

Military Retirements—Continued

GENERAL PROGRAM STATEMENT

In 1961, Chapter 2174 provided that commencing October 1, 1961, all full-time military employees entering upon their duties for the first time from that date forward would become members of the regular State Employees' Retirement System and could not become eligible under the Military Retirement System. However, those positions already in service would continue under the Military Retirement System but were given the option of joining the State Employees' Retirement System under specified conditions.

ANALYSIS AND RECOMMENDATIONS

There are a total of 56 people eligible for retirement under the Military Retirement Fund. As of June 1970, 26 people will have retired. During fiscal year 1970-71, seven more will be retired. The increased appropriation reflects the additional retirements.

We recommend approval of the item as budgeted.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 147 from the General Fund

Budget page 831

Requested 1970-71 -----	\$6,027,004
Estimated 1969-70 -----	6,096,798
Actual 1968-69 -----	5,492,682
Requested decrease \$69,794 (11.4 percent)	
Total recommended reduction -----	None

SUMMARY OF MAJOR ISSUES

The department's estimate of salary savings appears to be too high.

GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control is responsible for administering statutes regulating the importation, manufacture and sale of alcoholic beverages within the State of California.

The department, a constitutional agency, 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 maintains a northern division office in San Francisco and a southern division office in Pasadena. Each division office supervises 10 district offices located in central cities. Departmental staff is authorized at 446.4 positions, the majority of which are assigned to field duties.

This agency discharges its responsibility through one program, that of administering the Alcoholic Beverage Control Act. This program consists of two elements: (1) licensing and (2) compliance. Each element, together with selected workload data, is described below.

Department of Alcoholic Beverage Control—Continued
Licensing Element

The constitution requires the licensing of premises wherein alcoholic beverages are bought, sold, served or consumed. The department investigates license applicants to be assured that applicants who qualify under the law will be less likely to engage in disorderly or unlawful conduct. Table 1 contains selected workload and input data for the licensing element.

Table 1
Selected Workload and Cost Data, Licensing Element

Detail	Estimated 1969	Calendar year	
		Estimated 1970	Estimated 1971
Total applications -----	14,570	14,750	14,750
Licenses issued -----	12,550	12,550	12,550
Total active licenses -----	47,750	47,775	47,775
	Actual 1968-69	Fiscal year	
		Estimated 1969-70	Estimated 1970-71
Element cost -----	\$2,812,492	\$3,058,299	\$3,083,900
Man-years -----	228.8	232.5	232.5

Compliance Element

The objective of the compliance or "enforcement" element of the department's program is to assure the public that licensees will observe the statutes and rules regulating the alcoholic beverage industry. The department shares law enforcement responsibilities with local police and other law enforcement agencies because many Alcoholic Beverage Control Act violations are offenses punishable in the courts. Table 2 presents element data.

Table 2
Selected Workload and Cost Data, Compliance Element

Detail	Estimated 1969	Calendar year	
		Estimated 1970	Estimated 1971
Accusations filed -----	2,323	2,403	2,403
Arrests (departmental) -----	1,475	1,525	1,525
Arrests (joint) -----	200	210	210
Complaints investigated -----	12,782	13,332	13,332
Hearings held -----	1,560	1,620	1,620
	Actual 1968-69	Fiscal year	
		Estimated 1969-70	Estimated 1970-71
Element cost -----	\$2,729,249	\$3,058,499	\$2,963,104
Man-years -----	197.9	207.9	207.9

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

During fiscal year 1970-71, the department proposes an expenditure of \$6,027,004, which is \$69,794 or 11.4 percent less than the estimated expenditure for the current year. The proposed lower level of expenditure reflects some reduction in operating expense and equipment, but more particularly it is based on an increase in projected salary savings from \$35,732 in the current year to \$134,846 in the budget year. Salaries, wages and staff benefits account for approximately 81 percent of the support cost of this department. Estimates of salary savings represent measurements of money gained from personnel turnover which

Department of Alcoholic Beverage Control—Continued

results in lower salaries, normal retirements and temporary vacancies in authorized positions. A larger savings estimate may represent a "freeze" on filling positions rather than a realistic projection of normal turnover and vacancy factors. We do not believe that salary savings should be increased as a technique to reduce the number of effective positions for reasons other than noted above. Positions not required should be deleted from the budget.

The proposed expenditures for fiscal year 1970-71 will maintain the department at approximately the current level of activity.

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 schedules established by statute. Original license fees and intercounty license transfer fees, for example, are deposited directly into the General Fund. Intracounty transfer fees, license renewal fees, and amounts paid under "offers in compromise" are deposited into 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 401 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 1970-71 will amount to \$6,900,000. This exceeds proposed departmental expenditures by \$872,996.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD**Item 148 from the General Fund****Budget page 834**

Requested 1970-71 -----	\$141,781
Estimated 1969-70 -----	141,128
Actual 1968-69 -----	131,801
Requested increase \$653 (0.5 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

It is the responsibility of the Alcoholic Beverage Control Appeals Board 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, which was established in the State Constitution in 1954, 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 Sacramento, San Francisco, and Los Angeles. Board staff consists of two professional and two clerical positions.

The board's single program consists of providing an intermediate appeals forum between the department and the appellate courts. Since

Alcoholic Beverage Control Appeals Board—Continued

the enactment of a 1967 statute, the board's decisions may now be reviewed upon petition to a court of appeal. Board workload data 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>
1963-64	215	240
1964-65	267	222
1965-66	213	237
1966-67	258	213
1967-68	229	237
1968-69	161	214

Our review indicates that approximately 25 percent of the possible appealable decisions rendered by the department have actually been appealed to the board. Of the 214 decisions rendered by the board in fiscal year 1968-69, 15 reversed department's rulings. The department sought further review of seven of these rulings. Review of 23 decisions was sought by petitioners.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board proposes budget-year expenditures of \$141,781, which is \$653 or 0.5 percent more than estimated expenditures for the current year. Expenditures for operating expenses and equipment are reduced in the budget year, but offsetting increases occur for personal services.

STATE BANKING DEPARTMENT

Item 149 from the General Fund

Budget page 841

Requested 1970-71	-----	\$	0
Total recommended reduction	-----		None

GENERAL PROGRAM STATEMENT

As discussed in our analysis of Budget Item 151, Chapter 1483, Statutes of 1969, established a "local agency security" program under which the Superintendent of Banks is designated 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. Current-year costs of establishing the program are being met by a \$20,000 loan from the Emergency Fund, which is to be reimbursed under statutory procedures. Operating costs for the budget year are estimated at \$73,500.

It has been determined by the Department of Finance, in the absence of direct statutory provision, that the estimated \$73,500 first-year cost reflected in this item is a proper charge against the General Fund rather than the State Banking Fund since the latter fund is derived from assessments levied upon state-regulated banks only. Therefore, in order to comply technically with this requirement, Item 150 provides

State Banking Department—Continued

for a loan from the State Banking Fund as a total reimbursement for the General Fund costs. The effect of this action is to offset totally the financing obligation of the General Fund and the amount appropriated by Item 149 is therefore shown as zero.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This is a one-time financing procedure, since the statute provides a method of reimbursement from the banks for the costs of the program as discussed more fully in our analysis of Item 151.

STATE BANKING DEPARTMENT

Item 150 from the State Banking Fund

Budget page 841

Requested 1970-71 -----	\$73,500
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

This item appropriates \$73,500 from the State Banking Fund as a loan to cover the General Fund cost of the first year's operation of the Local Agency Security Program established by Chapter 1483, Statutes of 1969. This new program is discussed more fully in our analysis of Budget Item 151.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

As stated in the 1970 Budget Bill under Item 150, the \$73,500 appropriation proposed by this item is to be transferred, upon order of the Department of Finance, to and in augmentation of General Fund Item 149. The amount appropriated is a temporary loan and is to be repaid to the Banking Fund upon such terms and conditions as may be prescribed by the Department of Finance. This is a one-time financing procedure, as the statute provides for complete reimbursement of the costs of the program from participating banking institutions.

STATE BANKING DEPARTMENT

Item 151 from the Banking Fund

Budget page 836

Requested 1970-71 -----		\$1,386,034
Estimated 1969-70 -----		1,521,522
Banking Fund -----	\$1,359,647	
General Fund -----	161,875	
Actual 1968-69 -----		1,306,725
Banking Fund -----	1,298,600	
General Fund -----	8,125	
Requested decrease \$135,488 (-8.9 percent)		
Total recommended reduction -----		None

State Banking Department—Continued

GENERAL PROGRAM STATEMENT

The primary mission of the State Banking Department is the protection of the public from economic loss resulting from bank and trust company failures. Programs related to this mission are regulatory in nature. Not all banks in California are regulated by this department, however. Some, by choice, operate under federal authority.

While the law provides for three types of banking institutions in the state—commercial, savings, and trust companies—there are, in fact, no longer any “savings banks” in California. Savings banks, unlike commercial banks, could not provide such banking services as checking accounts or issue unsecured loans.

Regulation of banking in California dates from 1878. The department was established in 1909 and has had continuous existence since that year, although changes in its structure and responsibility have been made from time to time.

The department is administered by the Superintendent of Banks who is appointed by the Governor. Headquarters is in San Francisco and a branch office is maintained in Los Angeles. Authorized staff consists of 83 positions.

The department engages in the following six programs:

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

Licensing and Supervision of Banks and Trust Companies

This program consists of three elements—investigation of applications for new facilities, continuing supervision of existing banking facilities and the continuing supervision of trust activities. Each element is discussed briefly below.

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, and new branches and offices of foreign banking corporations must be approved by the superintendent. Workload and costs of this activity are shown in Table 1.

Table 1
Bank and Trust Company Applications Processed
Output and Input Data

Detail	1968-69	Estimated 1969-70	Estimated 1970-71
New banks -----	15	12	12
New branches -----	76	80	85
New trust facilities -----	3	4	4
Cost -----	\$32,743	\$35,800	\$36,737
Man-years -----	2	2.2	2.2

The other two program elements—continuing supervision of existing banking facilities and continuing supervision of trust activities—in-

State Banking Department—Continued

volve periodic examinations of banks and trust companies. All banks and court-established trusts are examined at least annually and their quarterly reports to the department are reviewed. 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 financial trouble may be placed in liquidation or under the control of a conservator. Table 2 shows workload and cost data for the two elements.

