

**DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL**

ITEM 147 of the Budget Bill

Budget page 571

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

Amount requested in Budget Bill .....		\$4,859,716
Budget request before identified adjustments .....	\$5,334,970	
Increase to recognize full workload change .....	64,715	
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Budget as adjusted for workload change .....	\$5,399,685	
Adjustment—undetailed reduction (10 percent) .....	539,969	

**RECOMMENDED REDUCTION FROM WORKLOAD BUDGET**..... None

**BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING** \$539,969

**Summary of Policy Options**

Repeal fair trade and price posting sections of the California Beverage Control Law .....		\$150,000
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**GENERAL PROGRAM STATEMENT**

The Department of Alcoholic Beverage Control is established by Article XX, Section 22, of the State Constitution. It operates under Sections 23049 et seq., of the Business and Professions Code and has as its responsibility the licensing and regulation of the importation and sale of alcoholic beverages in California.

The department director is appointed by the Governor with Senate confirmation. The department has three zone offices and 20 district offices located in principal California cities. The currently authorized staff consists of 453.5 positions.

The department currently reports that on a percentage basis its activities may be broken into five categories:

<b>Administration</b>		
Administrative activity .....		10.70%
General office clerical .....		5.83
<b>Licensing</b> .....		43.95
<b>Enforcement</b>		
Business practices .....		7.90
All other compliance .....		31.62

Administrative activity includes policy determination and interpretation, departmental housekeeping and the work of legal, business, accounting, personnel, price posting and district supervision units. General clerical work is assigned to this program category.

Licensing activity occupies almost half of the time of the department. Forty-five types of licenses are issued and renewed. Included are on and offsale beer and wine licenses; onsale general licenses for business establishments, trains, boats, airplanes; and licenses for retail package houses, brokers and manufacturers of beer, wine, alcohol, brandy and distilled spirits. The number of licenses increases annually in on and offsale general categories as the result of population increases in certain counties. A total number of 166 new onsale general and 120 new offsale general licenses became available for a series of 11 counties at the beginning of the 1966-67 fiscal year. Licensing activity requires extensive investigation of potential licensees for protection of public welfare or morals.

Department of Alcoholic Beverage Control—Continued

The detail of licensing activity is reported in the following table.

<i>Fiscal year</i>	<i>Active licenses</i>	<i>Licensing transactions</i>
1963-64 -----	45,428	64,891
1964-65 -----	49,493	74,595
1965-66 -----	50,438	79,480
1966-67 -----	50,600 (estimated)	80,000 (estimated)
1967-68 -----	50,750 (estimated)	80,000 (estimated)

Cities and counties receive 90 percent of revenues derived from transfer and renewal of licenses and offer in compromise fees. The remaining 10 percent of such income is deposited in the state's General Fund. Offers in compromise are agreed settlements for alleged offenses by licensees in lieu of going to trial which could result in fines or license suspension.

Enforcement activity may be broken into two major categories—that relative to so-called business practices and that covering all other compliance matters.

Chapter 106, Statutes of 1963, added \$283,000 to the department's budget to cover the cost of 32.6 positions which were to devote full-time attention to problems in the wholesale liquor field and those related to price posting.

Items in the business practices field are described as violations related to posted prices, pool buying, consignment sales, commercial bribery, illegal advertising, tied houses, wholesale distilled spirits, credit regulations and discounts. The department has now made this activity a part of the work of all special investigations.

Compliance activity is measured in the table below.

<i>Fiscal year</i>	<i>Accusations filed</i>	<i>Petitions and protests</i>	<i>Applications denied</i>	<i>Licensees disciplined</i>
1963-64 -----	2,021	575	560	1,940
1964-65 -----	2,176	671	498	1,804
1965-66 -----	2,270	560	390	1,983
1966-67 (estimated) -----	2,275	575	390	2,000
1967-68 (estimated) -----	2,275	575	390	2,000

**ANALYSIS AND RECOMMENDATIONS**

The proposed budget for the Department of Alcoholic Beverage Control for the 1967-68 fiscal year, after an increase of \$64,715 to recognize full workload change, is \$5,399,685. Upon applying an adjustment reduction of 10 percent, the Budget Bill proposes an appropriation of \$4,859,716. Support of the department comes from the General Fund.

We are informed by the Department of Finance that the \$64,715 budgeted to recognize full workload change is proposed for increased prices in the operating expense category and for equipment replacement. We are in agreement with the funds proposed for the workload increase.

**POLICY OPTION**

In the interests of economy and public policy, changes in the fair trade and price posting sections of the Alcoholic Beverage Control Law might be considered. As to economy, conservative estimates indicate

**Department of Alcoholic Beverage Control—Continued**

that price posting and fair trade enforcement generates direct costs in excess of \$150,000 per year to the Department of Alcoholic Beverage Control; this amount does not include costs of hearings by the Office of Administrative Procedures and the legal costs incurred by the Department of Justice when prosecuting alcoholic beverage control cases.

As concerns public policy, on the basis of study by our office we find no evidence that price posting and fair trade implement the legislative statement of purpose which is to "foster and promote temperance" (Business and Professions Code Section 24749). Rather it appears that price posting and fair trade serve to protect the liquor industry from the vagaries of the free market and may thus deny the public the inherent advantages found in free and open competition. It might also be a matter of legislative interest to note that the State of New York has recently eliminated price posting for, among other reasons, those cited above.

**ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD**

**ITEM 148 of the Budget Bill**

**Budget page 573**

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

Amount requested in Budget Bill .....		\$115,924
Budget request before identified adjustments .....	\$128,628	
Increase to recognize full workload change .....	176	
	\$128,804	
Budget as adjusted for workload change .....	\$128,804	
Adjustment—undetailed reduction (10 percent) .....	12,880	
<b>RECOMMENDED REDUCTION FROM WORKLOAD BUDGET</b> .....		None
<b>BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING</b> .....		\$12,880

**Summary of Policy Options**

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

**GENERAL PROGRAM STATEMENT**

The Alcoholic Beverage Control Appeals Board was established by Section 22 of Article XX of the Constitution and operates under Sections 23075 et seq., of the Business and Professions Code. It has as its responsibility the review of appeals from decisions of the Department of Alcoholic Beverage Control relative to penalty assessments and various licensing actions.

This board consists of a chairman and two members appointed by the Governor and confirmed by the Senate to serve at the Governor's pleasure. The board is supported by a staff of seven authorized positions and meets regularly in Sacramento, San Francisco and Los Angeles.

The board's workload is measured in the table below.

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

Department of Alcoholic Beverage Control—Continued

The number of decisions which were appealable to this board was estimated for calendar year 1964 at 902. Of this number of decisions, 234, or 27 percent, were appealed. From information supplied it is estimated that the 1964 appeal level prevails currently.

**ANALYSIS AND RECOMMENDATIONS**

The proposed 1967-68 budget for the Alcoholic Beverage Control Appeals Board, after an increase of \$176 to recognize full workload change, is \$128,804. Upon applying a 10 percent reduction of \$12,880, the Budget Bill proposes an appropriation of \$115,924.

We are informed by the Department of Finance that the workload increase of \$176 is for price increases in the operating expense category. We are in agreement with the workload increase.

**POLICY OPTION**

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

This board was established by constitutional amendment in 1954 as an intermediate appellate agency between the Department of Alcoholic Beverage Control and the superior courts to test the department's decisions in licensing actions and penalty assessments where the plaintiff believes he has been injured or adversely affected. The annual appeal workload of this board in recent years has represented approximately 27.4 percent of the annual appealable decisions rendered by the Department of Alcoholic Beverage Control. This is slightly in excess of 200. Board statistics indicate that, on the average, annually about 10 percent (20 or so) of its decisions are appealed to the courts. Should the board be abolished, the added workload for the local superior court would amount to approximately 180 cases annually to be added to the filings of the Sacramento County Superior Court which in fiscal year 1964-65 totaled 14,485. We calculated in our Analysis of the Budget Bill 1966-67 that each decision of this board was costing the state \$544 on the average. In our judgment the abolition of this board would not seriously impair any potential appellant rights. We recommend such action be taken.

