

fornia veterans in obtaining benefits. However, there are now 55 counties which have established local offices to assist veterans and their dependents with problems relating to benefits. We have examined into work done by county service offices and believe that they are performing a desirable service for veterans and their dependents. The state appropriates \$500,000 to the counties, which pays for 20 to 25 percent of the total cost to the counties.

### DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 155 from the General Fund

Vol. II p. 1 Budget p. 93

Requested 1971-72	\$6,263,277
Estimated 1970-71	6,263,557
Actual 1969-70	5,768,829
Requested decrease \$280	
Total recommended reduction	\$100,000

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. *Fair Trade Contracts and Price Posting. Reduce \$100,000.* 308  
We recommend that funds for support of this function be deleted from the budget.

2. *Fair Trade Contracts and Price Posting.* We recommend 308  
enactment of legislation to eliminate this function.

#### GENERAL PROGRAM STATEMENT

The Department of Alcoholic Beverage Control, a constitutional agency established in 1954, is headed by the Director of Alcoholic Beverage Control, who is appointed by the Governor with the consent of the Senate and serves at the pleasure of the Governor. Headquartered in Sacramento, the department maintains a northern division office in San Francisco, which supervises 10 northern district offices and a southern division office in Pasadena, which supervises nine southern district offices. Departmental staff is presently authorized at 446.4 positions, approximately 80 percent of which are assigned to the field offices.

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

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

## Department of Alcoholic Beverage Control—Continued

## Licensing Element

The objective of licensing premises wherein alcoholic beverages are produced, sold, or consumed is to prevent unqualified persons from engaging in the sale, manufacture or importation of such beverages and to prevent such operations in locations where the peace and quiet of the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of applicants' background, character, and financing to assure that those who qualify will be less likely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 47 different licenses.

If a license is denied or its issuance is protested, the matter may be brought before a hearing officer of the Office of Administrative Procedures. The hearing officer prepares a proposed decision which, if adopted by the director, becomes the department's decision. Departmental decisions on these and other matters may be appealed to the Alcoholic Beverage Control Appeals Board (a separate state agency) and the courts. Table 1 contains selected workload and input data for the licensing element.

Table 1  
Selected Workload Data, Licensing Element  
(Calendar Year)

Detail	Estimated 1970	Estimated 1971	Estimated 1972
Total applications -----	14,750	14,750	14,750
Licenses issued -----	13,000	13,000	13,000
Total active licenses -----	49,550	49,575	49,600

Table 1 indicates that the department's licensing workload is expected to remain level. Cost and staffing data devoted to the licensing element are shown in Table 2.

Table 2  
Cost and Staffing Data, Licensing Element  
(Fiscal Year)

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Applications:			
Processing cost -----	\$439,882	\$475,446	\$481,252
Man-years -----	36.9	37.6	37.6
Investigations:			
Cost -----	1,759,527	1,901,785	1,925,008
Man-years -----	147.6	150.4	150.4
Hearings:			
Cost -----	85,929	92,876	94,010
Man-years -----	7.2	7.3	7.3

## Compliance Element

The objective of the compliance or "enforcement" element of the department's program is to prevent the operation of premises dealing in alcoholic beverages from becoming police problems; to prevent practices jeopardizing public safety and welfare; to prevent sales to minors and intoxicated persons and to restrict activities detrimental to public

morals. Enforcement comprises investigation of complaints, imposition of disciplinary action and suppression of various trade or business practices proscribed by law. The department shares law enforcement responsibilities with local police and other law enforcement agencies. Table 3 shows selected departmental enforcement data.

**Table 3**  
**Selected Workload Data, Compliance Element**  
(Calendar Year)

<i>Detail</i>	<i>Estimated 1970</i>	<i>Estimated 1971</i>	<i>Estimated 1972</i>
Accusations filed -----	2,750	2,750	2,652
Arrests (departmental) -----	1,500	1,525	1,435
Arrests (joint) -----	350	375	392
Complaints investigated -----	9,500	9,250	9,000
Hearings held -----	1,400	1,400	1,342

As with the licensing element, departmental estimates indicate a continuing level enforcement workload. Costs and staffing data devoted to the compliance activity are outlined in Table 4.

**Table 4**  
**Cost and Staffing Data, Compliance Element**  
(Fiscal Year)

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
<b>Investigations:</b>			
Cost -----	\$1,621,274	\$1,739,678	\$1,681,254
Man-years -----	109.6	111.8	108.4
<b>Disciplinary Matters:</b>			
Cost -----	304,001	326,203	315,248
Man-years -----	20.6	20.8	20.2
<b>Business Practices Activities:</b>			
Cost -----	327,232	348,419	356,684
Man-years -----	20.1	20.5	20.5

#### Administration Element

The administration element includes the department's executive staff and personnel responsible for licensing, accounting, legal, price posting, training and personnel duties. This element also drafts and reviews proposed legislation affecting the liquor industry and responds to inquiries from members of the Legislature and the general public. Cost and staffing data for the administrative element are shown in Table 5.