Table 2
Workload and Cost Data, Supervision of Banks and Trust Companies

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
<i>Number of Institutions</i>			
Banks -----	80	82	84
Branches -----	549	600	650
Trust companies -----	7	7	7
Foreign banking corporations -----	22	22	22
<i>Input Data—Bank Supervision</i>			
Costs -----	\$897,589	\$982,021	\$1,007,681
Man-years -----	55.3	60.2	61.1
<i>Input Data—Trust Company Supervision</i>			
Costs -----	\$61,516	\$67,261	\$69,021
Man-years -----	3.8	4.1	4.2

Transmitters of Money Abroad

While most check sellers and cashers (sellers of money orders) are licensed and supervised by the Department of Corporations, money transmitters (sellers of travelers checks) who are not incorporated in California but who engage in interstate and international business from a California location are subject to supervision by the superintendent of banks and are examined periodically by the Banking Department. Costs and workload under this program are shown in Table 3.

Table 3
Regulation of Transmitters of Money Abroad
Output and Input Data

Detail	1968-69	Estimated 1969-70	Estimated 1970-71
Companies supervised -----	4	5	5
Agents licenses ----- (over) 5,000	(over) 5,000	(over) 5,000	(over) 5,000
Costs -----	\$1,400	\$1,500	\$1,500
Man-years -----	0.1	0.1	0.1

Certification of Securities

Prior to World War II, when state regulations governing the issuance of securities were inadequate, restrictive statutes were enacted which governed investment in securities by savings banks. Although "savings" banks no longer exist, many public retirement funds, employee benefit trust accounts and state credit unions are required by law to secure from the superintendent a certificate that securities are legal for investment by savings banks before such institutions may invest in them. The department states that legislation transferring this function

State Banking Department—Continued

to the Department of Corporations will be sought in 1970, since that department is already authorized to supervise the issuance of corporate securities and, therefore, logically could assume the responsibility of certifying that such securities are legal for investment within the requirements which applied to savings banks.

Table 4
Certification of Security Issues

Detail	Output and Input Data		
	1968-69	Estimated 1969-70	Estimated 1970-71
Applications received ----	96	100	100
Issues certified -----	95	95	95
Costs -----	\$1,400	\$1,500	\$1,500
Man-years -----	0.1	0.1	0.1

Small Business Assistance

Chapter 1372, Statutes of 1968, established a pilot program to be administered by the superintendent, the purpose of which was to minimize unemployment in low-income areas through the promotion of small business enterprises and entrepreneurial abilities within such areas. The program was funded for the first year by an appropriation of \$150,000 from the General Fund. This program, according to legislative provision, has been transferred to the California Job Development Law Executive Board and the superintendent's responsibility is now only that of a board member.

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 statute, which will become operative on July 1, 1970, designates the Superintendent of Banks as "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 made by such governmental units. Under the terms of the legislation, the program is to be self-supporting. Normally, in the absence of statutory provision for funds to implement the program pending receipt of program revenues, initial support costs would be advanced on a loan basis from the General Fund. However, it is proposed in this instance that the money be advanced by the State Banking Fund. First-year costs of this program, estimated at \$73,500, will be fully reimbursed by assessments paid by the participating banks, and future costs will be covered by the assessment procedure. The statute provided that preliminary planning and staffing for this program were to be undertaken prior to the operative date of the legislation. A \$20,000 loan for this purpose has been made from the Emergency Fund. Assessments will be collected from participating banks to cover this cost.

To staff the new program, the department proposes five new positions: one deputy administrator, two bank examiners II, one stenographer II, and one clerk-typist II. Although definitive workload criteria for the program have not been developed, it is estimated that 140 banks

State Banking Department—Continued

are presently serving as local agency fund depositories, and that there are more than 600 agency depositors having deposits aggregating about \$3 billion. The proposed staffing level appears reasonable for implementing the program, but it will be subject to reevaluation after the development of workload experience.

Departmental Administration

Executive, administrative, legal, legislative, and information services are included within the departmental administration program. Program input is shown in Table 5.

Table 5

Input Data, Departmental Administration			
Detail	1968-69	Estimated 1969-70	Estimated 1970-71
Costs -----	\$303,952	\$271,565	\$269,595
Man-years -----	18.5	14.2	13.3

ANALYSIS AND RECOMMENDATIONS**Recommendation**

We recommend approval of this item as budgeted.

Analysis

Approximately 82 percent of the budgeted expenditures of this agency is for staff salaries, and the balance is for operating expense and equipment.

The agency's proposed budget of \$1,386,034 is \$135,488 or 8.9 percent less than estimated expenditures for the current year. A portion of the reduced expenditure level proposed for the budget year reflects the transfer of administrative responsibility for the small business assistance program to the Job Development Law Executive Board. The banking agency's current-year budget contains a General Fund appropriation of \$141,875 for this program. Operating expenses and equipment also are budgeted at approximately \$122,000 under the current level.

Expenditures by this agency have increased by a total of approximately 10 percent over the last four fiscal years. Considering that staff salaries have increased during that period by 5 percent annually, departmental expenditures have remained relatively stable, and the budget requested would maintain the agency at its current level of service. As indicated, the staffing proposed for the new Local Agency Security Program appears reasonable and in accordance with proposals made during the time the program was under consideration by the Legislature.

Funding

The programs of the State Banking Department are supported by the State Banking Fund, which consists of assessments paid by banks and trust companies, license and application fees, and other service charges. Budget-year revenues accruing to the fund are estimated to be less than the proposed expenditures, but the fund's accumulated surplus of approximately \$800,000 is ample to cover the apparent deficit.

DEPARTMENT OF CORPORATIONS

Item 152 from the General Fund

Budget page 842

Requested 1970-71 -----	\$3,200,000
Estimated 1969-70 -----	3,098,822
Actual 1968-69 -----	3,026,946

Requested increase \$101,178 (3.3 percent)

Total recommended reduction ----- None

GENERAL PROGRAM STATEMENT

The Department of Corporations is responsible for regulating corporate securities transactions and protecting the public against (1) the promotion of unfair investment schemes and dishonest sales practices and (2) dishonest and unsound business practices by certain regulated companies that lend money or receive it in a fiduciary capacity. State regulation of security sales, undertaken by statute in 1913, was followed by regulation of lender-fiduciary relationships in 1917. The law relating to corporate securities was completely rewritten in 1968.

The department does not have jurisdiction over all types of security transactions. Exempted from departmental supervision are (1) securities issued by public agencies, and (2) securities under the jurisdiction of the federal Securities and Exchange Commission or such state agencies as the Superintendent of Banks, the Insurance Commissioner, the Real Estate Commissioner, the Savings and Loan Commissioner, and the Public Utilities Commission. Numerous other exemptions are specified in the law.

Headquartered in Sacramento, this department is administered by the Commissioner of Corporations, who is appointed by the Governor and serves at his pleasure. Branch offices are maintained in San Francisco, Los Angeles, and San Diego. Authorized staff consists of 295 positions. The department has recently been organized into four divisions: Administration, Corporate Finance, Lender-Fiduciary Laws, and Trading and Markets, as well as an Office of Policy which assists the commissioner in establishing departmental operating policy.

This agency discharges its responsibilities through a securities program, a lender-fiduciary program, and an administration program, each of which is discussed below. The cost of departmental administration is identified separately in the budget document and then distributed to the two functional programs.

Securities Program

The securities program consists of a qualifications element and a regulation and enforcement element. The Corporate Securities Law of 1968 requires that all proposed security issues, except those specifically exempted, must be "qualified" by the corporations commissioner. Upon application for qualification, the commissioner determines whether the proposed plan of business and security issuance is fair, just, and equitable. If he so finds, he allows the proposed issue to become effective, either by issuing a permit or by a process known as

Department of Corporations—Continued

"coordination" or "notification" if the securities are already registered with the federal Securities and Exchange Commission. 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. Prior to 1968, the procedure followed by the commissioner was to issue a permit for the sale of securities if his review found the proposal satisfactory. Since 1968, the number of permits issued has been considerably reduced since many securities are now being qualified under the "coordination" or "notification" procedure.

Workload and costs of this activity are shown in Table 1.

Table 1
Securities Qualification Element, Output and Input Data

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
Permits issued method -----	17,781	7,100	7,100
Coordination method -----	1,197	2,394	2,400
Notification method -----	238	476	600
Notices issued -----	5,875	11,750	12,400
Orders issued -----	10,852	15,254	17,500
Costs -----	\$2,167,133	\$2,168,453	\$2,221,251
Man-years -----	123.8	119.9	119.9

The law requires all security broker-dealers, agents and investment advisers to be licensed by the state. In fulfilling this function, the department reviews the background, business and financial experience, and reputation of applicants for licenses. To ascertain compliance with the Corporate Securities Law, the department also conducts investigations of the business practices of licensees on the basis of alleged or suspected violations of the law and takes corrective action when necessary. Table 2 shows departmental activity under the regulation and enforcement element.

Table 2
Regulation and Enforcement Element, Output and Input Data

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
Licenses issued -----	26,539	30,661	33,750
Enforcement cases -----	1,656	2,048	2,213
Costs -----	\$497,484	\$497,837	\$509,907
Man-years -----	52.5	52.1	52.1

Lender-Fiduciary Program

This program consists of a number of elements, each of which involves the enforcement of one or more regulatory statutes and the licensing of participants thereunder. Applicants for licensing are investigated as to character, experience, and financial responsibility, and the books and records of licensees are examined to determine compliance with the law. Table 3 shows departmental activity under the lender-fiduciary program.