**DISTRICTS SECURITIES COMMISSION**

ITEM 149 of the Budget Bill		Budget page 574
<b>FOR SUPPORT OF THE DISTRICTS SECURITIES COMMISSION FROM THE GENERAL FUND</b>		
Amount requested in Budget Bill		\$173,724
Budget request before identified adjustments	\$187,024	
Increase to recognize full workload change	6,003	
Budget as adjusted for workload change	\$193,027	
Adjustment—undetailed reduction (10 percent)	19,303	
<b>RECOMMENDED REDUCTION FROM WORKLOAD BUDGET</b>		None
<b>BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING</b>		\$19,303

Districts Securities Commission—Continued

GENERAL PROGRAM STATEMENT

The Districts Securities Commission makes financial, economic and engineering feasibility investigations as the basis for its action on proposals for district bonds or warrants, for authorization to enter into certain contracts, for the construction of facilities and the securing of loans.

The Districts Securities Commission is established by Division 10 of the Water Code and consists of the Attorney General, the Director of Water Resources, the Superintendent of Banks, the State Treasurer and three other members appointed by the Governor and confirmed by the Senate. One of the appointive members is required to have experience with domestic water supply and the others with irrigation district affairs. The commission has its office in San Francisco and is supported by an authorized staff of 16.2 positions.

Activity of the commission relates to the following categories of public districts:

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

The number of districts reporting to the commission for the above purposes is indicated below.

<i>Fiscal year</i>	<i>Districts reporting</i>
1963-64 -----	177
1964-65 -----	186
1965-66 -----	203

2. Water storage districts organized under Division 14 of the Water Code. Prior to legislation enacted in 1963 and effective in 1965, these districts were supervised in certain financial affairs by the Department of Water Resources. That responsibility was transferred to the commission by the 1963 legislation.

3. District securities investigation. Legislation adopted in 1965 requires certain public districts other than those connected with cities, counties and school districts to obtain commission approval for the issuance of debt obligations. Workload remains small in this category.

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

ANALYSIS AND RECOMMENDATIONS

The 1967-68 fiscal year budget proposes an expenditure of \$193,027 which includes \$6,003 for full workload change. Upon application of a 10 percent reduction the Budget Bill proposes an appropriation of \$173,724.

Districts Securities Commission—Continued

The proposal in the 1967-68 Governor's Budget includes a reduction of three senior engineering positions for a saving of \$38,636. These positions are not needed since anticipated workload has not developed in the commission's responsibilities with respect to the districts investigation law. Additional per diems amounting to \$1,000 to cover requirements of added commission members were added to this year's budget request.

The sum of \$6,003 to recognize full workload needs is related to operating expenses and equipment.

Funding of this agency was transferred to the General Fund in 1965. Chapter 897, Statutes of 1965, required that a fee schedule be established in amount sufficient to offset commission annual operation charges against the General Fund. Fee revenues for fiscal year 1967-68 are estimated at \$193,072 which exceeds by \$19,348 the appropriation of \$173,724 proposed in the Budget Bill.

**HORSE RACING BOARD**

ITEM 150 of the Budget Bill

Budget page 576

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

Amount requested .....	\$250,252
Estimated to be expended in 1966-67 fiscal year .....	242,381
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Increase (3.2 percent) .....	\$7,871

**TOTAL RECOMMENDED REDUCTION** .....

None

**GENERAL PROGRAM STATEMENT**

The California Horse Racing Board is responsible for administration of the laws, rules and regulations affecting horse racing at those locations where parimutuel wagering is permitted in association with horse racing. The board promulgates rules and regulations.

Three stewards—one representing the state, one representing the track and a third selected by the first two—control all races and race activities. Different stewards are selected for each set of official racing days.

The board licenses all persons who are participants in activities within the track "enclosure" including trainers, jockeys, officials, other employees, parimutuel clerks, owners. Licenses are issued at the track by board license clerks assigned to each track as its racing season begins. Licenses are good for one year.

<i>Fiscal year</i>	<i>Number of licenses</i>
1963-64 .....	10,316
1964-65 .....	10,639
1965-66 .....	11,353
1966-67 (estimated) .....	11,757
1967-68 (estimated) .....	12,100

Compliance with laws, rules and regulations is secured through inspections and tests of horses before and after each race and the investigation of all complaints and irregularities by board inspectors as-

## Investment

### Horse Racing Board—Continued

signed to each track during the course of its race meeting. The number of racing days for recent fiscal years is listed below.

<i>Fiscal year</i>	<i>Number of racing days</i>
1963-64.....	572
1964-65.....	564
1965-66.....	569
1966-67 (estimated).....	573
1967-68 (estimated).....	579

The Horse Racing Board is established pursuant to Section 25a, Article IV, of the Constitution and operates under Sections 19400 et seq. of the Business and Professions Code. The board consists of three members appointed by the Governor for four-year terms and is supported by a staff of 17.8 authorized positions. Its office is in Los Angeles.

Approximately 85 percent of all parimutuel wagers is returned to bettors. The remaining 15 percent of money in the pool is divided approximately equally between the track and the state. The state collects its money each racing day.

### ANALYSIS AND RECOMMENDATIONS

The amount requested for support of the Horse Racing Board during fiscal year 1967-68 is \$250,252 which is \$7,871 or 3.2 percent greater than estimated expenditures for the current year.

A new full-time intermediate typist-clerk position was established on an administrative basis during the current year in lieu of 0.6 temporary help to assist in accounting and statistical work. We have discussed this workload with the board and *recommend that the position be permanently established and recommend approval of the budget as proposed.*

The Fair and Exposition Fund, from which this board derives its support, is composed of (1) a direct 4-percent assessment against all sums wagered in the parimutuel pool and (2) certain license fees and miscellaneous revenue. Support funds for this board are the first charge against the Fair and Exposition Fund. After appropriations are made to various fairs as provided by law the unappropriated balance in the fund is transferred to the General Fund.

### DEPARTMENT OF INVESTMENT

Budget page 578

#### FOR SUPPORT OF THE DEPARTMENT OF INVESTMENT FROM VARIOUS FUNDS

Amount requested .....	\$15,457,163
Estimated to be expended in 1966-67 fiscal year.....	15,298,514
Increase (1.0 percent) .....	\$158,649

#### GENERAL PROGRAM STATEMENT

By Chapter 277, Statutes of 1929, the Legislature created the Board of Investment to consist of the Superintendent of Banks, and the commissioners of the agencies regulating corporations, insurance, real estate

**Department of Investment—Continued**

and building and loan, since renamed savings and loan, and to be designated as the Department of Investment.

In 1941 the Division of Insurance was made a separate department and its affiliation with the investment department was retained only by having its commissioner continue to sit on the Board of Investment. In 1951 the State Banking Department was created replacing the former division of banking, remaining within the Department of Investment, however.

*We recommend the enactment of legislation to return the investment agencies to the departmental grouping envisaged in the 1929 legislation and extend that concept to create a new Department of Investment in the interests of economy and efficiency.*

Basically, the five agencies which would become divisions in the proposed department have a common purpose which is to license individuals or companies to engage in financial transactions or to assist others in certain financial transactions. Licensing in itself is largely a mechanical operation—examinations given to applicants and answers graded, certificates issued and then renewed periodically at the request of licensees. Enforcement of the laws administered depends upon the examination of books, contracts and other documents followed by such disciplinary action as the particular agency may consider appropriate for alleged breaches of laws or regulations. These actions can be accommodated to one departmental leadership which would supply central administrative and housekeeping services as those terms are commonly understood. Such departmental structure would require but one administrative service officer, one fiscal officer and one personnel officer, for example, instead of resulting in the current trend toward five of each of the above officers plus others. Savings would result from the elimination of these potentially duplicate positions.

Additional savings would occur with the combining and coordination of many functions presently carried out independently. Such functions as accounting, property appraising and licensing are programs that have many common elements. As an example, during the 1967-68 fiscal year the Division of Real Estate anticipates licensing 95,000 people and the Department of Insurance anticipates licensing 155,000 people. In many instances one person receives a license from both agencies. Once a person has qualified for either license, the renewal process is automatic and it would appear to us that functions of this nature would lend themselves to being combined.