**Table 5**  
**Cost and Staffing Data, Administrative Element**  
(Fiscal Year)

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
<b>General Administration:</b>			
Cost -----	\$1,232,675	\$1,345,702	\$1,375,202
Man-years -----	86.8	88.5	88.5
<b>Legislative Service:</b>			
Cost -----	9,356	10,214	10,438
Man-years -----	0.7	0.7	0.7
<b>Public Information:</b>			
Cost -----	39,602	43,284	44,181
Man-years -----	2.8	2.8	2.8

Department of Alcoholic Beverage Control—Continued  
ANALYSIS AND RECOMMENDATIONS

*We recommend:*

1. *That the enforcement of fair trade contracts and price posting function of the department be eliminated for a saving of approximately \$100,000; and*
2. *That legislation eliminating all fair trade contracts and price posting from the Alcoholic Beverage Control Act be enacted.*

**Fair Trade Contracts and Price Posting**

The Department of Alcoholic Beverage Control estimates that fair trade and price posting enforcement generates approximately \$100,000 in direct annual costs, exclusive of hearing costs of the Office of Administrative Procedure and costs charged by the Attorney General for prosecuting cases in the courts. From the standpoint of public policy, we are unable to find any evidence that fair trade and price posting implement the stated purpose of the program which is to foster and promote temperance in the consumption of alcoholic beverages. It appears that fair trade and price posting serve primarily to protect the liquor industry from the effects of a "free market" and may thus deny the public the price advantages found in free and open competition.

Based on our review of liquor pricing information obtained last year, there is evidence that average retail liquor prices in California would decline in a "free market" and that all or part of the resulting savings to consumers could be converted into a state tax increase on alcoholic beverages which could amount to as much as \$90 million annually in additional General Fund revenue if, for example, excise taxes on distilled spirits were doubled.

During fiscal year 1971-72, the department proposes an expenditure of \$6,263,277 which is \$280 less than the estimated current-year expenditure. Salary savings for the current year, which the department originally estimated at \$134,846, have been re-estimated at \$55,080. We commented in this analysis last year that the \$134,846 figure appeared too high. Salary savings in the budget year are estimated by the department at \$129,773 which, again, appears excessive. Estimates of salary savings represent measurements of money gained from personnel turnover which results in lower salaries, normal retirements and temporary vacancies in authorized positions. A large savings estimate may represent a "freeze" on filling positions rather than a realistic projection of normal turnover and vacancy factors. Positions which are not required should be deleted from the budget.

The expenditures proposed for fiscal year 1970-71 will maintain departmental activity approximately at current levels. The salary increases authorized July 1, 1970, increased departmental costs by \$236,553 in the current year.

**Departmental Funding**

The Department of Alcoholic Beverage Control is supported by the General Fund, but it is a revenue-producing agency. It collects and distributes fees under a schedule established by statute. Original

license fees and license transfer fees, for example, are deposited directly into the General Fund. License renewal fees, intracounty transfer fees, and amounts paid under "offers in compromise" are deposited 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 more than 400 cities under a statutory formula, and the remaining 10 percent is then deposited in the General Fund.

The department estimates that deposits in the General Fund during fiscal year 1971-72 will amount to \$7,000,000, which exceeds the estimated departmental cost of operation for the same period by \$736,723.

### ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

Item 156 from the General Fund

Vol. II p. 8 Budget p. 94

Requested 1971-72	\$135,998
Estimated 1970-71	130,445
Actual 1969-70	132,170
Requested increase \$5,553 (4.2 percent)	
Total recommended reduction	None

#### GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954 to provide an administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relating to penalty assessments or to the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license. The board consists of a chairman and two members appointed by the Governor with the consent of the Senate and serving at the Governor's pleasure. The board members are salaried and meet regularly in Los Angeles, San Francisco, and Sacramento. Board staff consists of two attorneys and two senior legal stenographers. Approximately 25 percent of the appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not subject to departmental control.

The board's single program consists of providing an intermediate appeals forum between the department and the state's district courts of appeal to which an appellant has access upon a petition to review any board decision. Board workload data for the past several years are shown in Table 1.

Table 1

#### Appeals Received and Decisions Rendered by the ABC Appeals Board

<i>Fiscal Year</i>	<i>Appeals Filed</i>	<i>Decisions Issued</i>
1963-64	215	240
1964-65	267	222
1965-66	213	237
1966-67	258	213
1967-68	229	237
1968-69	161	214
1969-70	194	160

## Alcoholic Beverage Control

Items 157-158

### Alcoholic Beverage Control Appeals Board—Continued

In fiscal year 1969-70, as indicated in Table 1, 194 appeals were filed with the board and the board issued 160 decisions. Fifteen of those decisions reversed the action of the department. The department sought court review of four of the reversals, and licensees sought court review of 19 cases in which the appeals board sustained decisions of the department. Most of these cases represented issues involving nudity, lewd films, and violations of the alcoholic beverage minimum price law.

### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The board proposes budget-year expenditures of \$135,998, which is \$5,553 or 4.2 percent greater than estimated expenditures for the current year. Personnel costs of this board represent more than 80 percent of the board's annual budget.

It should be noted that elimination of the alcoholic beverage minimum price law, which we have previously recommended as a saving to the consumer and because it has not fulfilled the express intent of the original legislation, would save a portion of this agency's cost. It would also have a direct saving to the Department of Alcoholic Beverage Control.

## STATE BANKING DEPARTMENT

Items 157 and 158 from the General

Fund and the State Banking Fund

Vol. II p. 15

Budget p. 96

---

### General Fund

Requested 1971-72 ----- \$0

### State Banking Fund

Requested 1971-72 ----- \$64,060

Total recommended reduction ----- None

---

### GENERAL PROGRAM STATEMENT

Chapter 1483, Statutes of 1969, established a "local agency security" program under which the Superintendent of Banks is designated as the "Administrator of Local Agency Security" with the responsibility of supervising the handling of county, city and district funds by depository banks, both state and national (see our analysis of Item 159). Operating costs for the budget year are estimated at \$64,060.

It has been determined by the Department of Finance that the annual operating cost of this program 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. To comply technically with this requirement, Item 158 provides for a loan from the State Banking Fund as a total reimbursement for the General Fund costs. This action offsets totally the financing obligation of the General Fund and the amount appropriated by Item 157 is therefore shown as zero.

The amount appropriated from the State Banking Fund is a temporary loan for support of the program and is to be repaid to the State Banking Fund upon such terms and conditions as may be prescribed by the Department of Finance. The statute provides for complete reimbursement of the costs of the program from participating banking institutions.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

#### STATE BANKING DEPARTMENT

Item 159 from the State Banking Fund      Vol. II p. 10      Budget p. 95

Requested 1971-72	\$1,470,895
Estimated 1970-71	1,421,247
Actual 1969-70	1,360,784
Requested increase \$49,648 (3.5 percent)	
Total recommended reduction	None

#### GENERAL PROGRAM STATEMENT

The primary mission of the State Banking Department is to protect 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; 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.

The department is administered by the Superintendent of Banks who is appointed by the Governor. It is headquartered in San Francisco with a branch office in Los Angeles and has a currently authorized staff of 88 positions. As noted later in this analysis, the department proposes to eliminate two positions in the budget year. Approximately 85 percent of the requested budget represents personnel costs.

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

**State Banking Department—Continued**  
**Investigation of Applications**

The establishment of new banking facilities tends to increase the potential risk of loss to the public. Therefore, all proposed new facilities, including new banks and trust companies, new trust departments of existing banks and title insurance companies, new branches of existing banks and trust companies, and new branches and representative offices of foreign (out-of-state) banking corporations must be approved by the superintendent.

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

Table 1

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
New banks -----	14	15	15
New branches -----	82	85	90
New trust facilities -----	--	2	2
Program cost -----	\$35,587	\$46,453	\$49,092
Man-years utilized -----	3.1	3.5	3.5

**Supervision of Banks and Trust Companies**

The two remaining program elements—continuing supervision of existing banking facilities and continuing supervision of trust activities—involve periodic examinations (generally annually) of the records of banks and trust companies. The law requires all banks and court-established trusts to be examined at least annually and to submit quarterly financial reports to the department. Private trusts are examined on a random sample basis. "Problem" institutions are examined more frequently. The examination procedure involves verification and evaluation of assets and identification of unsafe practices and statutory violations which must be corrected. Institutions in serious trouble may be placed in liquidation or under control of a conservator. Table 2 shows workload, cost and staffing data for the two elements.

**TRANSMITTERS OF MONEY ABROAD**

The Department of Corporations is responsible for the licensing and supervision of most check sellers and cashers (sellers of money orders, etc.). However, money transmitters (sellers of travelers checks) who are not incorporated in California, but who engage in interstate and international business from a California location, are subject to supervision and periodic examination by the Banking Department. Workload, cost and staffing data are shown in Table 3.

**CERTIFICATION OF SECURITIES**

Because state regulations governing the issuance of securities were inadequate prior to World War II, restrictive statutes were enacted to regulate investments in securities by savings banks. Although "savings banks" no longer exist in California, many public retirement funds, employee benefit trust accounts, and state credit unions are still required by law to secure from the superintendent a certificate specifying that particular securities are legal for investment by "savings banks" before such institutions may invest in them.