Department of Corporations—Continued

Table 3

Lender-Fiduciary Program, Output and Input Data

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
<i>Check Sellers and Cashers Law</i>			
Licensed locations -----	47	50	51
Investigations -----	44	47	48
Costs -----	\$46,235	\$46,535	\$48,465
Man-years -----	4.7	3.3	3.3
<i>Credit Union Law</i>			
Licensees -----	632	635	640
Investigations -----	455	465	473
Costs -----	\$404,892	\$415,342	\$415,553
Man-years -----	35.2	31.1	31.1
<i>Escrow Law</i>			
Licensed locations -----	535	540	545
Investigations -----	415	430	435
Costs -----	\$192,024	\$192,224	\$197,068
Man-years -----	17.4	14.3	14.3
<i>Industrial Loan Law</i>			
Licensed locations -----	279	290	300
Investigations -----	313	320	330
Costs -----	\$187,003	\$187,153	\$191,896
Man-years -----	15.4	13	13
<i>Personal Property Brokers' Law and Small Loan Law</i>			
Licensees -----	1,928	1,945	1,970
Investigations -----	1,843	1,850	1,860
Costs -----	\$437,183	\$437,233	\$445,978
Man-years -----	28.2	25.4	25.4
<i>Retirement Systems Law</i>			
Licensees -----	697	710	725
Investigations -----	250	265	280
Costs -----	\$111,412	\$111,412	\$113,640
Man-years -----	5.7	4.6	4.6
<i>Trading Stamp Law</i>			
Licensees -----	37	39	45
Costs -----	\$12,585	\$12,633	\$13,888
Man-years -----	1.1	1.1	1.1

The department reports that workload activity relating to the Trading Stamp Law shown in Table 3 involves the handling of approximately 15 complaints per month and the taking of appropriate legal action through the Attorney General's office. Companies experiencing financial difficulties are subject to receivership action by the department.

Administration Program

The administrative program comprises two elements, general office activities and accounting and personnel activities, the costs of which are prorated to the two operating programs. A total of 14 man-years—the same level as for the current and past fiscal years—is proposed for this function in the budget year.

ANALYSIS AND RECOMMENDATIONS

Recommendation

We recommend approval.

**Department of Corporations—Continued
Analysis**

Staff salaries and benefits account for approximately 85 percent of the department's proposed expenditures, the remaining 15 percent representing the cost of operating expenses and equipment.

The department's proposed budget of \$3,200,000 exceeds estimated current-year expenditures by \$101,178 or 3.3 percent. As in the preceding two fiscal years, the department is proposing a further reduction of staff for the budget year, the following 10 positions, representing a payroll savings of \$107,424, are to be eliminated: two corporation counsels II, seven corporation examiners II, and one special investigator. These savings partially offset budget-year increases in such items as rent, merit salary adjustments, and one-time costs for new equipment.

These staff reductions reflect operating efficiencies made possible under the administration of the Corporate Securities Law of 1968. It is the position of the department that protection to the public will not be reduced and that no employee will lose his job by reason of positions eliminated.

SUPPORT FUNDS

Although the Department of Corporations is supported by the General Fund, the revenue which it produces through fees and reimbursements exceed the annual costs of departmental operation as shown in Table 4.

Table 4

Department Revenue and Expenditures

<i>Fiscal year</i>	<i>Revenue</i>	<i>Expenditures</i>
1968-69 (Actual) -----	\$7,158,952	\$3,026,946
1969-70 (Estimated) -----	4,286,789	3,098,822
1970-71 (Estimated) -----	5,246,280	3,200,000

HORSE RACING BOARD

Item 153 from the Fair and Exposition Fund

Budget page 850

Requested 1970-71 -----	\$348,351
Estimated 1969-70 -----	348,351
Actual 1968-69 -----	310,979
Requested increase—None	
Total recommended reduction -----	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

The revised estimate of General Fund revenue from horseracing during 1969-70 is \$6.7 million below last year's budget estimate. This decline is primarily attributable to the labor dispute at the racetracks, which started in December 1969. The General Fund bears the full impact of this revenue loss because the portion of horseracing revenues allocated to other funds is fixed.

Horse Racing Board—Continued

We recommend that all revenues accrue to the General Fund and that fairs and the wildlife restoration activities be budgeted in direct competition with other General Fund supported functions. This will require legislation.

GENERAL PROGRAM STATEMENT

The California Horse Racing Board is established pursuant to Section 19(b), Article IV, of the State Constitution, which authorizes horseracing and wagering thereon. The three-member board is appointed to four-year terms by the Governor. Board members are compensated only for travel expenses. The board's headquarters, located in Los Angeles, has an authorized staff of 23.2 positions. Two mobile offices (one maintained permanently in the northern and one in the southern part of the state) are moved from track to track as the racing season progresses. These offices are staffed by licensing clerks and investigators. The board's main purpose is to ensure that both the public's and the state's interests in horseracing are protected from abuses. To achieve this objective the board has a program composed of three elements: (1) licensing, (2) enforcement, and (3) administration.

Licensing

This program element requires that everyone directly or indirectly connected with horseracing be licensed. These occupational licenses encompass 37 different job classifications, ranging from horse owners to exercise boys.

The occupational license fees were raised effective January 1, 1970. The higher fees are estimated to provide an additional \$100,000 in General Fund revenue during 1969-70 and \$43,000 more in the 1970-71 fiscal year. During the current and budget years, nine man-years will be assigned to this licensing function at a cost of \$156,000 in 1970-71.

Table 1
Horseracing Data

Number of racing days	Actual		Estimated	
	1967-68	1968-69	1969-70	1970-71
Daytime				
Thoroughbred	368	361	373	412
Harness	111	36	-	-
Quarterhorse	51	-	-	-
Fair	98	101	102	107
Night				
Harness	-	83	126	133
Quarterhorse	23	131	134	144
Total racing days.....	651	712	735	796
Occupational licenses				
Number issued	13,857	14,009	14,500	15,000
Fees	\$105,903	\$106,786	\$207,000	\$250,000

The racing associations are also licensed by the board, and daily they collect parimutuel fees (i.e. taxes) which are based on the total wagering handle during the racing meeting. Approximately 85 percent of the handle is returned to winning ticket holders while the remaining 15 percent is divided on an approximately equal basis between the racing associations and the state.

**Horse Racing Board—Continued
Enforcement**

Supervision of racing activities and of all individuals within the racetrack grounds is the responsibility of the board's bureau of investigation. The racing associations across the U.S. maintain active files on persons inimical to horseracing and circulate this information. The associations maintain security personnel in addition to the board's enforcement bureau. These two groups cooperate with state and local enforcement agencies to identify undesirable patrons. Racing stewards (appointed by the board) have the power to suspend occupational licenses for violation of the board's rules. The licensee can appeal the steward's decision to the board. If the board denies the appeal, the licensee may take his appeal to the civil courts. A licensee may not participate in horseracing in another state if his license is suspended or revoked in California. Table 2 shows that there were 38 licensee appeals to the board during 1968-69. The board allocates nine man-years and about \$156,000 to its enforcement activities.

Table 2
Selected Enforcement Statistics, Horse Racing Board

	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Estimated</i> 1970-71
Ejected patron hearings-----	53	58	63
License penalty hearings-----	38	43	45

Administration

The board's administrative and business service activities encompass the usual responsibilities of policy and control. Seven man-years are allocated to this program element.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The board requests no increase in budgetary support during 1970-71. To maintain the existing expenditure level in the face of increased salary costs, the board had to reduce its operating expenses by 4.2 percent in the budget year.

The total revenues collected by the board, from both parimutuel and other fees, are shown in Table 3. The General Fund portion of horse-racing revenues during 1969-70 has been reduced by \$6.7 million from last year's budget estimate, primarily as a result of the labor dispute at the tracks which started in December 1969. The General Fund bears the adverse revenue effect of this labor dispute because it receives the residue after deducting fixed allocations to the Fair and Exposition and Wildlife Restoration Funds. As a result, any decline in total revenues during the current fiscal year are deductions in the General Fund portion.

We recommend that legislation be enacted to deposit all horseracing revenues in the General Fund and that fairs and wildlife restoration activities become part of the General Fund budget.

Horse Racing Board—Continued

Table 3
Distribution of Horseracing Revenue
(In thousands)

<i>Receiving Fund</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
General Fund	\$50,319	\$47,000	\$59,571
Fair and Exposition Fund	8,474	8,045	8,241
Wildlife Restoration Fund	750	750	750
State Fair Fund	339	0	0
Total Revenue	\$59,882	\$55,800	\$68,400

DEPARTMENT OF INSURANCE

Item 154 from the General Fund

Budget page 854

Requested 1970-71	\$4,105,096
Estimated 1969-70	4,408,181
Actual 1968-69 (General Fund and Insurance Fund)	3,847,068
Requested decrease \$303,085 (6.9 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES

1. We believe that the projected level of salary savings may be too high.

2. Substantial increase in level of reimbursements requires more complete explanation.

GENERAL PROGRAM STATEMENT

Insurance is the only interstate business wholly regulated by the several states rather than by the federal government. As a California industry, its worth is estimated at \$6.25 billion. For purposes of this analysis, we have selected illustrative workload statistics from data supplied by the department. Programs will be discussed only to a limited extent because the budget document provides detailed treatment of them.

The Department of Insurance has two major responsibilities: (1) the licensing and regulation of 900 insurance companies and 125,000 insurance producers (agents and brokers) authorized to do business in California and (2) the collection of taxes and fees assessed by the state upon the insurance industry. Premium taxes collected from companies on 1967 income amounted to \$111 million. Surplus line broker taxes amounted to \$725,000. Fees paid by the industry for departmental services exceed \$4 million annually.

The department is administered by the Commissioner of Insurance, who is appointed by the Governor with the consent of the Senate for a term of four years coextensive with the term of the Governor. Headquarters is in San Francisco with branch offices located in Los Angeles, San Diego and Sacramento. Currently authorized staff consists of 307.5 positions. A departmental proposal to reduce staff by 13 authorized

Department of Insurance—Continued

positions is discussed later in this analysis. Wages and salaries account for 85.5 percent of the department's support cost.

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. The present department, which was established in 1941, administers three programs: (1) regulation of insurance companies, (2) regulation of insurance producers (agents and brokers), and (3) administration. The costs of the administration program are prorated to the two operating programs.

Regulation of Insurance Companies Program

The objectives of this program are the prevention of losses to policyholders, beneficiaries or the public resulting from the insolvency of insurers and the prevention of unlawful or unfair business practices as defined in the statutes. The program consists of the following 10 elements or activities.

1. Field examination
2. Regulation of property and casualty insurance rates
3. Solvency surveillances
4. Tax collection and audit
5. Regulation of proxy solicitations and "insider trader" filings
6. Conservation and liquidation
7. Preadmission ("admission" grants authority to do business within California)
8. Postadmission
9. Approval of policy forms
10. Policy complaints

Table 1 contains selected workload data for each element, including estimated cost and the number of man-years of staff time.