Efficiency of the constituent agencies within the department need not be impaired since policy supervisory autonomy of the five divisions and departments could be retained by continuing to depend upon Governor-appointed division chiefs as is done in other existing state departments. Division chiefs would not need to be of department head level and should be made responsible to the department director.



Department of Investment—Continued

The potential size of the proposed department is illustrated by the following table.

Agency	Number of Authorized Positions	1967-68
		Estimated Annual Expenditures <sup>1</sup>
Banking -----	89.0	\$1,326,977
Corporations -----	419.2	3,642,939 <sup>2</sup>
Insurance -----	326.5	3,911,340 <sup>3</sup>
Real Estate -----	299.4	3,776,197
Savings and Loan -----	202.0	2,799,710
<b>Total -----</b>	<b>1,335.1</b>	<b>\$15,457,163</b>

<sup>1</sup> As shown in budget document prior to Budget Bill adjustments.  
<sup>2</sup> Support derived from General Fund only.  
<sup>3</sup> Includes both special and General Fund support appropriations.

**Department of Investment  
 BANKING DEPARTMENT**

ITEM 151 of the Budget Bill

Budget page 578

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

Amount requested -----	\$1,326,977
Estimated to be expended in 1966-67 fiscal year -----	1,296,113
Increase (2.4 percent) -----	\$30,864

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

**GENERAL PROGRAM STATEMENT**

It is the responsibility of the State Banking Department to administer the laws relating to banks and trust companies and the banking and trust business for the general purpose of safeguarding the funds of depositors in any unit of the state-chartered banking system.

In addition to the actual administration of the department's affairs the department follows two principal programs of activity: (1) the chartering of new banks, licensing branches, and review of mergers, consolidations, etc., and (2) the examination of banking and trust companies to determine financial condition and depositor safety.

Every application for a new state bank, trust company or branch office requires a field survey, investigation of need relative to competition, probable opportunities for use of funds and chances for successful operation. Application workload for new banks and branches, actual and estimated, covering a five-year period is tabulated below.

Fiscal year	New banks	Branches
1963-64 -----	26	109
1964-65 -----	26	100
1965-66 -----	5	104
1966-67 (est.) -----	2	130
1967-68 (est.) -----	2	130

Each state bank must be examined once a year. The examiner determines the individual bank's condition and resources, its method of management, how it invests its funds, prudence of management, security afforded depositors and creditors, whether or not the bank is obeying

## Department of Investment—Continued

its charter and bylaw provisions and such other matters as appear necessary. Bank examination requirements occupy the time of a substantial portion of the department staff. This is illustrated by the number of banking offices and bank assets to be covered as noted in the following table.

<i>Fiscal year</i>	<i>Banking offices</i>	<i>Loans and assets (billions of dollars)</i>
1963-64 -----	686	\$23.9
1964-65 -----	737	26.3
1965-66 -----	795	28.4
1966-67 (est.) -----	853	29.9
1967-68 (est.) -----	917	31.4

The State Banking Department is established under provisions of the Financial Code commencing at Section 200. The department is headed by a superintendent appointed by the Governor to hold office at his pleasure. The department is staffed by 91 authorized positions with the headquarters in San Francisco and a branch office located in Los Angeles.

## ANALYSIS AND RECOMMENDATIONS

For expenditure during the 1967-68 fiscal year the department requests \$1,326,977 which exceeds estimated current year expenditures by \$30,864 or 2.4 percent. No new positions are proposed. The increase consists of merit salary increases. Proposed operating expense and equipment expenditures are reduced as compared with those estimated for the current year.

The Banking Department derives its support from the State Banking Fund which in turn is made up of percentage assessments against the assets of regulated banks. It is proposed to assess all banks and trust companies for fiscal year 1967-68 at the rate of 90 percent of the maximum allowed by law equivalent to 8 cents per \$1,000 of bank assets.

The bank assessment is estimated to produce \$1,115,740 for the budget year. This amount of income is \$211,237 less than proposed expenditures for the budget year. An existing surplus in the fund will cover this deficit condition.

Except for an authorized salary increase amount of \$13,201, estimated expenditures for the current year are within the limits of the 1966-67 appropriation.

*We recommend approval as budgeted.*

**Department of Investment  
DIVISION OF CORPORATIONS**

ITEM 152 of the Budget Bill

Budget page 580

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

Amount requested in Budget Bill-----		\$3,307,646
Budget request before identified adjustments-----	\$3,642,939	
Increase to recognize full workload change-----	32,223	
Budget as adjusted for workload change-----	\$3,675,162	
Adjustment—undetailed reduction (10 percent)-----	367,516	

## Division of Corporations—Continued

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET\_\_\_ None

BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING \$367,516

## GENERAL PROGRAM STATEMENT

The Division of Corporations has a twofold responsibility: first, the protection of the public in security sales and second, the prevention of fraud, usury and unsound business practices on the part of a series of business organizations described as industrial loan companies, personal property brokers, small loan brokers, credit unions, check sellers and cashers, escrow agents, retirement systems and trading stamp companies. The several laws governing these business operations which are administered by the division are found in the Corporations, Financial and Business and Professions Codes.

The division is established by and operates under provisions of the Corporations Code commencing with Section 25300. Its chief officer is the Commissioner of Corporations who is appointed by and serves at the pleasure of the Governor. The division staff is authorized at 430 positions with branches maintained in San Francisco, Los Angeles and San Diego.

Certain securities are exempt from regulation by the division. They include those issued by banks, savings and loan associations, insurance companies, those subject to approval by the Public Utilities Commission or certain federal agencies, and securities of the type certified as legal for investment by banks which are reviewed by the Districts Securities Commission. Before securities other than the types listed above may be offered for sale in California, application must first be made to the division.

In addition to its regulation of security sales the Division of Corporations licenses security brokers, securities sales agents and investment counsel. Licensing activity by the division includes receipt of applications, making investigations, holding escrows and the issuance of permits and licenses. Licensing and permit workload is illustrated below.

<i>Fiscal year</i>	<i>Permits/licenses issued corporate securities</i>	<i>Licenses in effect other than corporate securities</i>
1963-64 -----	52,897	3,199
1964-65 -----	57,657	3,452
1965-66 -----	56,503	3,636
1966-67 (est.) -----	59,017	3,879
1967-68 (est.) -----	61,622	4,112

Enforcement activities in the corporate security field are necessary to insure that offerings are fair, just and equitable. The division has authority to investigate and to examine books. It is a violation of law to sell securities without authorization by the division or to sell them in a manner other than as authorized. Acts by sellers may be enjoined.

## ANALYSIS AND RECOMMENDATIONS

The 1967-68 budget for the Division of Corporations, after an increase of \$32,223 to recognize full workload change, proposes a support

Division of Corporations—Continued

budget in the amount of \$3,675,162. Upon application of a 10 percent reduction, the Budget Bill proposes an appropriation of \$3,307,646.

We are informed by the Department of Finance that the \$32,223 for increased workload will provide for six auditor and two clerical positions. The positions are budgeted on the basis of previously agreed upon workload standards.

While support funds for operation of the Division of Corporations are provided by the General Fund, annual charges to that fund are more than offset by reimbursements received by the division for services rendered to its licensees and permittees. Almost three-quarters of reimbursement money comes from services rendered with reference to corporate security issues.

Except for allocations for authorized salary increases, current year expenditures by the division continue to be within its budget appropriation for the year.

DEPARTMENT OF INSURANCE

ITEM 153 of the Budget Bill

Budget page 582

FOR SUPPORT OF THE DEPARTMENT OF INSURANCE FROM THE INSURANCE FUND

Amount requested -----	\$3,902,540
Estimated to be expended in 1966-67 fiscal year -----	3,914,037
Decrease (0.2 percent) -----	\$11,497

TOTAL RECOMMENDED REDUCTION ----- None

GENERAL PROGRAM STATEMENT

The principal purpose of the Department of Insurance is to protect the general public, insurance policyholders and the rights of beneficiaries in California. It has the following four divisions.

1. Administration. This division includes personnel management, office services, actuarial studies, administration of conservation and liquidation cases, and operation of district offices.