Table 2

## Workload, Cost and Staffing Data, Supervision of Banks and Trust Companies

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
<i>Number of Institutions</i>			
Banks -----	82	87	94
Branches -----	597	660	735
Trust companies -----	8	10	12
Foreign bank corporations -----	22	24	27
<i>Input Data—Bank Supervision</i>			
Cost -----	\$975,947	\$1,039,384	\$1,074,810
Man-years -----	55.1	60	60
<i>Input Data—Trust Company Supervision</i>			
Cost -----	\$66,861	\$75,486	\$78,132
Man-years -----	4	4.5	4.5

Table 3

## Regulation of Transmitters of Money Abroad, Output and Input Data

	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Companies supervised -----	5	7	7
Agents licensed -----	5,000	5,000	5,000
Program costs -----	\$2,500	\$2,500	\$2,500
Man-years -----	0.1	0.1	0.1

Table 4

## Workload and Cost Data, Certification of Securities

	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Applications received -----	133	135	135
Securities certified -----	128	130	130
Program cost -----	\$2,500	\$2,500	\$2,500
Man-years -----	0.1	0.1	0.1

It is the department's view that under the current regulatory structure covering security issuance, continued supervision in this area by the banking department is no longer necessary. Legislation transferring this responsibility to the Department of Corporations, which is already authorized to supervise the issuance of securities, failed in the 1970 legislative session. The Banking Department is considering the feasibility of sponsoring new legislation to terminate the function. Table 4 shows program workload and cost data.

## SMALL BUSINESS ASSISTANCE

Chapter 1372, Statutes of 1968, established a pilot program to minimize unemployment in low-income areas through the promotion of small business enterprises and entrepreneurial ability within these areas. The program was funded for the first year by an appropriation of \$150,000 from the General Fund, and certain administrative responsibilities were assigned to the department. Pursuant to legislative provision, the program has been transferred to the California Job Development Law Executive Board of which the superintendent is a member.

## ADMINISTRATION OF LOCAL AGENCY SECURITY

Chapter 1483, Statutes of 1969, established a new program (effective July 1, 1970) relating to the management of the collateral required of

## State Banking Department—Continued

banks which receive deposits of local agency funds. The law designated the Superintendent of Banks as the "administrator of local agency security" to act as agent for city, county and district treasurers in verifying the amount of collateral pledged by banks to secure deposits of funds from such governmental units. This is a General Fund program under which participating banks are assessed an amount to reimburse General Fund costs. Last year the department requested and the Legislature authorized five new positions to administer this program, but on the basis of workload experience the department proposes to abolish two of these positions—a deputy administrator and a stenographer II—for a salary saving of \$24,780. First-year costs of this program, originally estimated at \$73,500, are now estimated at \$38,520.

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

Table 5  
Workload, Man-Year and Cost Data, Local Agency Security

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Participating banks -----	--	--	140
Number of agency depositors -----	--	--	1,500
Aggregate deposits -----	--	--	\$2 billion
Man-years -----	0.5	1.5	3
Program costs -----	\$6,326	\$38,520	\$64,060
	(planning (start-up)	(operational)	

## DEPARTMENTAL ADMINISTRATION

This program has three elements: (1) executive and administrative services, (2) legal and legislative services, and (3) information services. Program staffing and cost data are shown in Table 6.

Table 6  
Administrative Program, Staffing and Cost Data

	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Executive Services			
Man-years -----	8	9.1	7.6
Cost -----	\$152,319	\$178,924	\$183,061
Legal and Legislative			
Man-years -----	2.2	2.7	3
Cost -----	\$34,500	\$40,000	\$42,200
Information Services			
Man-years -----	1.5	1.5	1.5
Cost -----	\$34,000	\$36,000	\$38,000

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

For the budget year, the department proposes an expenditure of \$1,470,895, which is \$49,648 or 3.5 percent above estimated expenditures in the current year. However, reimbursements estimated at \$64,-

060 in the budget year will produce a total expenditure program of \$1,534,955. The increase consists primarily of merit salary adjustments and other cost increases necessary to maintain the current level of service.

#### Departmental Funding

The programs of the department are supported by the State Banking Fund, which consists of assessments paid by banks and trust companies, license and application fees and service charges. Budget-year revenues accruing to the fund are estimated to be approximately \$100,000 less than the proposed expenditures, but the fund's accumulated surplus of approximately \$831,000 is ample to cover the apparent deficit.

### DEPARTMENT OF CORPORATIONS

Item 160 from the General Fund

Vol. II p. 17 Budget p. 97

Requested 1971-72	\$3,200,000
Estimated 1970-71	3,318,741
Actual 1969-70	2,940,059
Requested decrease \$118,741 (3.6 percent)	
Total recommended reduction	None

#### GENERAL PROGRAM STATEMENT

The Department of Corporations is administered by the Commissioner of Corporations, who is appointed by the Governor and serves at his pleasure. Headquartered in Sacramento, the department maintains branch offices in San Francisco, Los Angeles, and San Diego. Authorized staff currently consists of 285 positions, but the department proposes a budget-year staff reduction of two corporation examiners and one auditor. The staff is organized into four divisions—administration, corporate finance, lender-fiduciary laws, and trading and markets—and an office of policy. Personnel costs account for approximately 85 percent of departmental expenditures.