Table 1
Regulation of Insurance Companies—
Selected Workload and Cost Data by Program Element

<i>Element</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
1. Field examination			
Examinations -----	83	171	169
Expenditures -----	\$854,636	\$1,087,571	\$958,414
Man-years -----	45	47	42
2. Regulations of property and casualty insurance rates			
Output cannot be measured quantitatively			
Expenditures -----	\$290,474	\$354,736	\$334,942
Man-years -----	17	18.5	16.3
3. Solvency surveillance			
Companies under surveillance	131	130	130
Corrective actions -----	37	45	40
Expenditures -----	\$251,844	\$288,701	\$288,701
Man-years -----	14	15.2	16.3

Department of Insurance—Continued

Table 1
Regulation of Insurance Companies—
Selected Workload and Cost Data by Program Element

<i>Element</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
4. <i>Tax collection and audit</i>			
Taxes collected (millions) ---	\$120	\$125	\$130
Expenditures -----	\$148,775	\$172,322	\$172,322
Man-years -----	8.4	8.9	8.9
5. <i>Regulation of proxy solicitations, etc.</i>			
Solicitations approved -----	38	33	29
Expenditures -----	\$8,137	\$8,543	\$8,641
Man-years -----	0.5	0.5	0.5
6. <i>Conservation and liquidation</i>			
Under certain circumstances commissioner may seize a company; costs are reim- bursed from estate			
Expenditures -----	\$59,412	\$59,550	\$60,352
Man-years -----	3.3	4	4
7. <i>Preadmission</i>			
Certificates issued or denied---	68	71	75
Expenditures -----	\$100,430	\$133,466	\$134,604
Man-years -----	6	7.6	6.6
8. <i>Postadmission</i>			
Stock permits -----	82	84	87
Mergers, etc. -----	88	89	91
Disciplinary action -----	69	70	70
Expenditures -----	\$292,881	\$375,878	\$361,478
Man-years -----	17	16	15
9. <i>Approval of policy forms</i>			
Policies processed -----	6,810	6,845	6,890
Expenditures -----	\$130,448	\$135,120	\$118,688
Man-years -----	11	10.5	9
10. <i>Policy complaints</i>			
Complaints -----	12,428	13,828	15,520
Inquiries -----	28,580	30,930	33,780
Expenditures -----	\$508,416	\$546,541	\$546,541
Man-years -----	29	26.3	26.3

Regulation of Insurance Producers Program

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 agents and brokers. The program consists of the following four elements:

1. License issuance
2. Producer examination
3. Disciplinary proceedings
4. Producer investigations

Table 2 shows selected workload data for each element plus the estimated cost and man-years of staff time applied to the particular element.

Department of Insurance—Continued

Table 2
Regulation of Insurance Producers—
Selected Workload and Costs Data by Program Element

<i>Element</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
1. License issuance (All licenses are renewed biennially)			
Licenses issued -----	37,488	38,612	39,770
Licenses renewed -----	57,935	53,367	61,411
Expenditures -----	\$414,849	\$418,453	\$422,135
Man-years -----	35.4	35.5	33.2
2. Producer examination			
Examined -----	21,413	23,554	26,144
Passed -----	12,838	13,608	14,560
Expenditures -----	\$196,879	\$204,800	\$207,100
Man-years -----	14	14	13.5
3. Disciplinary proceedings			
Disciplinary actions -----	507	526	544
Expenditures -----	\$161,586	\$179,000	\$180,200
Man-years -----	9.9	10	10.4
4. Producer investigation			
Investigation of producers -----	5,497	5,562	5,612
Application screening -----	6,048	6,352	6,564
Expenditures -----	\$472,984	\$493,500	\$496,300
Man-years -----	34	34	33

Administration Program

The objective of this program is to direct, coordinate, and provide common services for the agency's two operating programs to which administrative costs are prorated. These costs and man-years of time are as follows for the years indicated.

	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Expenditures -----	\$746,392	\$869,292	\$868,543
Man-years -----	45.8	51.9	50.9

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department's proposed budget-year expenditure of \$4,105,096 is \$303,085 or 6.9 percent less than for the current year. This reduction results from the following:

1. Elimination of 13 positions for a payroll savings of \$146,000. These include one clerk II, one insurance rate analyst II, seven insurance examiners II, two assistant counsels, and two insurance officers II. The department advises that elimination of these positions may result in some layoffs. There are presently 19 vacancies in the department's staff, but these vacancies are largely in the field examiner category. The department does not propose to achieve its staff reductions by eliminating these vacant positions because the positions are needed for regulating activities and efforts are being made to fill them.

2. Salary savings are increased from an estimated \$23,351 in the current year to a projected \$101,943 in the budget year, which level the department agrees will be difficult to achieve. It does not appear

Department of Insurance—Continued

that the proposed level of salary savings is realistic on the basis of prior operating experience.

3. Operating and equipment expense requests have been reduced slightly under estimated costs for the current year.

4. Reimbursements resulting from changes in field examination activities are scheduled at \$185,322 for the budget year in contrast to an estimated \$50,000 for the current year. The department states that the budget year estimate is a "more realistic" amount, but we are aware of no program changes or workload trends which would tend to substantiate the higher estimate.

The department notes that the reduction in expenditures proposed for the budget year may result in some reduction in departmental services.

Support Funds

The effect of Chapter 549, Statutes of 1968, was to shift the support of the department from the Insurance Fund to the state's General Fund. Fees and revenues received by the department are still deposited in the Insurance Fund, but the balances in this fund are now transferred to the General Fund upon order of the State Controller. Legislation in recent years has revised the schedule of fees which are assessable by the commissioner for services rendered by the department. The department estimates that fee and other revenues for fiscal year 1970-71 will amount to \$4,400,000, which will more than offset the department's support request from the General Fund. However, the department will require additional financial assistance from the General Fund if the proposed levels of salary savings and reimbursements are not realized.

RIOT AND CIVIL DISORDERS INSURANCE**Item 155 from the General Fund****Budget page 866**

Requested 1970-71	\$1,600,000
Estimated 1969-70	1,500,000
Actual 1968-69	--
Requested increase \$100,000 (6.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Riots and civil commotions in American cities, including cities in California, have brought such high losses to insurance companies that they no longer provide adequate property insurance coverage against fire, crime and other perils at a reasonable cost to owners of residential, business and other private property situated in many innercity areas. The high cost of premiums or the inability to purchase insurance in such situations results from the lack of a reinsurance facility for insurance companies. As a solution to this problem, the federal govern-

Riot and Civil Disorders Insurance—Continued

ment in 1968 established a program to reinsure companies writing insurance policies involving a potential loss from riots. Under this program, participating insurance companies buy reinsurance policies from the federal Secretary of Housing and Urban Development pursuant to a required state program. If losses occur, the companies pay off their agreed share of the loss and the federal government pays added reinsured loss, if any. When federal reinsured loss payments exceed premiums collected for reinsurance, the state must agree to make up the difference up to the limit of 5 percent of the aggregate earned property insurance premiums for the preceding year. The potential liability of the state could reach approximately \$30 million under the program in a given year since aggregate premiums collected for 1968 amounted to \$578,232,000.

Chapter 649, Statutes of 1969, established the required state program enabling insurance companies in California to participate in federal reinsurance protection. The chapter appropriated \$1,500,000 from the General Fund to the Insurance Commissioner to cover potential state repayment obligations and provided for supervision of the program by the Insurance Commissioner.

Provision was made for the organization of the California Riot and Civil Disorder Association as a self-supporting agency composed of insurance companies to operate the program authorized by the chapter. The Insurance Commissioner was authorized to contract with the Secretary of Housing and Urban Development and with the Riot and Civil Disorder Association to carry out the purposes of the chapter. A contract is now being negotiated.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The amount requested in the 1970-71 budget for this item exceeds the appropriation for the current year by \$100,000 or 6.7 percent. To date, none of the money appropriated for the current year has been expended.

This program imposes a potential burden on the General Fund. However, where citizens are unable to secure adequate insurance at reasonable rates in city areas where a riot potential exists it can result in further deterioration of these city areas and a mounting economic loss to the state.

The program, although potentially costly to the state, provides for insurance coverage against riot and civil disorder losses under a "sharing" method which involves the property owner, the insurance company, the federal government, and the state. No state staffing is proposed for this program.

BOARD OF PILOT COMMISSIONERS FOR THE HARBOR OF SAN DIEGO

Item 156 from the General Fund

Budget page 867

Requested 1970-71	\$700
Estimated 1969-70	1,200
Actual 1968-69	1,250
Requested decrease \$500 (41.6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Board of Pilot Commissioners for the Harbor of San Diego is responsible for the licensing and regulation of pilots who serve vessels operating on San Diego Bay. It also has the function of setting pilotage rates for San Diego harbor traffic and keeping pilot records as required by law. While the law permits six licensed pilots for this harbor, only four licensed pilots are currently active.

The board is composed of three members appointed by the Governor to serve at his pleasure for terms not exceeding four years. Membership on the board consists of the Mayor of San Diego, who is ex officio, one nautical person and one resident of the City of San Diego.

Reorganization Plan No. 1 of 1969, eliminated state support for this board effective January 1, 1971, on the basis that the function is one which is more properly performed at the local level.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This agency's proposed expenditure of \$700 for fiscal year 1970-71 is \$500 or 41.6 percent less than that estimated for the current year. The reduction reflects the fact that the agency will receive state support (General Fund) for only half of fiscal year 1970-71. Revenue to the General Fund for the restricted period is estimated at \$3,500 as compared to an estimate of \$7,000 for the current year. This revenue is derived from fees collected from pilots licensed by the board. Somewhat similar boards at San Francisco and Eureka are also being eliminated as state government agencies by the reorganization plan. The latter two boards, being supported by special funds, are not General Fund agencies.

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

**Item 157 from the Pilot Commissioners'
Special Fund**

Budget page 868

Requested 1970-71 -----	\$15,000
Estimated 1969-70 -----	28,402
Actual 1968-69 -----	30,685
Requested decrease \$13,402 (47 percent)	
Total recommended reduction -----	None

GENERAL PROGRAM STATEMENT

Bar pilots were the first occupational group to be licensed by the State of California (1850). The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun was created for the purpose of licensing qualified persons to pilot vessels on these bays in the interest of protecting passengers, ship's crew and property. The number of licensees is presently limited to 28 (up from 25) by legislation enacted in 1968.