2. Compliance and legal. This division processes applications to do business in the state, security sales permits, amendments to authority applications and withdrawals. It reviews forms, prepares accusations, handles discipline cases, complaints against insurers and compliance generally.

3. License. This division screens and processes applications for licenses and conducts examinations. The following illustrates the measure of this workload.

<i>Fiscal Year</i>	<i>No. of Licenses</i>	<i>Examinations Given</i>
1963-64	88,742	21,186
1964-65	91,507	23,051
1965-66	88,517	20,363
1966-67 (est.)	97,000	21,381
1967-68 (est.)	95,000	22,450

4. Examination and Financial Analysis. This division protects against insolvency or unlawful operations by examination of domestic

**Department of Insurance—Continued**

insurers, and analysis of financial statements. It studies rating and rating practices, determines retaliatory taxes, audits tax returns, collects premium payments and retaliatory and surplus line brokers' taxes.

The department is administered by the Insurance Commissioner who is appointed by the Governor with the consent of the Senate for a term of four years. The department's headquarters office is in San Francisco with a branch in Los Angeles and smaller offices in Sacramento and San Diego. The department is established under Section 12906 of the Insurance Code and is not part of the Department of Investment though the commissioner is a member of the Board of Investment. The department is staffed by 320.5 authorized positions.

**ANALYSIS AND RECOMMENDATIONS**

Basic support of the Department of Insurance is provided by the Insurance Fund which is derived from license fees, penalties, examination fees, miscellaneous fees and income, including income from money investments. Reported in another item is support income from the General Fund received for services rendered in behalf of that fund. Income to the Insurance Fund from all sources is estimated at \$3,753,667 for the 1967-68 budget year.

For fiscal year 1967-68 the budget proposed the expenditure total of \$3,911,340 from the Insurance Fund and the General Fund. The General Fund contribution of \$112,300 was increased by \$2,700 to recognize full workload. A 10-percent reduction was applied to the resulting total of \$115,000 producing the net amount proposed in the Budget Bill of \$103,500.

The net reduction factor of \$8,800 was applied also to the Insurance Fund budget amount reducing total support of \$3,911,340 to \$3,902,540 which is the amount appearing in the Budget Bill.

For the current year the department has received \$105,224 in an Emergency Fund authorization, an allocation of \$8,000 for data processing and salary increases of \$150,007 all added to the current budget appropriation of \$3,684,165. Savings of \$33,359 against the total sum are anticipated.

The budget request for 1967-68 proposes to make permanent 11 positions added by workload and administrative adjustments at the beginning of the current fiscal year. To the department's administrative division are added: one insurance officer II, one accounting technician II and one intermediate stenographer. To the compliance and legal division are added: three assistant counsels, four insurance officers I and one intermediate stenographer. While it may now be demonstrated that sufficient workload has developed to justify the addition of these 11 positions to staff, we are critical of the method by which these position augmentations were made.

During the 1965 General Session of the Legislature 20 insurance bills affecting the department, its legal responsibilities and procedures were enacted. These bills were not specific with reference to any staff division responsibilities. In essence they provided that an individual must be advised of the grounds for cancellation of his insurance policy and the commissioner must provide procedure for appeals from automobile in-

**Department of Insurance—Continued**

insurance policy cancellations. Other provisions applied to title company licenses and certain types of agent and broker business.

At the time the bills were presented before the legislative committees, our office, the Department of Finance and the committees were informed by the department that some workload might be generated by their passage but that almost all the new workload could be absorbed by existing staff. No new positions were proposed in the 1965-66 or 1966-67 budgets for the department to handle the workload produced by the 20 bills. In August, after the 1966 Budget Act had become effective, our office was informed of the establishment of the 11 positions above described. This was approximately a year after the effective date of the legislation. In our opinion the department was negligent in its failure to produce workload and position costs for the 20 bills and we suggest that in the future proper attention be given to the analysis of bills carrying potential new workload and that new position requirements be brought to legislative notice on a more timely basis.

*We recommend approval as budgeted.*

**Department of Investment  
DEPARTMENT OF INSURANCE**

ITEM 154 of the Budget Bill

Budget Page 582

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

Amount requested in Budget Bill .....	\$103,500
Budget request before identified adjustments .....	\$112,300
Increase to recognize full workload change .....	2,700
<hr/>	
Budget as adjusted for workload change .....	\$115,000
Adjustment—undetailed reduction (10 percent) .....	11,500

**RECOMMENDED REDUCTION FROM WORKLOAD BUDGET**..... None

**BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING** \$11,500

**ANALYSIS**

The 1967-68 budget proposes a level of General Fund support in the amount of \$115,000 for the Department of Insurance to pay for the tax collection responsibilities of the department which result in revenue for the General Fund. Upon application of a 10-percent reduction of \$11,500 the Budget Bill proposes an appropriation of \$103,500.

**Department of Investment  
DIVISION OF REAL ESTATE**

ITEM 155 of the Budget Bill

Budget page 586

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

Amount requested .....	\$3,310,403
Estimated to be expended in 1966-67 fiscal year.....	3,304,128
<hr/>	
Increase (0.2 percent) .....	\$6,275

**TOTAL RECOMMENDED REDUCTION**..... None

## Division of Real Estate—Continued

**GENERAL PROGRAM STATEMENT**

The Division of Real Estate has the responsibility of protecting the general public in matters respecting the sale, purchase or lease, through agents, of real estate, business opportunities, mineral, oil and gas rights or lands, in the offering of subdivided properties and of real property securities. This protection is provided through the various activities of licensing, regulation, education and publication of research reports. The division under its recovery program pays certain unsatisfied judgments up to \$10,000 against licensees where the action was based on fraudulent licensee activities.

The Real Estate Commissioner is head of the Division of Real Estate and is assisted by a staff of 307.4 authorized positions assigned to groups dealing with administration, examinations, licensing, regulations, and education and publications. Major offices are maintained in Sacramento and Los Angeles with district offices in seven California cities. There is within the division the Real Estate Commission of six members appointed by the Governor and the Real Estate Commissioner as the seventh member and chairman. The commission is only advisory in nature.

The following table sets forth certain major elements of the division's workload.

<i>Fiscal year</i>	<i>Licenses in effect</i>	<i>Examinations</i>	<i>Complaints</i>	<i>Formal hearings</i>
1963-64 -----	153,676	47,799	4,802	729
1964-65 -----	164,755	52,435	5,252	1,084
1965-66 -----	147,750	50,491	5,992	914
1966-67 (est.) -----	150,000	37,000	6,480	817
1967-68 (est.) -----	155,000	41,000	7,000	815

**ANALYSIS AND RECOMMENDATION**

Operations of the Division of Real Estate are supported by appropriations from two funds which revenues are derived from examination, license, subdivision filing, subdivision inspection fees together with miscellaneous revenue and income from money investments. Twenty-five percent of license fees are apportioned to the Education, Research and Recovery Fund. Four-fifths of the income to this fund is devoted to real estate education and research. A portion of this fund is now devoted to payment of judgments against licensees where the action was based on fraud, misrepresentation or deceit. The remainder of the income from license fees is allocated to the general and routine operations of the division.

For budget year 1967-68 the division proposes the following budgeted expenditures:

(1) From the Real Estate Fund for division support ----- \$3,310,403  
This amount is \$6,275 or 0.2 percent greater than estimated expenditures for the current year.

(2) From the Real Estate Education, Research and Recovery Fund for education and research ----- \$339,064

This amount is \$3,596 or 1.1 percent greater than estimated current expenditures for this purpose.

**Division of Real Estate—Continued**

(3) From the Real Estate Education, Research and Recovery Fund for recovery payments \_\_\_\_\_ \$126,730

This amount is \$8,356 or 6.2 percent below estimated expenditures for the same purposes during the current year.

**Regulation and Licensing**

The division is experiencing a 17,255, or 10 percent, drop in the number of licenses in force during the current year as compared to the 1966-67 fiscal year. Elimination of the business opportunity license and the one-year original license as the result of legislation accounted for this drop in number. The so-called "tight money" situation in the field serviced by the real estate industry has resulted in decreased workload which has permitted the abolition of one real estate commissioner I position and one junior-intermediate typist-clerk which is reflected in the budget proposed for fiscal year 1967-68.