The department is responsible for regulating corporate security and franchise transactions for the purpose of protecting the public against (1) the promotion of unfair investment schemes and dishonest or fraudulent sales practices, and (2) dishonest and unsound business practices by certain regulated companies or entities that lend money or receive it in a fiduciary capacity. State regulation of security sales, undertaken by statute in 1913, was followed by the regulation of lender-fiduciary relationships in 1917. The Franchise Investment Law, enacted in the 1970 session of the Legislature, becomes operative April 15, 1971.

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

## Department of Corporations—Continued

The department's activities are conducted under three programs—(1) Securities and Franchise, (2) Lender-Fiduciary, and (3) Administration whose costs are distributed to the other two programs.

**Securities and Franchise Program (Corporate  
Finance and Trading and Marketing Division)**

This program administers the Corporate Securities Law of 1968 and the Franchise Investment Law of 1970, which require disclosure to the investing public of relevant financial and legal information concerning proposed security issues and franchise offers. The program consists of three elements, securities qualification, franchise registration, and regulation and enforcement, which are described below.

**SECURITIES QUALIFICATION**

The Corporate Securities Law of 1968 provides that all proposed security issues, except those specifically exempted, must be "qualified" by the corporation commissioner before they may be sold in California. Upon application for qualification, the commissioner reviews the applicant's business history and financial condition and determines whether the proposed plan of business and security issuance is fair, just and equitable. If he so finds, he allows the proposed issue to become effective, either by issuing a permit or by a process known as "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 ten days under the notification procedure. Workload and costs of this activity are shown in Table 1.

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

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Permit method -----	8,193	8,200	8,000
Coordination method -----	1,899	1,800	2,000
Notification method -----	330	350	400
Notices (small offering exemption) -----	13,931	14,500	16,000
Orders issued -----	9,045	10,000	11,050
Personnel man-years -----	103.5	110.2	106.4
Cost -----	\$1,950,247	\$2,170,168	\$2,128,420

**FRANCHISE REGISTRATION**

The franchise system of merchandising, under which the right to do business under a plan and trademark is acquired for a fee, is estimated to be a \$1.5 billion business in California, involving some 100,000 franchisees. Under the provisions of the Franchise Investment Law of 1970, which became effective January 1, 1971, regulation of the sales of franchises will begin in April, 1971. The law provides for the registration of franchises which are offered for sale, and requires the disclosure of pertinent information to prospective buyers. The department reviews applications for registration to determine whether the

franchise offer would constitute fraud or misrepresentation and whether any person involved in the sale or management of the franchise poses an unreasonable financial risk to prospective franchisees. Table 2 shows projected workload and cost data for the franchise element.

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

<i>Detail</i>	<i>(Partial Year)</i>		
	<i>Actual</i> <i>1969-70</i>	<i>Estimated</i> <i>1970-71</i>	<i>Estimated</i> <i>1971-72</i>
Registrations .....	-	1,000	1,100
Personnel man-years .....	-	3.9	7.9
Cost .....	-	\$40,000	\$81,748

Staff for this new program element, estimated at 7.9 man-years in the budget year, is being secured by transferring positions no longer needed in other activities, principally that concerned with administration of the Retirement Systems Law under the Lender-Fiduciary Program.

#### REGULATION AND ENFORCEMENT

To do business in California, broker-dealers, agents, commodity advisors and investment advisors must apply to the department for licenses or certificates to operate, and all applicants, other than agents, must file financial statements. The department reviews the background and financial information contained in the applications and issues a certificate or license to qualified applicants. This element also investigates complaints filed by the public and takes disciplinary action or criminal proceedings against licensees as required. Table 3 shows workload and cost data for the regulation and enforcement element. The department advises that the workload increases reflected in Table 3 can be absorbed by existing staff because licensing operations have been centralized in the Sacramento office and are being handled on electronic data processing equipment.

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

<i>Detail</i>	<i>Actual</i> <i>1969-70</i>	<i>Estimated</i> <i>1970-71</i>	<i>Estimated</i> <i>1971-72</i>
Licenses issued .....	31,744	35,000	40,000
Consents to transfer .....	7,962	8,500	10,000
Enforcement cases processed .....	2,229	2,875	3,250
Personnel man-years .....	58	57.9	57.9
Cost .....	\$675,691	\$709,476	\$709,476

#### Lender-Fiduciary Program (Lender-Fiduciary Laws Division)

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 financial responsibility, experience, and character, and the books and records of licensees are examined to determine compliance with the law. Table 4, showing departmental activity for each element of this program, reflects substantially reduced workload in the Retirement Systems Disclosure Law element. Under the Retirement Systems Law of 1949, the department licensed and periodically examined the books of certain nonpublic retirement systems. In 1958, the federal

## Department of Corporations—Continued

government enacted a financial disclosure law, covering the larger, nonpublic retirement systems. The federal law does not require licensing or periodic examinations of the systems to which it applies. Last year the Legislature enacted SB 1265 (Chapter 1443, Statutes of 1970) which eliminated the state's licensing and periodic examination provision for retirement systems and enacted disclosure standards similar to the federal standards. The resulting decline in workload is reflected in the budget request for this element.