The board consists of three members appointed by the Governor. They draw part-time salaries of \$300 a month. The board's office is in San Francisco, and its authorized staff consists of a full-time secretary.

The board administers a single program consisting of the licensing and regulation of bar pilots. It conducts examinations and acts on disciplinary complaints. It also provides staff services to the Pilotage Rate Committee, a body established in 1961 to prepare recommendations on pilotage rates for submission to the Legislature. This committee is composed of five members appointed by the Governor, two representing the pilots, two the shipping industry and one representing the public. The public member draws a \$50 per diem when meeting and receives travel expenses.

ANALYSIS AND RECOMMENDATIONS

The Governor's Reorganization Plan No. 1 of 1969 provided that the board's function as a state agency would be abolished effective January 1, 1971, and its responsibility transferred to the local governmental level. The board's budget request therefore covers only the first-half of fiscal year 1970-71. Requested for expenditure during that period is the sum of \$15,000, which is \$13,402 or 47 percent less than estimated expenditures for the current year. Sixty-seven percent of the cost of operation of the board is for salaries and per diems.

Support Funds

The board is supported by the Pilot Commissioners' Special Fund, which is derived from a percentage assessment on fees collected by the pilots. The assessments are established at a level adequate to cover board costs. Bar pilots maintain their own association and their own pilot ships. They collect fees from the ships they serve, and the fees are deposited in a common treasury from which their salaries and expenses are paid.

BOARD OF HARBOR COMMISSIONERS FOR HUMBOLDT BAY

Item 158 from the General Fund

Budget page 870

Requested 1970-71	\$1,500
Estimated 1969-70	3,087
Actual 1968-69	2,940
Requested decrease \$1,587 (51 percent)	
Total Recommended Reduction	\$1,500

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Delete item for a savings of \$1,500.

GENERAL PROGRAM STATEMENT

Several years ago, the Board of Harbor Commissioners for Humboldt Bay was established to insure that the Corps of Engineers, U.S. Army maintains the harbor standards adopted in 1953 and to substantiate and justify the need for improvements in the harbor.

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

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

ANALYSIS AND RECOMMENDATIONS

Effective January 1, 1971, the Board of Harbor Commissioners for Humboldt Bay is terminated as a state entity with the intention that its functions be performed at the local level in accordance with the Governor's Reorganization Plan No. 1 of 1969. The requested appropriation is for the six-month period from July 1, 1970 to January 1, 1971.

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

We recommend that the item for support of the Board of Harbor Commissioners for Humboldt Bay be deleted for a savings of \$1,500.

DEPARTMENT OF PROFESSIONAL AND VOCATIONAL STANDARDS

Items 159 through 192 from various funds

Budget page 871

Requested 1970-71 -----	\$14,157,249
Estimated 1969-70 -----	14,650,045
Actual 1968-69 -----	13,363,469
Requested decrease \$492,796 (3.3 percent)	
Total recommended reduction -----	\$65,796

SUMMARY OF MAJOR RECOMMENDATIONS*Analysis
page.*

1. We recommend approval of the budget item for the Bureau of Furniture and Bedding Inspection in the reduced amount of \$358,920 for a saving of \$65,796. 756

2. We renew our recommendation that the Board of Guide Dogs for the Blind be transferred (by statutory enactment) to the Department of Rehabilitation. 757

GENERAL PROGRAM STATEMENT

The Department of Professional and Vocational Standards consists of assorted boards and bureaus, a commission and an "office," each of which administers one or more acts regulating an occupation, profession or business or provides a "consumer" type of service to the general public. While each constituent agency maintains a semi-independent status, the departmental administration division provides such centralized services as accounting, budgeting, personnel management, internal auditing and legal assistance. The departmental division of investigation provides investigative and inspection services for most of the department's constituent agencies. Electronic data-processing services, formerly provided by the department, are now obtained under contract from the Board of Equalization. The state building in which the Sacramento offices of the constituent agencies are housed is managed at the departmental level. Branch offices of the department are maintained in San Francisco and Los Angeles.

The department was established in 1929 for the purpose of placing many of the state's regulatory bodies under the administrative direction of one agency. The department is headed by a director appointed by the Governor and serving at his pleasure. Subject to such authority as is conferred upon the director by specific statute, each constituent agency conducts its own program. The departmental staff, as distinguished from individual agency personnel, is currently authorized at 234.5 positions. Personnel reductions proposed for departmental administration in the budget year will result in a staffing level of 183.5 positions. This reflects the transfer of nine electronic data-processing positions to the Board of Equalization, the elimination of six vacant investigator positions, and a higher projected level of salary savings.

Department of Professional and Vocational Standards—Continued

In conformity with program budget requirements, the department has arranged its constituent agencies in the following functionally related program groups:

1. Healing Arts
2. Fiduciary
3. Design and Construction
4. Business and Sanitation
5. Consumer Affairs

To this group of programs is added the administration program, the cost of which is distributed to the above programs. Under each program, the activity of each constituent agency is identified as a "program element."

Each program element or individual agency (except the Office of Consumer Counsel) has as its objective the regulation of an occupational group for the purpose of protecting the general public against fraudulent practices and incompetence. Each agency seeks to accomplish its objective through two related types of activity—licensing and compliance. Licensing may involve a variety of activities such as the establishment of curricula, school accreditation, and required experience periods; examination, issuance and renewal of licenses and certificates; or a registration procedure. Compliance is composed of procedures to insure that licensees obey laws, rules and regulations governing specific business and professional conduct. Compliance activity includes inspections, investigations, administrative hearings for the supervision or revocation of licenses, and court proceedings where the act being administered so provides.

New Consumer Affairs Program

A Division of Consumer Affairs was established within the department during the current year by the Governor. This new division is comprised of the Office of Consumer Counsel and the following existing bureaus:

1. Collection Agency Licensing Bureau
2. Bureau of Electronic Repair Dealer Registration
3. Bureau of Employment Agencies
4. Bureau of Furniture and Bedding Inspection
5. Bureau of Private Investigators and Adjusters

The department states that the Office of Consumer Counsel will continue to perform its statutory duties of advising the Governor and the Legislature on consumer matters and that it will become a "complaint desk" for the new division. The five bureaus are operated by five assistant bureau chiefs. At the next higher administrative level, three of the five bureaus are headed by one chief who serves also as chief of the new division. The two remaining bureaus are headed by one chief who serves as assistant chief of the new division. The budget document states that the objective of the new program is "to afford better consumer protection through increased communication, research, investigation and personnel utilization concentrated on that major goal."

Department of Professional and Vocational Standards—Continued

ANALYSIS AND RECOMMENDATIONS

Except as may be indicated otherwise in the separate treatment of each of the budget items within this department, we recommend approval of each item as budgeted.

The net total budget request for the administrative costs of the department and its constituent agencies for fiscal year 1970-71 is \$14,157,249, which is \$492,796 or 3.3 percent less than estimated net total expenditures for the current year. Reimbursements, estimated at \$170,196, produce a total proposed expenditure program of \$14,327,445. The Design and Construction and Consumer Affairs programs propose a slight increase over current-year estimated expenditures, while the other programs show a slight reduction. The cost of departmental administration is reduced as a result of the personnel transfers and reductions mentioned previously. Twenty-three of the department's constituent agencies propose a reduction from current-year estimated expenditures in their budget requests. Eight agencies are requesting budgets which exceed their estimated current-year expenditures. The request for the Office of Consumer Counsel proposes a 15 percent increase over current estimated expenditures for operating expense and equipment. Two agencies propose a slight increase in personnel man-years in their budget requests, seven show a slight reduction and 22 make no change. The workload characteristics of these agencies primarily reflect statutory requirements and state growth.

Support Fund

Three of the department's agencies (Athletic Commission, the Board of Guide Dogs for the Blind, and Office of Consumer Counsel) are supported from the General Fund. Each of the remaining agencies is supported from a special fund. The second page reference in the following agency summaries refers to the page of the budget document where the condition of the special fund is reported. The departmental costs are charged to a special fund which is composed of pro rata contributions from the constituent agency budgets.

Selected statistics and summaries of 1970-71 budget requests (excluding reimbursements) follow.

Departmental Administration**Item 159 (Special Fund)****Budget pages 908 and 910**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Cost -----	\$3,348,047	\$3,549,516	\$3,303,451
Positions -----	208.8	201.5	183.5

Board of Accountancy**Item 160 (Special Fund)****Budget pages 885 and 912**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenses -----	26,295	26,300	26,300
Costs -----	\$320,438	\$366,049	\$330,474
Man-years -----	12.9	12.9	12.9

Professional and Vocational Standards

Items 159-192

Department of Professional and Vocational Standards—Continued

Board of Architectural Examiners

Item 161 (Special Fund)

Budget pages 888 and 913

<i>Detail</i>	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Proposed</i> 1970-71
Licenseses -----	6,834	7,050	7,378
Cost -----	\$114,438	\$149,879	\$144,977
Man-years -----	5.6	6.7	6.4

Athletic Commission

Item 162 General Fund

Budget pages 894 and 914

<i>Detail</i>	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Proposed</i> 1970-71
Licenseses -----	1,470	1,500	1,500
Cost -----	\$137,371	\$184,012	\$162,230
Man-years -----	9.2	11.3	10.4

Board of Barber Examiners

Item 163 (Special Fund)

Budget pages 895 and 915

<i>Detail</i>	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Proposed</i> 1970-71
Licenseses -----	41,975	43,075	44,000
Cost -----	\$442,681	\$486,765	\$405,637
Man-years -----	11.4	11.5	11.2

The proposed reduced expenditure level is attributable primarily to lower operating costs resulting from revised procedures in the apprentice program and a reduced level of on-premise inspections.