**Education and Research**

The commissioner is advised and projects are coordinated through his Real Estate Education and Research Advisory Committee. Research projects, financed by grants from the division, are conducted by the University which has a separate allocation of \$185,000 contained within the above budget totals, state colleges and private colleges. Sixteen new projects are proposed for fiscal year 1967-68 together with aid for 67 junior college programs.

**Recovery Program**

Experience with the program has indicated that a position of one deputy real estate commissioner III was not essential for efficient operation and the 1967-68 budget request reflects its abolition.

**Fund Condition**

Fee income to the Real Estate Fund is below proposed expenditures for fiscal year 1967-68 by a few hundred dollars. The currently estimated surplus in the fund of \$474,550 is only one-seventh of the amount necessary for operation of the division for one year.

The fund appropriation for the current year has been augmented by \$8,000 for data processing and \$118,217 for authorized salary increases. The fiscal year is expected to end with an unexpended balance from appropriations and allocations.

*We recommend approval as budgeted.*

**Department of Investment  
DIVISION OF REAL ESTATE**

ITEM 156 of the Budget Bill

Budget page 586

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

Amount requested _____	\$650,794
Estimated to be expended in 1966-67 fiscal year _____	655,554
Decrease (1 percent) _____	<u>\$4,760</u>
<b>TOTAL RECOMMENDED REDUCTION</b> _____	<b>None</b>



Division of Real Estate—Continued

**GENERAL PROGRAM STATEMENT**

This appropriation supports the two types of operations for which the Real Estate Education, Research and Recovery Fund now provides. For further discussion attention is directed to the principal analysis of the Division of Real Estate.

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

ITEM 157 of the Budget Bill

Budget page 590

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

Amount requested .....	\$2,799,710
Estimated to be expended in 1966-67 fiscal year .....	2,725,337
	\$74,373

**TOTAL RECOMMENDED REDUCTION** ..... None

**GENERAL PROGRAM STATEMENT**

It is the responsibility of the Division of Savings and Loan to administer the Savings and Loan Association Law which is designed to assure the financial soundness and safety of state-licensed savings and loan associations in California. Regulation of the industry is secured through the following activities:

1. Annual examination of every state-licensed association, including special examinations of problem associations.
2. Test appraisals of real property which is security for association loans.
3. Registration, reporting and examination of savings and loan holding companies.
4. Licensing new associations and branches, controlling mergers.
5. Providing information to associations in order to improve their lending practices.

On a percentage basis work within the division is distributed 22.5 percent to administration, 51.5 percent to examinations and 26.0 percent to appraisals.

The division cooperates closely with representatives of the Federal Home Loan Bank Board in the making of association examinations.

Division workload is tabulated below:

<i>Fiscal year</i>	<i>Number of associations</i>	<i>Number of branches</i>	<i>Number of holding companies</i>
1963-64 .....	219	221	--
1964-65 .....	210	254	--
1965-66 .....	202	290	214
1966-67 (est.) .....	195	311	214
1967-68 (est.) .....	195	336	214

The division is created by and administers the Savings and Loan Association law which begins at Section 5000 in the Financial Code. The chief of the division is the Savings and Loan Commissioner who is appointed by the Governor and serves at his pleasure. The appointment

**Division of Savings and Loan—Continued**

requires Senate confirmation. The activities of the division are supported by an authorized staff of 211.5 positions. The headquarters and business office is in Los Angeles. A branch office is maintained in San Francisco.

**ANALYSIS AND RECOMMENDATIONS**

The Division of Savings and Loan receives its primary support from the Savings and Loan Inspection Fund which is derived principally from an annual fee assessed against each state-licensed association based on a pro rata share of association assets. The rate of assessments levied on December 31, 1966, was 14.1 cents per \$1,000 of assets. Total income to the fund from all sources including fees and charges for fiscal year 1967-68 is estimated at \$2,752,333.

For expenditure during fiscal year 1967-68 the division has budgeted \$2,799,710 which is \$74,373 or 2.7 percent greater than estimated expenditures for the current year. No new positions are proposed. The increase included in the budget year request is for merit salary increases offset by reductions in operating expenses and equipment.

Included in the budget for the current year, at an estimated cost of \$14,000, are special engagements with nationally recognized accounting firms to conduct special audits of six so-called "problem" savings and loan companies whose condition demanded immediate attention. The funds used came from allocations for positions currently vacant. The 1966-67 budget appropriation has been augmented, however, by an emergency authorization of \$82,917 together with an amount of \$74,726 to cover authorized salary increases. Estimated income to the Savings and Loan Inspection Fund for fiscal year 1967-68 will fall short of proposed expenditures for that year by \$47,377 but the estimated surplus in the fund is sufficient to cover division expenses at the current level for almost a full year.

*We recommend approval as budgeted.*

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

ITEM 158 of the Budget Bill

Budget page 591

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

Amount requested in Budget Bill .....		\$1,248
Budget request before identified adjustments .....	\$1,387	
Increase to recognize full workload change .....	None	
	<hr/>	
Budget as adjusted for workload change .....	\$1,387	
Adjustment—Undetailed reduction (10 percent) .....	139	

**RECOMMENDED REDUCTION FROM WORKLOAD BUDGET**..... None

**BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING** \$139

**GENERAL PROGRAM STATEMENT**

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

**Board of Pilot Commissioners—Continued**

currently four licensees. The board has the authority to discipline its licensees through suspension or revocation of licenses after hearings.

The board is composed of the Mayor of San Diego, ex officio, and two San Diego residents appointed by the Governor for terms of four years. One of the appointees must be a nautical man.

The board has its office in San Diego and its authorized staff consists of a part-time secretary. Commissioners receive a per diem of \$25 for days served on commission business.

**ANALYSIS AND RECOMMENDATIONS**

This is the only one of the three pilot commissioners' boards in the state whose revenues are paid into the General Fund and the only one whose operation costs are charged to the General Fund. Revenues collected from the licensed pilots offset General Fund charges. These revenues are estimated to total \$5,800 for fiscal year 1967-68.

For operations during fiscal year 1967-68 the budget proposes an amount of \$1,387. Upon application of a 10 percent reduction the Budget Bill proposes an appropriation of \$1,248.

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

ITEM 159 of the Budget Bill

Budget page 592

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

Amount requested .....	\$26,298
Estimated to be expended in 1966-67 fiscal year .....	30,216
Decrease (13 percent) .....	\$3,918

**TOTAL RECOMMENDED REDUCTION** .....

None

**GENERAL PROGRAM STATEMENT**

The board licenses and regulates pilots for the three bays falling within its jurisdiction. There are presently 25 such licensees. Discipline including suspension or revocation of licenses may be imposed on a licensee after an administrative hearing. The board is composed of three members appointed by the Governor, each receiving a part-time salary of \$300 a month. The authorized staff consists of a full-time secretary.

The board provides staff service to the Pilotage Rate Committee which is attached to it. The committee is composed of five members appointed by the Governor representing the pilots, the shipping industry and the public. Audits are made and hearings are held by the committee in the process of determining its biennial recommendations to the Legislature of fair and adequate pilotage rates. The public member receives a \$50 per diem and travel expenses. Other members serve without pay.

**ANALYSIS AND RECOMMENDATIONS**

For fiscal year 1967-68 the board has budgeted the sum of \$26,298 which is \$3,918 or 13 percent less than the estimated expenditures of

Board of Pilot Commissioners—Continued

\$30,216 for the current year. The reduction in expenditures is attributed to lack of required activity for the pilotage rate activity. Its duties are exercised biennially as noted above. The 1967-68 fiscal year budgeted amount exceeds the actual expenditures of the most recently completed fiscal year of 1965-66 by \$1,639 or approximately 6.6 percent.

