as notes, sales contracts, real estate syndicate securities, and sales of out-of-state subdivisions. The program contains three regulatory elements: (1) in-state subdivisions, (2) real property securities and (3) real estate syndicates.

**In-state Subdivisions Element**

Subdividers of in-state lands must secure a report from the department evaluating the conditions of the proposed subdivision before the land may be offered for sale to the public. These reports, which are obtained after the department has investigated the financial arrangements relating to the proposed subdivision and inspected the property, assure buyers that the offering is not fraudulent.

**Real Property Securities Element**

Subdivisions located outside of California must meet in-state subdivision requirements and also be judged by the department as being fair, just and equitable. This determination is based on an appraisal of the property which is made before a permit to subdivide and a public report is issued. Notes secured by trust deeds are screened and appraised before they can be sold to the public.

**Real Estate Syndicates Element**

Real estate syndicates (other than corporations) which are formed for the sole purpose of acquiring interest in real property must apply for a permit to subdivide before securities may be offered or sold to the public. The application, plan of syndication, advertising, terms of property acquisition, and management agreement are evaluated by the department before a permit is issued.

**Table 3**  
**Offerings and Securities Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Subdivision filings .....	2,811	3,000	3,400
Reports issued .....	851	1,000	1,300
Out-of-state subdivisions filed .....	40	42	48
Securities applications .....	3	6	6
Applications approved .....	2	4	4
Syndicate applications .....	107	120	125

Table 3 contains selected workload items for the Offerings and Securities Program and Table 4 shows staffing and cost data for the program.

**Table 4**  
**Offerings and Securities Program, Staffing and Cost Data**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Subdivisions			
Man-years .....	46.6	48.6	57.1
Cost .....	\$819,109	\$901,594	\$1,050,761
Real Property Securities			
Man-years .....	3.7	3.9	4.6
Cost .....	\$81,411	\$89,655	\$104,488
Real Estate Syndicates			
Man-years .....	4.3	4.5	5.3
Cost .....	\$96,436	\$106,115	\$123,672

### III. EDUCATION AND RESEARCH PROGRAM

The purpose of the department's education and research program is to improve the level of competence of license applicants and licensees, all of whom are encouraged to take professional real estate courses. The program sponsors research in all phases of real estate activity, including real estate education, marketing, financing, land use, urban problems and other facets of real estate economics. These activities, are supported by the Real Estate Education, Research and Recovery Fund, and are conducted by public and private universities and colleges throughout the state as indicated in Table 5.

**Table 5**  
**Education and Research Program**

<i>Detail—Schools and attendance</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-1974</i>
Community Colleges			
Programs .....	79	81	81
Number of students .....	60,000	65,000	70,000
University of California Extension			
Programs .....	5	5	5
Number of students .....	2,050	2,100	2,100
State Universities			
Programs .....	13	13	13
Number of students .....	970	975	975
Research projects.....	10	10	10
Universities—Public and Private			
Programs .....	2	3	3
Number of students .....	365	365	365
Research projects.....	14	14	14
Program Requirements			
Department man-years .....	4.4	5	5
Program costs .....	\$243,274	\$767,883	\$280,362

Included in program costs for the budget year is an annual allocation (made pursuant to Section 10451.5 of the Business and Professions Code) to the University of California for real estate education and research amounting to \$172,000 in 1973-74. The \$172,000 is treated by the Budget Bill as an appropriation but is reported in the Governor's Budget only as

**DEPARTMENT OF REAL ESTATE—Continued**

a change in fund condition. The amount must be appropriated to the Department of Real Estate before it can be transferred by the State Controller to the University.

**IV. ADMINISTRATION PROGRAM**

The administration program includes the management and policy formulation activities of the commissioner's office, central services for such functions as personnel and accounting, and the publication of real estate manuals, bulletins and reference books. The program costs, which include departmental overhead expenditures, are distributed to the three operating programs.

**Table 6**  
**Administrative Program**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Executive Office and Business Services			
Man-years .....	23.5	25	25
Cost .....	(\$455,882)	(\$501,946)	(\$511,529)
Publications			
Man-years .....	1.9	2	2
Cost .....	(\$109,826)	(\$120,893)	(\$123,201)

**ANALYSIS AND RECOMMENDATIONS**

Requested budget-year expenditures from both supporting funds total \$4,559,086 which is \$47,063 or 1.0 percent below estimated expenditures for the current year. Not included in the department's proposed program budget (but included in Item 176 of the Budget Bill) is an annual allocation for research which, pursuant to Section 10451.5 of the Business and Professions Code, is transferred by the State Controller to the University of California from the Real Estate Education, Research and Recovery Fund. The amount of the annual allotment is determined by the Real Estate Commissioner, and, depending upon fund condition, it has varied from year to year. The proposed allocation for the budget year is \$172,000. The total expenditure program authorized by the Budget Act is therefore \$4,731,086.