Cemetery Board

Item 164 (Special Fund)

Budget pages 886 and 916

<i>Detail</i>	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Proposed</i> 1970-71
Licenseses -----	1,718	1,720	1,740
Cost -----	\$70,995	\$78,802	\$77,905
Man-years -----	4.4	4.4	4.4

Board of Chiropractic Examiners

Item 165 (Special Fund)

Budget pages 874 and 917

<i>Detail</i>	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Proposed</i> 1970-71
Licenseses -----	4,408	4,450	4,475
Cost -----	\$101,084	\$109,775	\$99,798
Man-years -----	3.4	3.2	3.2

Collection Agency Licensing Bureau

Item 166 (Special Fund)

Budget pages 900 and 918

<i>Detail</i>	<i>Actual</i> 1968-69	<i>Estimated</i> 1969-70	<i>Proposed</i> 1970-71
Licenseses -----	944	900	910
Cost -----	\$162,107	\$218,534	\$178,712
Man-years -----	8.1	9.2	9.2

Items 159-192**Professional and Vocational Standards****Department of Professional and Vocational Standards—Continued
Office of Consumer Counsel****Item 167 General Fund****Budget pages 907 and 919**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Cost -----	\$38,386	\$37,971	\$43,699
Man-years -----	2	2.1	2.1

The budget request for this office reflects increases for travel and other operating expenses resulting from the administration's expanded consumers affairs program.

Contractors' State License Board**Item 168 (Special Fund)****Budget pages 888 and 920**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	94,138	83,000	90,000
Cost -----	\$2,832,551	\$2,603,754	\$2,693,284
Man-years -----	150.2	156.5	156.5

Legislation enacted in 1965 relating to the Home Improvement Act, the regulation of swimming pool contractors, house painting standards, and the regulation of mobilehome construction increased the workload of this agency and is reflected in higher operating expenses.

Board of Cosmetology**Item 169 (Special Fund)****Budget pages 896 and 921**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	154,576	169,000	179,000
Cost -----	\$828,244	\$833,301	\$867,198
Man-years -----	29.9	28.8	30.8

The proposed budgetary and personnel increases are attributable to increases in the number of individuals licensed by this agency. This board now serves the largest number of licensees regulated by any agency in the department.

Board of Dental Examiners**Item 170 (Special Fund)****Budget pages 875 and 922**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	17,988	19,256	20,566
Cost -----	\$208,316	\$233,911	\$227,331
Man-years -----	6.3	7.1	7.1

Board of Dry Cleaners**Item 171 (Special Fund)****Budget pages 896 and 923**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	19,043	19,500	19,500
Cost -----	\$285,950	\$351,765	\$286,611
Man-years -----	9	8.6	8.6
Fire Marshal support -----	\$118,800	\$123,480	\$123,120

Professional and Vocational Standards**Items 159-192****Department of Professional and Vocational Standards—Continued
Bureau of Electronic Repair Dealer Registration****Item 172 (Special Fund)****Budget pages 902 and 924**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	5,800	6,000	5,900
Cost -----	\$222,472	\$280,949	\$255,535
Man-years -----	9.3	9.2	9.2

Bureau of Employment Agencies**Item 173 (Special Fund)****Budget pages 903 and 925**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	1,825	1,720	1,800
Cost -----	\$144,056	\$166,401	\$171,979
Man-years -----	4.3	5.2	5.2

This agency was established in the department in 1968. Its requested budget represents the operational cost of workload which is becoming stabilized.

Board of Funeral Directors and Embalmers**Item 174 (Special Fund)****Budget pages 897 and 926**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	4,600	4,625	4,670
Cost -----	\$99,511	\$113,558	\$103,382
Man-years -----	5.9	6.5	6.5

Bureau of Furniture and Bedding Inspection**Item 175 (Special Fund)****Budget pages 905 and 927**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	20,312	21,400	22,000
Cost -----	\$369,291	\$341,830	\$424,716
Man-years -----	14.5	14.6	14.6

Each year since 1967-68, the Legislature has expressed its intention that this agency should operate at a reduced level of activity and has accordingly reduced its requested appropriation. Last year the Legislature reduced the requested appropriation of \$467,214 to \$333,607. *In accordance with the previously expressed legislative intent, we recommend approval of this item in the reduced amount of \$358,920 for a saving of \$65,796. The reduced amount will permit the bureau to maintain its currently authorized level of service.*

Board of Registration for Geologists**Item 176 (Special Fund)****Budget pages 890 and 928**

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licenseses -----	—	2,200	2,800
Cost -----	\$14,153	\$56,618	\$38,098
Man-years -----	—	2.1	2.1

This board and its supporting special fund were created by Chapter 942, Statutes of 1968.

Items 159-192

Professional and Vocational Standards

Department of Professional and Vocational Standards—Continued

State Board of Guide Dogs for the Blind

Item 177 General Fund

Budget pages 876 and 928

Detail	Actual 1968-69	Estimated 1969-70	Proposed 1970-71
Licenseses -----	18	18	18
Cost -----	\$996	\$2,783	\$2,631
Man-years -----	—	0.1	0.1

We renew our recommendation for statutory transfer of this board to the Department of Rehabilitation. Last year we recommended that this board be transferred to the Department of Rehabilitation because that department provides clerical services for the board and maintains programs for the blind which are logically related to the functions of the board.

The Budget Act of 1969 transferred the board's appropriation to the Department of Rehabilitation, but an Attorney General's opinion has held that statutory authority to administer the program remains with the Department of Professional and Vocational Standards until legislation is passed transferring both the statutory authority and the appropriation.

Board of Landscape Architects

Item 178 (Special Fund)

Budget pages 890 and 929

Detail	Actual 1968-69	Estimated 1969-70	Proposed 1970-71
Licenseses -----	818	850	875
Cost -----	\$34,261	\$40,670	\$39,184
Man-years -----	1.3	1.0	1.0

Board of Medical Examiners

Items 179 and 180 (two Special Funds)

Budget pages 877 and 930

Detail	Actual 1968-69	Estimated 1969-70	Proposed 1970-71
Licenseses -----	65,664	72,397	77,572
Cost -----	\$1,000,278	\$1,075,597	\$1,053,452
Man-years -----	24.7	27.7	26.8

Board of Nursing Education and Nurse Registration

Item 181 (Special Fund)

Budget pages 878 and 933

Detail	Actual 1968-69	Estimated 1969-70	Proposed 1970-71
Licenseses -----	139,354	146,000	148,000
Cost -----	\$623,472	\$709,420	\$666,205
Man-years -----	29.2	31.3	28.3

Board of Optometry

Item 182 (Special Fund)

Budget pages 879 and 934

Detail	Actual 1968-69	Estimated 1969-70	Proposed 1970-71
Licenseses -----	3,174	3,253	3,410
Cost -----	\$71,214	\$82,476	\$72,169
Man-years -----	2.8	2.9	3

Professional and Vocational Standards

Items 159-192

Department of Professional and Vocational Standards—Continued

Board of Osteopathic Examiners

Item 183 (Special Fund)

Budget pages 880 and 935

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licensees -----	347	373	348
Cost -----	\$12,494	\$12,150	\$15,375
Man-years -----	Staff services provided by contract with Board of Medical Examiners		

The proposed increase results from costs of litigation and an increase in board per diems from \$10 to \$25 per day.

Board of Pharmacy

Item 184 (Special Fund)

Budget pages 881 and 936

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licensees -----	22,226	23,000	23,200
Cost -----	\$603,618	\$674,634	\$665,365
Man-years -----	23.4	25.2	25.2

Bureau of Private Investigators and Adjusters

Item 185 (Special Fund)

Budget pages 906 and 937

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licensees -----	2,064	2,400	2,700
Cost -----	\$118,015	\$121,256	\$105,159
Man-years -----	4.2	4.2	4.2

Board of Registration for Professional Engineers

Item 186 (Special Fund)

Budget pages 891 and 938

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licensees -----	53,288	56,500	57,000
Cost -----	\$650,064	\$704,448	\$699,768
Man-years -----	42.5	42.4	39.4

Certified Shorthand Reporters Board

Item 187 (Special Fund)

Budget pages 898 and 939

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licensees -----	1,393	1,500	1,600
Cost -----	\$34,680	\$36,623	\$36,758
Man-years -----	1.5	1.2	1.2

Social Worker and Marriage Counselor Qualifications Board

Item 188 (Special Fund)

Budget pages 881 and 940

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Proposed 1970-71</i>
Licensees -----	6,300	9,350	9,800
Cost -----	\$63,137	\$70,281	\$63,930
Man-years -----	3	3.5	3.5

Items 193-194**Professional and Vocational Standards****Department of Professional and Vocational Standards—Continued**
Structural Pest Control Board**Item 189 (Special Fund)****Budget pages 892 and 942**

<i>Detail</i>	<i>Actual</i> <i>1968-69</i>	<i>Estimated</i> <i>1969-70</i>	<i>Proposed</i> <i>1970-71</i>
Licenseses -----	4,368	4,166	4,400
Cost -----	\$509,121	\$555,193	\$521,518
Man-years -----	17.5	18.7	18.7

Board of Examiners in Veterinary Medicine**Item 190 (Special Fund)****Budget pages 882 and 943**

<i>Detail</i>	<i>Actual</i> <i>1968-69</i>	<i>Estimated</i> <i>1969-70</i>	<i>Proposed</i> <i>1970-71</i>
Licenseses -----	2,868	3,000	3,225
Cost -----	\$63,955	\$73,549	\$64,660
Man-years -----	1.5	1.2	1.2

Board of Vocational Nurse and Psychiatric Technician**Items 191 and 192 (Special Fund)****Budget pages 883 and 944**

<i>Detail</i>	<i>Actual</i> <i>1968-69</i>	<i>Estimated</i> <i>1969-70</i>	<i>Proposed</i> <i>1970-71</i>
Licenseses -----	38,607	44,154	49,404
Cost -----	\$327,403	\$327,575	\$336,058
Man-years -----	14	14.7	14

Part of the increase in this request results from legislation enacted in 1969 which liberalized the requirements for admission to the vocational nurse group and is reflected in increased application workload. The cost of purchasing the model examination questions, which are used nationally, has also increased.

PUBLIC UTILITIES COMMISSION**Items 193 and 194 from the General Fund**
and the Transportation Rate Fund**Budget page 947**

Requested 1970-71 -----	\$12,213,843.
Estimated 1969-70 -----	12,572,212.
Actual 1968-69 -----	11,132,315.