*We recommend approval as budgeted.*

**DEPARTMENT OF PROFESSIONAL AND VOCATIONAL STANDARDS**

ITEMS 160 to 193 of the Budget Bill

Budget page 594

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

Amount requested .....	\$10,187,363
Estimated to be expended in 1966-67 fiscal year .....	10,340,314
Decrease (1.5 percent) .....	\$152,330
<b>TOTAL RECOMMENDED REDUCTION .....</b>	<b>None</b>

**GENERAL PROGRAM STATEMENT**

The Department of Professional and Vocational Standards is composed of 30 boards, commissions and bureaus, each administering one or more laws under which individuals and facilities are licensed and regulated. Each board or bureau operating within the department contains at least one program. Such program contains in addition to administrative essentials the three elements or their equivalents of examination, licensing and renewal, and enforcement. General housekeeping activities and related accounting, budgeting, personnel, data processing, internal auditing, legal affairs, management and procedures analysis and property management, building maintenance and investigation have been delegated to the department's administrative operations unit. Departmental administration is divided into administration, data processing, building maintenance and investigation. The departmental investigation program represents a 1960-61 consolidation of the inspection and investigation activity of all but three boards and commissions. The Division of Investigation works on requests for an individual board and collects a pro rata charge for services rendered.

Occupational and related licensing has many facets. In general, it may be said that the licensing of professional individuals is to require a standard of competence in their profession and the licensing of individuals who conduct business-type activities serves as a general protection against possible fraudulent treatment of customers.

The licensing process varies from board to board. It can and in some instances, particularly in the professional groups, does include presentation of an application based on educational requirements; others reflect experience. It includes a qualification procedure involving personal character determination, general qualification appraisal and usually an examination, and the issuance of a license or certificate or the taking of a personal registration. Licenses issued through this department for the most part are renewable biennially.

## Department of Professional and Vocational Standards—Continued

The total number of licenses served by the department in recent fiscal years is illustrated by the following table.

<i>Fiscal year</i>	<i>Number of licenses</i>
1962-63 -----	592,286
1963-64 -----	626,171
1964-65 -----	658,560
1965-66 -----	671,923
1966-67 (est.) -----	699,227
1967-68 (est.) -----	713,362

Boards enforce the law by requiring and securing compliance with it by making inspections, investigating complaints, bringing parties together through conciliation or filing accusations which after hearing may result in fine, probation, suspension or revocation of license, and finally, in the appropriate case the filing and prosecuting of a criminal complaint. Some boards have the authority to seek injunctions to restrain violations of the law.

The department maintains branches in San Francisco and Los Angeles. The Division of Investigation and the Contractors' License Board maintain offices in principal California cities. With the exception of the Pharmacy Board headquartered in San Francisco, all other agencies maintain headquarters offices in Sacramento. Most of the agencies contain either an administrative board or an advisory committee and an executive secretary or bureau chief. Most boards include by law a non-licensee or "public member." Appointments to boards and commissions are made by the Governor, normally for a term of four years.

**ANALYSIS AND RECOMMENDATIONS**

For the first time this analysis treats the Department of Professional and Vocational Standards as a whole department rather than providing an analysis for a central departmental administrative unit plus a separate analysis for each of the 30 constituent boards, bureaus and commissions. Table 1 summarizes the fiscal situation of each of these agencies.

Two agencies, as the table indicates, are now supported by the General Fund. The remaining units are supported by special funds derived from license renewals, fines, fees and penalties collected from applicants and licensees. The special funds are named after the particular agencies to which they are related.

Budget control is not uniform in all agencies. Better controls should be provided by the department as soon as possible. The use of emergency authorizations for expenditure of unbudgeted funds is quite general as the table indicates. These authorizations are for amounts in addition to the support appropriations provided by the Legislature and have not had the benefit of legislative review.

In the table, we have summarized cost data reflecting the past fiscal year and the current fiscal year compared with proposals for fiscal year 1967-68 from all of the operating units within the department. The number of authorized positions is one measure of unit size. The emergency authorizations listed have been expended for support only.

**Departmental Administration—Continued**

Fund condition is described by one of two words. "Good" means that the rate of income for the current and budget years estimated and averaged equals or exceeds related expenditures. If the rate of expenditure obtained as above exceeds the rate of income, the fund situation is labeled "declining." In those cases where the term "declining" is used, it is a warning that fund insolvency could be ahead and that overspending should be eliminated or that added fees should be sought from licensees, depending upon the circumstances.

Amounts noted in the table's expenditure columns under departmental administration represent funds derived by pro rata assessments against the several boards and commissions included within the department organization and are not included the second time in budget totals.

It will be noted that increases in the proposed expenditure plan for fiscal year 1967-68 have been kept to relatively small amounts and in a number of instances a reduced amount is requested for expenditure as compared with estimated expenditures for the current year. The combined total of proposed agency expenditures, prior to minor General Fund adjustments, for fiscal year 1967-68 is \$10,187,363 which is \$152,330 or 1.5 percent less than the estimated total expenditures of \$10,340,314 for the current year. No new positions are provided for any unit of the departmental and agency budgets.

Proposed expenditures for the Athletic Commission and the Board of Guide Dogs for the Blind are further reduced by \$17,764 and \$220 respectively to conform to the general plan of reduction in expenditures proposed for the General Fund for fiscal year 1967-68 as those appear in the Budget Bill.

**POLICY OPTION**

The State Athletic Commission regulates boxing and wrestling matches in California and licenses all participants therein. It consists of five members appointed by the Governor.

Before 1961 the commission's cost of operation was met from the Athletic Commission Fund which consisted of income from license fees, penalties and fines. Workload met by the commission and revenue from its regulatory duties both continue to decline. We recommend, as an alternative to the present method of operation, that the commission staff activity and annual cost be brought within the volume of present revenues and the commission once again be made a self-supporting agency for an annual saving to the General Fund of approximately \$60,000.

## Departmental Administration—Continued

Table 1  
Combined Analysis  
Department of Professional

Item No.	Operating unit	Budget authorized page	Currently authorized positions	1965-66 expenditures (Actual)	Emergency authorization (included in expenditures)
160	Departmental Administration <sup>1</sup>				
	Division of Administration.....	597	65.2	\$644,948	\$9,720
	Data Processing.....	597	23.0	188,483	--
	Building Maintenance, etc.....	598	3.1	480,631	--
	Division of Investigation.....	598	143.7	1,450,421	--
	Agencies				
161	Board of Accountancy.....	600	15.1	355,546	29,083
162	Board of Architectural Examiners.....	601	9.7	126,495	48,791
163	Athletic Commission.....	603	16.2	166,985	--
164	Board of Barber Examiners.....	604	13.1	338,610	21,465
165	Cemetery Board.....	606	4.5	70,222	--
166	Board of Chiropractic Examiners.....	607	4.3	105,805	420
167	Board of Registration for Civil and Professional Engineers.....	608	43.0	482,741	22,828
168	Collection Agency Licensing Bureau.....	610	9.2	171,460	3,998
169	Contractors' License Board.....	611	168.0	2,158,266	157,838
170	Board of Cosmetology.....	613	30.4	626,479	66,105
171	Board of Dental Examiners.....	614	10.6	180,643	7,478
172	Board of Dry Cleaners.....	616	11.1	312,070	32,826
173	Bureau of Electronic Repair Dealer Registration.....	617	12.5	245,292	--
174	Board of Funeral Directors and Embalmers.....	619	7.1	98,233	7,684
175	Bureau of Furniture and Bedding Inspection.....	620	20.7	581,740	59,027
176	Board of Guide Dogs for the Blind.....	622	0.1	1,778	--
177	Board of Landscape Architects.....	623	1.1	28,519	3,685
178	Bureau of Marriage Counselors.....	624	0	11,164	9,845
179-181	Board of Medical Examiners.....	625	30.3	717,436	--
182	Board of Nursing Education and Nurse Registration.....	628	34.6	563,279	--
183	Board of Optometry.....	630	2.8	68,164	105
184	Board of Osteopathic Examiners.....	631	0	13,585	--
185	Board of Pharmacy.....	633	24.2	490,262	29,853
186	Bureau of Private Investigators and Adjusters.....	634	4.2	113,689	--
187	Board of Certified Shorthand Reporters.....	635	1.1	27,603	1,481
188	Board of Social Work Examiners.....	637	2.4	30,458	--
189	Structural Pest Control Board.....	638	22.7	474,175	17,946
190	Board of Examiners in Veterinary Medicine.....	640	0.6	51,952	8,874
191-192	Board of Vocational Nurse Examiners.....	641	12.3	174,599	42,904
193	Yacht and Ship Brokers' Commission.....	644	2.0	25,768	3,112
			739.1	\$8,813,018	