**New Positions (Regulatory)**

*We recommend approval.*

The department is requesting four commissioner positions, two auditor positions, and three clerical positions for this element. The request of nine additional positions is based on a workload which is estimated to increase 9.8 percent in the budget year. The department informs us that the four commissioner positions are needed to investigate complaints and answer a growing number of inquiries from the public. The two auditor positions are needed to inspect brokers' trust accounts to assure proper handling of trust funds.

**New Positions (Licensing)***We recommend approval*

The department is requesting two new stenographic positions and four new clerical positions for this element. The increase in workload is estimated to be 12.5 percent over the current year. The department states that it needs the six requested positions to absorb the workload in processing license applications and license change requests.

**New Positions (Subdivisions)**

*We recommend that two of the three proposed commissioner positions be deleted for a salary savings of \$22,800.* The department indicates that it needs three new deputy commissioner II positions to process applications for public reports and review title reports and other documents connected with the issuance of the public report. The department plans to assign one of the proposed commissioners in each of its offices (Los Angeles, San Francisco, and Sacramento). The workload figures we have examined support an augmentation of personnel in Los Angeles. However, the real estate activity in Sacramento and San Francisco, based on workload figures supplied by the department, does not justify two additional positions.

*We recommend deletion of the proposed deputy commissioner IV position for a salary savings of \$15,276.* The department states that it requires this position in order to augment the staff which reviews the advertising of promotional subdividers and out-of-state subdividers. Although, we believe that this function is of importance to the public, the department has not developed workload data to support its request for an additional position.

**Fund Surplus**

*We recommend that the department use a portion of its surplus funds for the establishment of real estate consumer education programs.*

The surplus levels of both real estate funds have been increasing substantially due to increased real estate activity and a resulting increase in licensing. The commissioner is attempting to control the accumulation of surplus by lowering license fees. Pursuant to Chapter 95, Statutes of 1971, the commissioner has reduced all four-year license fees by \$10.00. The department estimates that this action will result in a reduction of \$500,000 in yearly revenues. Effective January 1, 1973, subdivision filing fees were reduced by the commissioner pursuant to Chapter 461, Statutes of 1970. The department estimates that this reduction will result in a decrease of \$200,000 in yearly revenues.

We support the department's reduction of fees. However, this action will not significantly reduce the large surplus in both funds (estimated to be \$11,445,758 in the budget year). Therefore, we believe that the department should use a portion of the surplus to expand its protection of the public interest through the development of real estate consumer education programs. The department states (and workload figures substantiate) that the number of complaints and inquiries from the public have increased greatly. We believe the department could reduce workload in this area and inform and protect the public through the development of

**DEPARTMENT OF REAL ESTATE—Continued**

courses and other materials for presentation in the high schools, adult education program and for presentation on public television.

We are informed that approximately \$250,000 would be adequate to carry out the kind of program discussed here.

**Support Funds**

The Department of Real Estate is supported by two funds: the Real Estate Fund, which is composed of license and other fees, and the Real Estate Education, Research and Recovery Fund, which receives as revenue 25 percent of the fee collected for each real estate license issued or renewed. These amounts are paid into the State Treasury for credit to the fund. Eighty percent of the funds in the Real Estate Education, Research and Recovery Fund are designated by law for 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 annually from this fund to the Real Estate Fund any amount in excess of \$400,000, excluding the amount allocated for recovery claims. The law further provides that should the balance in the recovery portion of the fund fall below \$200,000, a special fee may be levied upon licensees as their licenses are renewed. Not more than \$20,000 may be paid in total for the recovery claims against any one licensee.

**Business and Transportation Agency  
DEPARTMENT OF SAVINGS AND LOAN**

Item 177 from the Savings and  
Loan Inspection Fund

Budget p. 98 Program p. I-595

Requested 1973-74 .....	\$3,173,036
Estimated 1972-73.....	3,036,679
Actual 1971-72 .....	2,701,043
Requested increase \$136,357 (4.5 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The Department of Savings and Loan is administered by the Savings and Loan Commissioner, who is appointed by the Governor and serves at his pleasure. Headquarters is in Los Angeles with a branch office in San Francisco. The department is currently authorized 156 positions.

The department is responsible for protecting funds of the investing public by preventing conditions and practices which could jeopardize the safety and solvency of state-regulated savings and loan associations. Associations have the discretion and sometimes choose to be regulated by the federal government because of differences between state and federal

requirements relating to such matters as capitalization and stock ownership.

The size of the state-regulated industry is indicated in Table 1, which shows a decline (attributable to mergers) in the number of associations under the department's supervision. Currently, there are over five million savings accounts in 116 state licensed associations. There has been a 2-percent increase in the number of these holdings over the prior year with amounts in individual accounts averaging about \$3,850.

**Table 1**  
**State-Regulated Savings and Loan Industry in California**

<i>Detail</i>	<i>Actual 1970-71</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Number of associations .....	137	116	113	95
Assets of associations (billions) .....	\$23.2	\$26.8	\$29.5	\$32.0
Number of savings accounts (millions) .....	4.9	5.0	5.1	5.2

The department performs its responsibilities under one operating program entitled "supervision and regulation," which is divided into three elements: (1) examination, (2) appraisal, and (3) administration. The cost of administration in this department is not prorated to the other program elements.