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

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
<i>Check Sellers and Cashiers Law</i>			
Licensed locations -----	43	45	47
Investigations/examinations -----	36	37	37
Personnel man-years -----	3.1	3.1	3.1
Costs -----	\$41,826	\$44,806	\$47,806
<i>Credit Union Law</i>			
Licensees -----	628	630	640
Investigations/examinations -----	367	370	370
Personnel man-years -----	26.1	26.1	26.1
Cost -----	\$368,375	\$396,010	\$404,010
<i>Escrow Law</i>			
Licensed locations -----	518	520	530
Investigations/examinations -----	343	345	345
Personnel man-years -----	13.4	13.4	12.7
Cost -----	\$178,442	\$191,650	\$191,650
<i>Industrial Loan Law</i>			
Licensed locations -----	303	335	380
Investigations/examinations -----	224	245	285
Personnel man-years -----	17.1	19.1	16.1
Cost -----	\$226,336	\$243,450	\$251,450
<i>Personal Property Brokers Law</i>			
<i>California Small Loan Law</i>			
Licensees -----	1,943	1,950	2,050
Investigations/examinations -----	1,609	1,609	1,609
Personnel man-years -----	28	28	27
Cost -----	\$413,079	\$443,801	\$443,801
<i>Retirement Systems Disclosure Law</i>			
Licensees -----	739	370	-
Investigations/examinations -----	250	125	25
Personnel man-years -----	5.7	2.1	0.5
Cost -----	\$104,455	\$25,931	\$5,860
<i>Trading Stamp Law</i>			
Licensees -----	18	18	20
Personnel man-years -----	1	1	0.3
Costs -----	\$10,460	\$11,095	\$3,095

## ADMINISTRATION

The department's administration program comprises two elements, general office activities and accounting and personnel matters, the costs of which are identified in Table 5 and prorated to the two operating programs.

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The request of \$3,200,000 is \$118,741 or 3.6 percent less than estimated expenditures for the current year. However, the department an-

**Table 5**  
**Administrative Personnel and Cost Data**

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Personnel man-years -----	14	14	14
Cost (distributed) -----	(\$168,935)	(\$177,382)	(\$187,143)

ticipates budget-year reimbursements totaling \$1,067,316 representing fees for examining financial records and other service charges resulting in a proposed expenditure program of \$4,267,316. The amount requested for 1971-72 is the same as the current year's initial request. Current-year expenditures include salary increases totaling \$157,868. Three authorized positions are proposed to be eliminated for an annual saving of \$31,572.

Although the Department of Corporations is supported by the General Fund, the revenue which it produces for the General Fund through license fees and related charges exceeds the annual cost of departmental operations as shown in Table 6.

**Table 6**  
**Departmental Revenue and Expenditures**

<i>Fiscal year</i>	<i>Revenue</i>	<i>Expenditures (net)</i>	<i>Net General Fund revenue</i>
1969-70 (actual) -----	\$7,234,378	\$2,940,059	\$4,294,378
1970-71 (estimated) -----	6,857,150	3,318,741	3,538,409
1971-72 (estimated) -----	6,614,650	3,200,000	3,414,650

## DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 161 from the General Fund

Vol. II p. 27 Budget p. 98

Requested 1971-72 -----	\$1,308,378
Estimated 1970-71 -----	1,888,807
Actual 1969-70 -----	1,929,100
Requested decrease \$580,429 (30.7 percent)	
Total recommended reduction -----	None

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. The \$580,429 decrease requested does not represent an actual reduction in the proposed budget, but only a change in funding. The department proposes to switch funding for the mobilehome manufacturing inspection function from direct General Fund support to a reimbursement basis. 324

2. We recommend approval of 12.4 man-years increase in the mobilehome manufacturing inspection element on a workload basis. Since it is budgeted on a reimbursement basis, the staff increase will be covered entirely from inspection fees. 324.

Department of Housing and Community Development—Continued  
GENERAL PROGRAM STATEMENT

The Department of Housing and Community Development is charged with the following general responsibilities:

1. To create, enforce and interpret uniform health and safety standards necessary to insure a proper housing and living environment for Californians at all socioeconomic levels, and
2. To act as a catalyst and technical consultant in the solution of California's housing and community development problems.

It is headed by a director appointed by the Governor. Functions of the department are divided between the Division of Building and Housing Standards and the Division of Housing and Community Development. The former writes, supervises and enforces uniform building, health and safety standards. The latter administers the department's technical assistance program. Each division is headed by a chief appointed by the Governor on recommendation of the director.