Requested decrease \$358,369 (2.85 percent)

Total recommended reduction -----	None
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GENERAL PROGRAM STATEMENT

The Public Utilities Commission, a constitutional agency composed of five members appointed by the Governor with the advice and consent of the Senate, is responsible for the regulation of privately owned public utilities. The term "public utility" includes such business entities as truck, bus, airline companies and pipeline corporations (comprising the "transportation" group of utilities), telephone, gas and electric companies, and warehouse companies. The commission's primary objective is to insure adequate facilities and services for the public at reasonable and equitable rates consistent with a fair return

Public Utilities Commission—Continued

to the utility on its investment. The commission also administers a program which assists cities and counties in providing and improving protective devices at railway-highway grade crossings (Item 290).

The commission's authorized staff of 807.5 positions is organized into the following six divisions: Administrative, Transportation, Utilities, Finance and Accounts, Examiner, and Legal. Approximately 70 percent of the staff is located in the San Francisco headquarter's office, 15 percent in the Los Angeles area office, and the remainder in 15 Division of Transportation field offices throughout the state. The commission's two major programs are the Regulation of Transportation (to receive 62 percent of budgeted funds) and the Regulation of Utilities (to receive 38 percent). Direct operating responsibility for these two programs is handled, respectively, by the Transportation Division and the Utilities Division, each of which receives supporting services from the other four divisions.

Operating Procedures

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

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

Support of the Commission

The commission is supported by the General Fund and the Transportation Rate Fund. The Transportation Rate Fund finances only those commission activities relating to the rates, charges and practices of motor carriers hauling freight. All other commission functions are supported by the General Fund. The commission's staff in all but the Utilities Division performs both General Fund and Transportation Rate Fund activities, thus necessitating an allocation of costs to the two funds based on the type of work performed. In order to make this cost allocation, the commission utilizes a time reporting system under which all technical personnel (except supervisors) in every division (except the Utilities and Administrative Divisions) maintain daily records of their activities. Based on these reports, the commission computes the number of man-years spent on each function and the proper cost al-

Public Utilities Commission—Continued

location ratio. This ratio is then applied to the clerical and administrative functions and the total commission budget is prepared.

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the General Fund and Transportation Rate Fund items.

The commission's budget request from both funds for fiscal year 1970-71 totals \$12,213,843, which is a decrease of \$358,369 or 2.85 percent less than estimated expenditures for the current year. The spending proposal provides an increase of approximately \$47,000 for operating expenses and equipment, but this is more than offset by a reduction of approximately \$405,000 in personal services as noted under our discussion of salary savings.

Of the total proposed budget, \$6,595,475 or 54 percent is requested from the General Fund. This is a decrease of \$394,097 or 5.6 percent less than estimated expenditures from the General Fund for the current year. The remaining budget portion of \$5,618,368, which comprises 46 percent of the total proposed expenditure, is requested from the Transportation Rate Fund. This is an increase of \$35,728 or 0.6 percent over estimated expenditures from this fund in the current year.

Estimate of Salary Savings Appears Unrealistic

Estimates of salary savings, which are deducted from the gross budget level, represent projections of the money which will be saved through staff turnover, reflecting such factors as hiring new personnel at lower salary steps and delay in filling vacancies. When based on past operating experience, such estimates have significant budgetary implications and are properly treated as a deduction against support requirements. However, the reduction in the commission's proposed budget year expenditure is made possible by a large and unrealistic increase in the estimate of salary savings. For the current year, the commission estimates that position turnover will effect salary savings of \$181,369, or approximately 1.75 percent of the total cost of personal services. However, for the budget year this saving has been increased to \$695,054, or approximately 7 percent of personal services. Thus, the increase of \$513,685 in salary savings has offset other commission increases of \$155,316 to the extent that a net reduction in expenditures for the entire commission budget is proposed.

We are advised that the high level of salary savings results from the commission's effort to remain within its budget year expenditure allocation. By utilizing salary savings to reduce expenditures in the

Public Utilities Commission—Continued

personal services category, the commission retains more administrative flexibility in achieving staff reductions than would be possible if the positions were abolished. However, use of salary savings in this manner also results in a high level of authorized but unfilled positions thus complicating legislative review of staffing requirements and precluding evaluation of the potential impact of personnel reductions on workload requirements because it is not known in which programs the manpower reductions will be made.

Reduction in Authorized Positions

In addition to the positions that must be held vacant to meet the large increase in salary savings for the 1970-71 fiscal year, the commission also proposes the abolishment of 16 currently authorized positions listed below. The commission's program budget document states that workload is estimated to remain at approximately current-year levels.

1 Associate data-processing systems analyst -----	\$12,576
2 Clerks II -----	12,372
2 Assistant utilities engineers -----	24,850
1 Stenographer II -----	6,662
1 Clerk-typist II -----	6,420
1 Auditor I -----	9,216
2 Assistant transportation engineers -----	24,768
3 Transportation analysts I -----	25,953
1 Stenographer II -----	6,607
1 Public utilities counsel I -----	16,910
1 Legal stenographer -----	7,026
Total -----	\$153,360

The majority of these positions are vacant, and we are advised by the commission that they can be abolished without requiring layoffs of personnel. We would note, also, that most of the positions are in classifications in which we have recommended deletions in past years because of inadequate workload justification.

General Fund Revenues

The commission estimates General Fund revenues totaling \$595,000 in the budget year compared to estimated revenues of \$508,330 in the current year.

Transportation Rate Fund Condition

It is estimated that as of July 1, 1970, the Transportation Rate Fund will have an accumulated surplus of \$3,729,749. Estimated revenues amounting to \$5,839,700 will be added to the fund during the budget year, providing a total of revenue and surplus ample to finance the proposed expenditures of \$5,618,368.

DEPARTMENT OF REAL ESTATE

Items 195 and 196 from the Real Estate Fund
and the Real Estate Education, Research
and Recovery Fund

Budget page 957

Requested 1970-71		\$3,369,041
Real Estate Fund	\$2,888,048	
Education, etc., Fund	480,993	
Estimated 1969-70		3,563,114
Real Estate Fund	3,046,501	
Education, etc., Fund	516,613	
Actual 1968-69		3,358,380
Real Estate Fund	2,880,105	
Education, etc., Fund	478,275	
Requested decrease \$194,073 (5.4 percent)		
Total recommended reduction		None

GENERAL PROGRAM STATEMENT

The responsibility of the department is to protect the public in the sale of subdivided property, real property securities and in real estate transactions handled by agents. Through two operating programs, 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.

Following an attempt to regulate real estate activities in 1917 under a statute later held to be unconstitutional, the Legislature enacted another regulatory statute in 1919 creating the current type of regulation, the first of its kind in the United States. In 1933, subdivision activities were placed under state regulation, and in 1935 a Real Estate Commission was established. The commission, which is an advisory body, consists of seven licensed real estate brokers (including the Real Estate Commissioner as chairman) and two public members, all of whom are appointed by the Governor. Its members (except the chairman) serve without pay, but are reimbursed for travel expenses in connection with their services.

The department is administered by the Real Estate Commissioner assisted by a currently authorized staff of 247.4 positions. A proposed budget-year reduction in authorized positions is discussed later in this analysis. In addition to Sacramento headquarters, departmental offices are maintained in San Francisco, Fresno, Los Angeles, and San Diego.

The department has established the following four programs, each of which is discussed briefly.

Departmental Programs

1. Transactions activities
2. Offerings and securities
3. Education and research
4. Departmental administration (costs of which are distributed to the first three programs)

Department of Real Estate—Continued
Transactions Activities Program

This program, which is concerned with protecting the public in dealing with brokers and salesmen, contains two elements: (1) Licensing and (2) Regulatory and Recovery. To illustrate the types of activities covered by this program, we have selected the workload items shown in Table 1 from statistics supplied by the department.

Table 1
Selected Output Data, Transactions Activities Program

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Total licenses -----	152,179	156,744	158,300
New applications -----	31,685	36,635	35,000
Renewal applications -----	24,455	25,189	25,500
Examinations given -----	33,778	36,000	35,000
Complaints -----	3,772	3,800	3,800
Suspensions, revocations -----	336	300	300
Recovery claims -----	42	50	50
General inquiries -----	68,912	80,000	80,000

The licensing program element includes the examination of applicants for licensing and the scoring of examinations. The department estimates that only the top 50 percent of applicants eventually qualifies for licensure. The licensing element also issues and maintains records of licenses and responds to inquiries by licensees and the public.

The regulatory and recovery program element consists of two components: (1) Disciplinary and (2) Recovery. If an investigation of a complaint reveals that a violation of real estate law has occurred, formal action against a licensee may be taken by the department. The action may result in suspension or revocation of the license or the placing of 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 from the Real Estate Education, Research and Recovery Fund. A court hearing is held, and if the court orders the claim to be paid the license of the broker or salesman is suspended until he repays the claim against the fund with 4 percent interest. The operation of this fund is more fully explained in a subsequent portion of this analysis.

Table 2 summarizes the costs and staffing of the Transactions Activities program by elements.

Table 2
Costs and Staffing by Element, Transactions Activities Program

	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
<i>Licensing Element</i>			
Costs -----	\$825,179	\$889,312	\$809,035
Man-years -----	54.3	57.2	49.8
<i>Regulatory and Recovery Element</i>			
Costs -----	\$1,403,349	\$1,489,340	\$1,409,366
Man-years -----	87	92.3	75.8

Department of Real Estate—Continued
Offerings and Securities Program

The offerings and securities program consists of two elements: (1) the subdivision element and (2) the securities element. The purpose of the program is to protect the public with respect to offerings of subdivided property and real property securities such as notes secured by trust deeds, real property sales contracts and out-of-state subdivisions. Table 3 contains workload data for the two elements selected from the department's records.

Table 3
Selected Workload Data, Subdivision and Securities Elements

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Subdivision filings -----	2,237	2,100	2,200
Reports issued -----	1,683	1,600	1,700
Out-of-state subdivisions -----	18	24	24
Securities applications -----	6	4	5
Securities approved -----	3	3	4
Syndicate applications -----	0	72	144

Subdividers of in-state lands must secure a report from the department evaluating the conditions of the proposal before subdivided 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, assure buyers that fraud is not being committed by the subdivider. Table 4 indicates costs and man-years of personnel devoted by the department to this program element. Legislation enacted in 1969 increased departmental control over large "promotional-type" subdivisions in sparsely populated areas. The resulting workload required the addition of 0.5 man-years in the current year, and the department is requesting the equivalent of one additional position for the budget year.