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

Items 160-193

Professional and Vocational Standards

Departmental Administration—Continued

of Operating Units  
and Vocational Standards

Item No.	1966-67 expenditures (estimated)	Emergency authorization (included in expenditures)	1967-68 proposed budget	Percent increase/decrease 1967-68 over 1966-67	Fund condition
160	\$737,898	\$29,528	\$729,722	-1.0	Pro rata
	243,563	--	218,999	-1.0	Pro rata
	483,602	--	484,191	0.1	Pro rata
	1,662,645	--	1,658,772	0	Pro rata
161	381,500	--	378,347	-0.8	Declining
162	174,071	5,000	174,530	0.3	Good
162	182,804	3,639	165,841	-9.2	Gen. Fund
164	380,896	17,919	367,844	-3.4	Good
165	72,644	--	72,928	0.4	Good
166	113,861	--	113,554	-0.3	Good
167	612,823	5,247	615,937	0.5	Good
168	159,740	--	161,582	1.2	Declining
169	2,358,114	67,227	2,364,980	0.3	Declining
170	754,857	50,510	726,271	-3.8	Good
171	192,984	6,958	197,497	2.3	Good
172	349,736	--	348,176	-0.4	Good
173	287,040	16,687	290,774	1.3	Good
174	110,452	2,143	110,976	0.5	Declining
175	670,439	--	643,272	-4.1	Declining
176	2,515	--	2,294	-12.7	Gen. Fund
177	31,040	1,609	31,049	0	Good
178	9,820	--	9,638	-1.9	Good
179-181	1,226,332	--	1,159,433	-5.5	Good
182	655,952	9,714	646,238	1.6	Declining
183	75,672	4,112	73,314	-3.1	Good
184	8,638	--	8,638	0	Good
185	532,693	17,071	531,974	-0.1	Good
186	119,412	--	119,134	-0.2	Good
187	33,320	--	32,906	-1.2	Good
188	34,522	--	33,099	-4.1	Good
189	497,677	12,703	491,370	-1.3	Good
190	56,720	3,079	56,720	0.5	Declining
191-192	235,155	7,010	230,551	-2.0	Good
193	28,885	--	28,496	-1.3	Declining
	<u>\$10,340,314</u>		<u>\$10,187,363</u>	<u>-1.5</u>	



**PUBLIC UTILITIES COMMISSION**

ITEMS 194 and 195 of the Budget Bill

Budget page 646

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

Amount requested in Budget Bill .....		\$10,213,050
Budget request before identified adjustments .....	\$10,513,438	
Increase to recognize full workload change .....	281,968	
		<hr/>
Budget as adjusted for workload change .....	\$10,795,406	
Adjustment—undetailed reduction (10 percent) .....	582,356 *	

**RECOMMENDED REDUCTION FROM WORKLOAD BUDGET** ..... \$265,452

**BALANCE OF UNDETAILED REDUCTION—REVIEW PENDING** ..... \$323,104

**Summary of Recommended Reductions**

	<i>Amount</i>	<i>Budget</i>	
		<i>Page</i>	<i>Line</i>
Delete 24 proposed workload positions .....	\$265,452	646	13

\* Represents 10 percent of \$5,823,558, the General Fund portion of workload budget.

**GENERAL PROGRAM STATEMENT**

The Public Utilities Commission is responsible for the regulation of those private business entities which are defined by law to be public utilities. These business concerns are owned by individuals or shareholders and are operated for profit. Publicly owned public utilities are not subject to commission regulation. The primary purpose of commission regulation is to insure adequate facilities and services for customers at fair and reasonable rates.

In its regulatory and licensing activity the commission deals with the following broad program areas which apply both to utilities and transportation entities.

1. Rate regulation. All rates or rate changes proposed by agencies subject to commission orders must be approved before they may be placed in operation.
2. Provision of facilities and services. All facility and service changes must be reviewed by the commission before they may be undertaken. The commission may initiate investigations on its own motion. General orders are issued to cover service regulations.
3. Licensing and certification. A utility must first secure a certificate of convenience and necessity before it may operate. For-hire permit carriers must secure licenses before they may operate upon public highways.
4. Public safety. The commission may issue orders requiring safety procedures in the operation of utility facilities. Safety requirements extend to railroads and to grade crossings.
5. Utility security issues. The commission determines whether or not utilities are soundly financed before permitting them to issue securities. It also regulates finance and accounting practices of entities subject to its regulation.
6. Enforcement. Compliance with rules and regulations is secured by the commission by requiring reports which are reviewed, and through 15 field offices which observe transport compliance. Noncompliance may

Public Utilities Commission—Continued

result in the imposition of a fine, court action, suspension or revocation of licenses or permits.

7. Just compensation proceedings. Political entities seeking to acquire regulated public utility property and facilities request the commission to make a cost evaluation study of such property. The political entity is required to reimburse the commission for commission costs.

The Public Utilities Commission is established and its responsibilities outlined by Article XII of the State Constitution beginning at Section 17. Its activity is authorized and described by the Public Utilities Code. Most of the laws which it administers are contained in the same code. The five members of the commission are appointed by the Governor for six-year terms. Headquarters is located in San Francisco and a major office is maintained in Los Angeles. The authorized position total is 794.5. The current supporting staff is listed below by operating divisions.

Administrative Division .....	119
Utilities Division .....	172
Finance and Accounts Division .....	49
Transportation Division .....	355.5
Legal Division .....	37
Examiner Division .....	41
Reporting Section .....	25

The Public Utilities Commission has judicial, legislative and administrative powers. It depends upon its large staff for the evaluation of all matters presented to it. If a matter filed with the commission pertains to a utility it will be studied by the Utilities Division. If it pertains to a transportation agency it will be studied by the Transportation Division. Financial aspects of the matter will be analyzed by the Finance and Accounts Division. The Administrative Division is responsible for housekeeping and certain clerical duties, the Examiner Division conducts hearings which are recorded by the Reporting Section, the Legal Division renders advice to the commission and represents the commission in the prosecution of actions in the courts.

Commission workload is measured principally in the following two tables, first by the total number of entities under regulation including both utility and transport companies, and secondly by the number of matters filed and concluded. Included in matters are applications, investigations, complaints, petitions and petitions for rehearing.

Table 1  
Number of Regulated Entities

<i>Fiscal year</i>	<i>Regulated entities except permit carriers</i>	<i>Number of permits in force</i>
1961-62 .....	2,001	21,026
1962-63 .....	1,959	21,502
1963-64 .....	2,084	22,585
1964-65 .....	2,167	22,670
1965-66 .....	2,105	23,309

## Public Utilities Commission—Continued

Table 2  
Number of Filings and Dispositions

<i>Fiscal year</i>	<i>Formal items filed</i>	<i>Decisions and orders issued</i>
1961-62 -----	1,658	1,809
1962-63 -----	1,623	1,996
1963-64 -----	1,952	2,176
1964-65 -----	1,875	2,224
1965-66 -----	1,435	1,900

## ANALYSIS AND RECOMMENDATIONS

Fifty-three percent of the funds requested for the support of the Public Utilities Commission for fiscal year 1967-68 comes from the state's General Fund. The remaining 47 percent comes from the Transportation Rate Fund which consists of one-third of 1 percent of gross revenues of freight carriers except railroads and vessels, a \$4 quarterly filing fee for gross operating reports from all carriers and a miscellany of penalties, application fees for permits and certificates and sales of documents.

The 1967-68 budget proposes a total level of expenditure of \$10,795,406 from the General Fund and the Transportation Rate Fund for the support of the commission. The amount of the proposed budgeted workload from the two funds is shown below.

General Fund -----	\$5,823,558
Transportation Rate Fund -----	4,971,848
<b>Total -----</b>	<b>\$10,795,406</b>

The General Fund figure shown above in the Governor's Budget includes \$281,968 to provide funds for certain workload requirements. Upon application of a 10 percent reduction, the Budget Bill proposes an appropriation of \$5,241,202 from the General Fund. No such reduction has been made in the Transportation Rate Fund request.