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

ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

BUILDING AND HOUSING STANDARDS PROGRAM

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

Table 1  
Staff and Expenditures of Building and Housing Standards Program

	Man-years			Expenditures		
	Actual 1969-70	Estimated 1970-71	Proposed 1971-72	Actual 1969-70	Estimated 1970-71	Proposed 1971-72
State Housing Law -----	9.3	6	7.8	\$163,102	\$129,416	\$139,574
Employee housing and labor camps -----	9.5	7	10.2	166,538	134,216	185,353
Mobilehome parks and accessory structures -----	45.5	34	28	798,347	616,544	531,501
Mobilehome Manufacturers --	30.3	34.5	46.9	533,630	673,215	840,645
Factory-Built Housing Law -	-	5	6.7	-	90,085	133,455
Special projects -----	3.1	2.5	2.9	56,657	51,031	59,048
Totals -----	97.7	89	102.5	\$1,718,274	\$1,694,507	\$1,889,576
Reimbursements						
Federal -----				-	\$9,650	-
Other -----				\$1,399	\$6,144	\$840,645
General Fund Cost -----				\$1,716,875	\$1,628,713	\$1,048,931

Detailed analysis of each element and our recommendations will follow. The \$840,645 reimbursement in the budget year largely results from placing the mobilehome manufacturing inspection element on a complete reimbursement basis.



Throughout this Analysis we refer to inspection "revenues" and "reimbursement fees". Both funding mechanisms involve the collection of inspection fees. However, reimbursements are used directly to support the expenditure function and neither the revenues nor the costs are included in the budgetary totals. Also, the level of expenditures is limited to the actual receipt of reimbursements. As a result, if actual reimbursements fall below the estimates, then expenditures have to be reduced accordingly. By contrast, inspection "revenues" are deposited in the General Fund and the related expenditures are supported from the General Fund. If inspection "revenues" fall below estimates, there is no pressure on the agency to reduce expenditures because the two are not interdependent.

In past years we recommended that direct inspection costs for all elements, except factory built housing, be entirely fee supported. The 1969 Legislature directed the department to increase its fees in order to cover direct inspection costs. By December 1969, however, this was accomplished only in the mobilehome manufacturing and mobilehome park elements.

*Inspection Deficit Reduced.* The 1970 Legislature eliminated the General Fund subsidy of the direct inspection costs of the state housing and earthquake protection law elements by placing their budgets on a reimbursement basis for the current fiscal year. The enactment of SB 681 in 1970 is expected to increase substantially inspection revenues for the employee housing element.

Table 2 shows the improvements made by the department in covering direct inspection costs.

Table 2  
Surplus/Deficit in the Direct Inspection Portion of the Building and  
Housing Standards Program for 1970-71

	Budget estimate		Surplus/deficit	
	Original	Revised	Original	Revised
State Housing Law -----	\$20,000	\$48,958	\$-38,958	0 *
Employee housing -----	2,000	50,000	-85,296	\$-37,296
Mobilehome parks and accessory structures -----	470,000	470,000 <sup>b</sup>	+130	-4,544 <sup>c</sup>
Mobilehome manufacturing -	800,000	875,000	+262,312	+206,055 <sup>d</sup>
Factory-built housing -----	245,702	90,000	0	-85
Earthquake Protection Law -	2,000	7,186	-5,186	0 *

\* Budgeted on a reimbursement basis.

<sup>b</sup> Revised by the department after budgetary figures were printed.

<sup>c</sup> Deficit due to current higher inspection cost. It is expected to be eliminated by reduction of inspection responsibility during the budget year.

<sup>d</sup> Decrease due to higher inspection cost.

The department's revenue estimates and projected costs for the budget year are shown in Table 3.

The noninspection functions in the program, termed "general assistance," include such activities as: (1) preparation and dissemination of housing information to local officials, (2) direct assistance to local governments on the interpretation of housing standards, and (3) special projects which have a statewide implication. These activities warrant General Fund, rather than fee support.

## Department of Housing and Community Development—Continued

Table 3  
Building and Housing Standards Inspection Programs, 1971-72

	Man-years	Estimated inspection revenue	COSTS		
			Direct inspection	General assistance	Total costs
State Housing Law -----	7.8	\$40,000	\$40,000	\$99,574	\$139,574
Employee housing and labor camps -----	10.2	100,000	100,000	85,353	185,353
Mobilehome parks and accessory structures -----	28	350,000	350,000	181,501	531,501
Mobilehome manufacturers -----	46.9	840,645	840,645	-	840,645
Factory-built Housing Law -----	6.7	133,455	133,455	-	133,455
Special projects (including Earthquake Protection Law) -----	2.9	20,000	20,000	39,048	59,048
Totals -----	102.5	\$1,484,100	\$1,484,100	\$405,476	\$1,889,576

As Table 3 indicates, the department projects inspection revenues that will *exactly* cover the direct cost of inspection for each element. With the exception of the mobilehome manufacturing element, however, the department does not propose to budget for these costs on a reimbursement basis. In fact, both the state housing and earthquake protection programs, which are reimbursable in the current year, will be budgeted on a revenue basis in the budget year.

**State Housing Law**

This element is responsible for the establishment, interpretation and enforcement of statewide minimum building and housing standards.