The department also reviews out-of-state subdivisions that are proposed for sale in California. Such review involves an appraisal of the property and a finding that the proposed offering is fair, just and equitable before such properties may be offered for sale in California.

A permit is required to sell notes secured by trust deeds when the notes are classified as real property securities. The department reviews applications, appraises the property and makes a finding that the sale will be fair, just and equitable before a permit may be issued.

Legislation in 1969 transferred regulatory responsibility over certain types of real estate syndicates from the Corporation Commissioner to the Department of Real Estate. Exempted from this transfer were corporations, nonpublic offerings, real estate investment trusts, and syndicate securities registered under the Federal Securities Act of 1933. Department regulated syndicates must apply for permits before securities may be sold. Added staffing estimated at 2.5 man-years in fiscal year 1969-70, and at 5 man-years in 1970-71, is requested by the department for the additional workload.

Department of Real Estate—Continued

Table 4 summarizes the Offerings and Securities costs and staffing by program element.

Table 4
Costs and Staffing by Element, Offerings and Securities Program

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Subdivisions Element			
Costs -----	\$686,543	\$732,603	\$672,224
Man-years of personnel -----	46.1	49.5	39.6
Securities Element			
Costs -----	\$61,503	\$64,237	\$126,414
Man-years -----	4.1	3.7	8.6

Education and Research Program

The purpose of the department's education and research program is to improve the professional competence and knowledge of real estate licensees and sponsor research in all phases of real estate activity, including the study of real estate education, marketing, financing, land use, urban problems and real estate economics. These activities, which are supported by the Real Estate Education, Research and Recovery Fund, are conducted by public and private universities and colleges throughout the state as indicated in Table 5.

Table 5
Selected Data, Education and Research Program

<i>Schools and Attendance</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Community Colleges			
Programs -----	79	80	81
Number of students -----	30,624	32,000	32,100
University of California Extension			
Programs -----	7	7	7
Students -----	3,270	3,000	2,400
State Colleges			
Programs -----	13	13	13
Students -----	960	970	975
Research projects -----	40	10	12
Other Universities			
Programs -----	3	3	3
Students -----	355	360	365
Research projects -----	9	10	11
Program costs -----	\$255,054	\$254,422	\$218,802
Man-years -----	3.1	2.9	2.8

Administration Program

Administrative activities which support the department's operating programs are grouped under three headings: (1) Executive, (2) Services, and (3) Publication. Central services includes such items as personnel, business management, and accounting. A number of manuals, pamphlets, bulletins, and brochures are published and distributed annually. Table 6 shows program costs and staffing. The program costs are distributed pro rata to the department's three operational programs.

Department of Real Estate—Continued

Table 6
Administrative Program Cost and Staff Data

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
Costs -----	\$377,420	\$406,746	\$405,292
Man-years -----	26.2	24.8	24.8

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Personal services account for approximately 70.7 percent of expenditures proposed by the department for the budget year. The remaining percentage includes not only expenditures for operating expense and equipment, but also a portion of the allocations for education and research projects from the Real Estate Education, Research and Recovery Fund. Not included in the proposed department budget is an additional allotment for research which, pursuant to existing law, is transferred annually by the State Controller to the University of California from the Real Estate Education, Research and Recovery Fund. Included in this appropriation item and scheduled for transfer in the budget year is the sum of \$133,200, the same as for the current and preceding fiscal years.

Requested budget year expenditures from both funds total \$3,369,041, which is \$194,072 or 5.4 percent less than estimated expenditures for the current year. The reduced expenditure level reflects the department's proposal to eliminate 42 currently authorized positions now assigned to administration, examination, licensing, regulatory, and educational activities. The department informs us that the proposed position elimination will not result in loss of jobs or reduction in services provided. The reduction in positions reflects increased efficiencies secured from internal department reorganization. The positions involved are currently vacant.

The department further proposes to add five new positions (two attorneys, one appraiser and one clerical) to meet the workload requirements of the 1969 legislation mentioned previously. Thus, the budget proposes a net reduction of 37 positions.

Support Funds

As previously indicated, the Department of Real Estate is supported from two funds: the Real Estate Fund and the Real Estate Education, Research and Recovery Fund. Approximately 10.7 percent of the department's support request is budgeted from the latter fund. The Real Estate Fund is composed of license fees and other revenues collected by the department. The Real Estate Education, Research and Recovery Fund receives as revenue 25 percent of the fee collected for each real estate license issued or renewed in excess of \$10. These amounts are paid into the State Treasury for credit to the fund.

Eighty percent of the money available in the Real Estate Education, Research and Recovery Fund is earmarked by law for purposes of real estate education and research. The remaining 20 percent is earmarked for claim payments under the recovery program.

Department of Real Estate—Continued

The Real Estate Commissioner is authorized by statute to transfer from this fund to the Real Estate Fund annually any amount in the recovery portion in excess of \$400,000. It is further provided that should the balance in the recovery portion of the fund fall below \$200,000, a special fee may be levied upon licensees as their licenses are renewed. Not more than \$20,000 may be paid in total for the claims against any one licensee under the recovery program.

DEPARTMENT OF SAVINGS AND LOAN

Item 197 from Savings and Loan Inspection Fund Budget page 965

Requested 1970-71	\$2,778,000
Estimated 1969-70	2,863,363
Actual 1968-69	2,648,524
Requested decrease \$85,363 (3 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

It is the responsibility of the Department of Savings and Loan to protect the funds of the investing public by preventing conditions and practices that would jeopardize the safety and solvency of state-licensed savings and loan associations.

Institutions of the savings and loan type have existed in California since 1865. By 1891 there were 130 "building and loan" associations and in 1893 they became subject to a board of commissioners. The current size of the state-regulated industry is indicated in Table 1.

Table 1
State Regulated Savings and Loan Industry in California

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
Number of associations	191	180	175
Assets of associations (billions)	\$20.7	\$21.7	\$21.7
Number of savers and investors (millions)	4.5	4.7	5

The department is administered by the Savings and Loan Commissioner, who is appointed by the Governor and serves at his pleasure. Headquarters is in Los Angeles and a branch office is in San Francisco. Agency staff is currently authorized at 177.5 positions, but the department proposes a budget-year staff reduction of 14.5 positions as noted below.

The department discharges its responsibility under a single program of supervision and regulation, which is divided into three elements: (1) examination, (2) appraisal, and (3) administration.

Examination Element

The function of the examination element is to obtain, compile, and analyze information for the commissioner indicating whether associations are complying with the law and regulations governing their opera-

Department of Savings and Loan—Continued

tions and whether their policies and management provide for sound performance. Table 2 contains workload and cost data for this element. Legislation in 1969 eliminated a requirement for annual examinations of all associations, thus permitting more examination attention to "problem" associations and less attention to associations having above average performance records. The law requires, however, that all associations be examined at least biennially.

Table 2
Examination Element Workload and Cost Data

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Association examinations -----	202	171	170
Holding company examinations -----	37	33	33
Total assets examined (billions) -----	\$20.7	\$21.7	\$21.7
"Problem" association reports -----	466	416	416
Expenditures -----	\$1,366,058	\$1,480,788	\$1,430,105
Man-years -----	83.4	83	79.5

Appraisal Element

Departmental activity under the appraisal element is concerned with producing the information required by the commissioner to make decisions regarding association loan portfolio quality, adequacy of reserves, statutory loan-to-value ratios and association appraisal practices. Department personnel make field appraisals of real property security underlying association loans. Association lending policies, covering such matters as construction loan disbursements and risk analysis, also are reviewed by the department. Table 3 shows workload and cost data for this element.

Table 3
Appraisal Element Workload and Cost Data

<i>Detail</i>	<i>Actual 1968-69</i>	<i>Estimated 1969-70</i>	<i>Estimated 1970-71</i>
Appraisal reports -----	4,700	4,500	4,500
Policy analyses -----	104	107	102
Expenditures -----	\$619,113	\$670,874	\$639,980
Man-years -----	39	37	34

Administration Element

The administration element is divided into three components: (1) executive management, (2) facilities licensing and (3) support services. Executive management is concerned with policy formation and operations coordination. Facilities licensing consists of activity relative to approving new associations and association branches, mergers and related matters. The "support services" component provides accounting, personnel and clerical functions. Table 4 shows selected workload and cost data for the administration element.

Department of Savings and Loan—Continued

Table 4

Selected Workload and Cost Data, Administration Element

Detail	Actual 1968-69	Estimated 1969-70	Estimated 1970-71
Orders issued -----	318	300	295
Regulations promulgated -----	11	12	13
Facilities hearings -----	55	110	100
Facilities decisions -----	124	130	120
Expenditures -----	\$720,402	\$761,701	\$707,915
Man-years -----	45.7	50	46

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The department's requested budget-year expenditure of \$2,778,000 is \$85,363 or 3 percent below estimated expenditures for the current year. The reduction reflects the proposed elimination of the following 14.5 positions: 1 economist, 1 keypunch operator, 2.5 clerk-typists II, 6 examiners II, 1 trainee and 3 assistant appraisers. The department states that these positions are vacant, that its program will not be impaired by their elimination, and that the lower staff level is made possible by improved examination and appraisal procedures which have resulted in reduced workload. Personal services comprise 81 percent of the support cost of the agency.

Support Funds

The department is supported from the Savings and Loan Inspection Fund. Revenue for this fund is produced by an annual assessment established within statutory limitations by the commissioner on all state-licensed associations. The assessment is proportional to association assets and is set at a level to cover annual operating costs of the department. Fees charged for departmental services also are deposited in the fund. Proposed budget-year expenditures will exceed estimated revenue by approximately \$287,000, but the department's accumulated surplus is ample to cover the anticipated deficit.

DEPARTMENT OF CONSERVATION

Item 198 from the General Fund

Budget page 970

Requested 1970-71 -----	\$37,379,142
Estimated 1969-70 -----	38,980,487
Actual 1968-69 -----	35,094,825
Requested decrease \$1,601,345 (4.1 percent)	
Increase to improve level of service \$1,433,000	
Total recommended reduction -----	\$1,704,521

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. Remove \$1,400,000 for improved Division of Forestry Retirement Plan and amend into authorizing legislation. (Analysis page 774.)
2. Delete \$14,810 for fire prevention film. (Analysis page 777.)