We are informed that the \$281,968 General Fund increase to recognize full workload change is made up of the following:

<i>Item</i>	<i>Amount</i>
General Fund portion of 26 positions and related expenses -----	\$154,804
Operating expense not related to the above proposed new positions -----	119,565
Other equipment -----	7,599
<b>Total -----</b>	<b>\$281,968</b>

## New Positions

We have been advised that the workload augmentation includes the following new positions which are listed below since they do not appear in the budget document.

<i>Division</i>	<i>Position</i>
Administrative Division	
San Francisco office -----	1 Associate budget analyst
	1 Intermediate stenographer
	1 Duplicating machine operator
Accounting office	1 Intermediate typist
Los Angeles office	
Supply and reproduction -----	1 Intermediate clerk
Pool -----	1 Intermediate stenographer

Public Utilities Commission—Continued

<i>Division</i>	<i>Position</i>
<b>Utilities Division</b>	
Gas section .....	1 Associate engineer—make permanent
Communication branch .....	1 Intermediate stenographer
Utility customer service .....	2 Assistant utility engineers
Utility customer service .....	1 Intermediate stenographer
<b>Finance and Accounts Division</b>	
Transportation unit .....	1 P.U. financial examiner III
Securities branch .....	1 P.U. financial examiner III
Regulation of accounting .....	2 P.U. financial examiners II
Reports, research and statistics .....	1 Accounting technician II
Stenographic unit .....	2 Intermediate typist-clerks
<b>Transportation Division</b>	
Data bank—extend one year .....	3 Associate rate experts
Rate branch .....	1 Senior clerk
Rate analysis .....	1 Assoc. transportation rate expert
<b>Legal Division</b>	
.....	2 Counsels
.....	1 Senior legal secretary
<b>Total</b> .....	<b>26</b>

These positions are said to be based on workload increases; however, we do not find any substantial increase in commission workload at this time. In fact, one of the main measurements, formal proceedings filed, went down considerably during the past year. Many of the measures used by the commission in justifying its workload are so broad that it is impossible to relate the justification presented with the proposed positions. The following table shows the major workload measures presented by the commission.

	<i>Actual</i> <i>1962-63</i>	<i>Actual</i> <i>1965-66</i>	<i>Projected</i> <i>1966-67</i>	<i>Projected</i> <i>1967-68</i>
Formal proceedings filed.....	1,623	1,435	1,675	1,700
Overall formal documents registered.....	5,354	5,818	6,000	6,500
Decisions and orders issued.....	1,996	1,900	2,000	2,100
Days of formal hearing.....	907	976	1,000	1,000
Regulations adopted.....	1,381	1,566	1,550	1,600
	<i>Actual</i>	<i>Actual</i>	<i>Estimated</i>	<i>Proposed</i>
Public Utilities Commission staff.....	672.4	761.6	784.3	802.0

We have reviewed the workload justification presented by the commission and have attempted to establish a relationship between the existing workload, the projected workload and positions requested. We can again find no meaningful measures to describe the workload being carried out by existing staff. The commission speaks of increasing "regulatory lag." We are not sure what this means when the gross workload measurements used by the commission itself have been relatively static.

The material presented by the commission is highly descriptive of what the duties of the proposed positions would be, but there is no relation made as to the existing workload and existing manpower with the proposed positions and anticipated workload. As an example, two Utility Customer Service Unit engineers are requested on the basis of the following justification:

"The Utility Customer Service Unit requires two assistant engineers, one each for the San Francisco and Los Angeles Units.

## Public Utilities Commission—Continued

These engineers will perform engineering investigations in the office and by field trips to all parts of the state in connection with informal complaints received by the commission from utility customers and others. They will prepare reports and recommend disposition of such complaints, obtain enforcement of Public Utilities Code provisions, commission orders, and filed tariffs. They will also provide information to the public on technical matters relating to complaints and inquiries."

After this type of narrative for all the various positions requested by a division, tables showing man-years spent on a specific function are shown. Following is the data shown for the two engineers mentioned above which was extracted from a table for the whole division.

Title	Man-years				
	Actual 1963-64	Actual 1964-65	Actual 1965-66	Approved budget 1966-67	Budget request 1967-68
Utility Customer Service Unit-----	6.8	7.0	8.4	8.0	10.0

There is no relation between the narrative portion of the justification and the fact that 8.0 man-years are apparently now devoted to this activity and that 10.0 would be devoted to it with the approval of two new positions.

We also question if appropriate review is made of manpower utilization. Again as an example, two senior counsel positions are requested on the basis of the American Telephone and Telegraph Company investigation before the Federal Communications Commission. The commission states that its "best estimate is that it will take 2.5 attorneys full time, i.e., 40 hours per week for 52 weeks. This amounts to 10,400 additional man-hour's work to be done by attorneys."

The commission has recently completed action on one of its most extensive and comprehensive reviews of the rate structure of the Pacific Telephone and Telegraph Company. We have been informed that many thousands of man hours in legal time were necessarily spent on this matter, especially considering the various appeals that were made.

The State of California has an interest in the results of the AT&T investigation particularly as it relates to the setting of interstate rates; however we have been presented no justification to show that this function cannot be handled as a continuing part of the commission's regulatory responsibility over the various communications companies.

The one most recognizable need of the commission is that of assistance in preparation of budget justification, thus the only positions we are recommending for approval are the proposed associate budget analyst and the related stenographer at a total cost of \$16,516.

*On the basis of the reservations expressed above, we recommend a reduction of \$265,452 in the proposed workload increase and the approval of the balance of the workload increase, or \$16,516 for one associate budget analyst and one stenographer.*

*General Fund Revenues.* The commission estimates both for the current and the 1967-68 budget years that it will collect for the General Fund the sums of \$306,200 each year.

## Public Utilities Commission—Continued

*Transportation Rate Fund Condition.* It is estimated that as of July 1, 1967, the Transportation Rate Fund will have an accumulated surplus of \$2,388,653; that revenues amounting to \$4,651,875 will be added to the fund during fiscal year 1967-68. Funds collected will not quite equal proposed budget expenditures for the fiscal year.

## RESOURCES AGENCY

ITEM 196 of the Budget Bill

Budget page 653

FOR SUPPORT OF THE RESOURCES AGENCY  
FROM THE GENERAL FUND

Amount requested in Budget Bill		\$149,454
Budget request before identified adjustments	\$159,958	
Increase to recognize full workload change	6,102	
Budget as adjusted for workload change	\$166,060	
Adjustment—undetailed reduction (10 percent)	16,606	

RECOMMENDED REDUCTION FROM WORKLOAD BUDGET\_\_\_ Unresolved

## GENERAL PROGRAM STATEMENT

The Resources Agency was established by Chapter 2037, Statutes of 1961. Under the direction of the administrator, it provides overall coordination and guidance in behalf of the Governor over the resources programs of the state. Included in the agency are the Departments of Water Resources, Parks and Recreation, Harbors and Watercraft, Conservation, Fish and Game and a number of boards and commissions. The agency is also directly involved in allocating certain federal grant money and in administering a number of new state programs.

## ANALYSIS AND RECOMMENDATIONS

Shown below is the expenditure level for the Resources Agency for the five-year period including next fiscal year.

	Resources Agency—Total Expenditures				
Source of funding	1963-64	1964-65	1965-66	1966-67†	1967-68†
General Fund	\$91,457	\$120,166	\$125,595	\$167,685	\$166,060*
Federal funds	--	--	--	178,000	84,254
Sacramento-San Joaquin Delta Recreation Study	39,715	39,551	35,960	--	--
Total	\$131,172	\$159,717	\$161,555	\$345,685	\$250,314

† Estimated for 1966-67 and 1967-68.

\* Workload budget figure before 10 percent reduction.

From the table above it is evident that the Resources Agency has grown substantially since its organization in 1961. The staff now consists of the administrator, an assistant administrator, a senior planner, a coordinator for federal reports, plus four secretaries. From time to time in the past the administrator has borrowed the services of personnel from the constituent departments without reimbursing the departments. In addition, the assistant director-controller of the Department of Conservation has been used as the agency fiscal officer.