#### **Examination Element**

This element is responsible for compiling and analyzing information to determine whether associations are complying with the laws and regulations which govern their operations and whether their policies and management provide for sound performance. Examination schedules of associations are based on their performance records, in the following manner: "problem" associations (supervisory) are examined every eight months, "average" associations every 12 months, and "strong" associations every 18 months. Table 2 illustrates the examination element's workload and related cost data.

A review of the workload and cost data for the examination element indicates that examination manpower is remaining constant while the number of associations examined is decreasing. The department states that the decline in examinations reflects projected mergers of associations. However, these mergers, plus the increased level of assets of associations (as indicated in Table 1), and the resultant increase in numbers of loans have required increased utilization of examiner time and therefore have justified the constant examiner manpower figure. The department expects to begin using a computer-based program by the end of the budget year to store financial data. This program should reduce examiner time now spent in gathering routine data from association records and also time required in the preparation of working papers of the data. If the automated program functions correctly, we believe a reduction in examiner personnel man-years for the examination element could be achieved.

#### **Appraisal Element**

This program element secures information concerning the nature and current value of real estate loans made by associations and real estate

## DEPARTMENT OF SAVINGS AND LOAN—Continued

**Table 2**  
**Examination Element Workload and Cost Data**

<i>Detail</i>	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Proposed</i> 1973-74
Associations examined .....	99	117	112
Below average associations .....	17	25	25
Average associations .....	77	85	80
Strong associations .....	5	7	7
Holding company examinations .....	18	22	22
Personnel man-years .....	73.9	77	77
Cost .....	\$1,312,888	\$1,472,321	\$1,509,533

owned by associations. This information is obtained from field appraisals of real property on which loans have been made and reviews of associations' lending policies and appraisal policies.

The department also includes "security reviews" as an output factor of the appraisal element. Unlike a field appraisal which involves a comprehensive analysis of the value of real property, a security review is a shortened field appraisal used for evaluating "low risk" or "prime" real estate on which loans have been made. If the association's appraisal is found to be reasonable, and the loan is within statutory limits, the appraisal process is considered complete and no further review is made.

The department will be developing a computerized multiple regression analysis program to replace the existing comprehensive review used by department appraisers to determine which loans should be subject to test appraisal. Based on certain criteria, this program will identify loans that appear to be questionable. Identifying questionable loans should enable appraisers to make fewer test appraisals. The department views this program as a possible means of absorbing increasing workload. Table 3 summarizes workload and cost data for the appraisal element.

**Table 3**  
**Appraisal Element Workload and Cost Data**

<i>Detail</i>	<i>Actual</i> 1971-72	<i>Estimated</i> 1972-73	<i>Proposed</i> 1973-74
Number of appraisal examinations.....	129	110	110
Number of appraisal reports .....	4,366	4,650	5,000
Number of security reviews .....	317	287	300
Number of lending policy reviews .....	32	34	35
Personnel man-years .....	32.9	34	34
Cost .....	\$638,334	\$709,702	\$735,821

### Administration

The administration element consists of three components: (1) executive management, which provides direction and guidance in policy implementation, (2) facilities licensing, which conducts hearings and renders decisions on application for new associations, branch offices and mergers, and (3) "support services," which provides personnel, accounting and clerical functions. This element also maintains a special advisory staff of two positions, a financial specialist and a savings and loan economist. As discussed below, this element proposes an increase of one counsel position and an

additional supporting stenographic position to handle increased workload in facilities licensing activities.

**Table 4**  
**Administration Workload, Man-Year and Cost Data**

<i>Detail</i>	<i>Actual 1971-72</i>	<i>Estimated 1972-73</i>	<i>Proposed 1973-74</i>
Facilities licensing hearings .....	139	174	217
Facilities decisions.....	236	295	309
Personnel man-years.....	42.2	44	45
Cost .....	\$749,821	\$854,656	\$928,182

#### ANALYSIS AND RECOMMENDATIONS

##### *We recommend approval.*

The department's requested expenditure of \$3,173,036 is \$136,357 above estimated expenditures for the current year. This increase consists primarily of (1) \$16,860 for an additional counsel to assist in facilities licensing hearings and decisions, (2) \$7,536 for a legal stenographer to assist the counsel in the preparation of legal documents, and (3) \$35,000 for consultant services to review and develop recommendations for revision of the law applicable to the state-supervised savings and loan industry. For 1971-72 \$24,000 was budgeted, however, the department has been unable to hire a consultant for the above amount. If a consultant is not hired in the current year, the \$24,000 will revert to the Savings and Loan Inspection Fund. The department also expects a salary savings of \$44,323 (two positions).

##### **Departmental Funding**

The department is supported from the Savings and Loan Inspection Fund which derives its revenue from an annual assessment on all state-regulated associations. The assessment is proportional to association assets and is set at a level to cover the department's annual operating costs. At the end of the budget year the fund will have an estimated surplus of \$715,889.