The 1961 State Housing Law designated the appropriate city and county authorities as the primary enforcement agencies. In 54 counties, local authorities have assumed this responsibility. They issue building permits, make inspections and collect fees. Here the state acts only in an advisory and interpreting capacity. In Alpine, Mariposa, Sierra and Trinity Counties the state retains primary enforcement responsibility, i.e., it acts as the local building inspector.

In 1970, legislative action placed this inspection element on a reimbursement basis. As indicated in Table 2, the department expects to achieve self-support by the end of the current fiscal year. Its proposed fees for the budget year are projected to cover its direct inspection cost. The 1.8 man-year increase is primarily the result of additional clerical duties.

*Validity of Revenue Estimates.* In the past, the department has been too optimistic in its estimate of inspection revenues. We realize that numerous unforeseen economic and other factors may cause revenues to fall below estimates. However, the last two Legislatures have established the policy that all of the direct inspection costs should be self-supporting. Whether this policy will be actually implemented in the budget year is open to question, because Table 3 shows that each of the inspection elements is precariously balanced. If revenues start falling below estimates, we believe the department should exercise its authority to make fee adjustments in order to comply with the legislative mandate.

**Employee Housing and Labor Camps**

The objective of this element, as outlined by the Employee Housing Act, is to protect the health and safety of labor camp and other employee housing residents. The current law requires inspection of camps with five or more employees. California has an estimated 3,553 active labor camps where the department has the responsibility for enforcing health and sanitation standards.

*Mandatory Annual Inspections.* In 1970, the Legislature enacted SB 681 (Chapter 1062) which mandates annual inspections of employee housing facilities. The department will be the inspection agency unless the responsibility is assumed by a city or county enforcement agency. This bill also allows the imposition of inspection fees, and, as a result, the activity, for the first time, will be self-supporting in the budget year. The department proposes to increase its personnel in this activity by 3.2 man-years in the budget year.

**Mobilehome Parks and Accessory Structures**

This element has the responsibility:

1. To provide and enforce uniform health and safety standards for construction and operation of mobilehome and recreational parks.

2. To establish and enforce uniform standards for mobilehome accessory structures and to insure safe and sanitary living conditions.

Preemptive regulations, affecting both mobilehome parks and accessory structures are established by the state. Such regulations insure statewide standardized construction, utility hookup, health and sanitation rules for the parks. They also promulgate uniform standards for mobilehome accessory structures. Standards are enforced by the department, or may be delegated to local enforcement agencies where such agencies exist and desire to take over this function. The enforcement agency collects construction as well as annual statutory operating permit fees. Fees are also collected for the erection and inspection of accessory structures.

*Staff Decrease Proposed.* The department proposes a personnel decrease of six man-years for the budget year. The cutback is predicated on an expected decrease in workload, resulting from a statutory change requiring biennial rather than annual inspections of mobilehome parks, plus anticipated delegation of inspection responsibility in several counties.

Presently about 30 percent of the enforcement is regulated by the department and 70 percent by local authorities. The department is actively working toward eventual delegation of all inspection responsibilities.

**Mobilehome Manufacturing**

In order to provide safe and healthy living conditions for occupants of mobilehomes, travel trailers and camp cars, it is necessary to establish uniform standards for inspections of these vehicles. The department has preempted jurisdiction for such inspections. All such units, continuously used in California, must be approved by the department as to the safety of electrical, gas and plumbing equipment. Approval is evidenced by an official state insignia affixed to the vehicles. Inspec-

**Department of Housing and Community Development—Continued**

tions are made in manufacturing plants, on dealer lots and for private individuals, upon request.

This inspection function is entirely self-supporting through reimbursed fees. In fact, during the past and current fiscal years it operated at a substantial surplus.

*Staff Increase and Reimbursement Proposed.* The department proposes a 12.4 man-year increase in staffing for this inspection program in 1971-72. About half of this increase results from new regulations which will require the department, for the first time, to approve and inspect the structural standards of mobilehomes. In the past, inspection covered only the electrical, gas and plumbing fixtures. The remaining portion of the augmented staff is justified by the expected increase in the number of mobilehomes manufactured in California.

*We recommend approval of the 12.4 man-years in additional staff for this inspection program.*

The department estimates that additional revenues from increased mobilehome production and from the proposed new structural inspection fees will not only offset the increased personnel cost, but will make the entire element fee-supported. Therefore, the department budgets this inspection element as a reimbursement in the 1971-72 fiscal year.

**Factory-Built Housing**

The objective of this element is to encourage and regulate the manufacturing of factory-built housing, as a partial solution to lowering the cost of housing and meeting California's housing needs. In order to meet this objective, the 1969 Legislature enacted the California Factory Built Housing Law, which preempted by the state the establishment and enforcement of uniform building standards and regulations for factory built housing. This law authorizes the department to approve plans, make in-plant inspections and issue insignia showing compliance with established regulations. For the budget year, the department proposes this function to be entirely fee-supported.

*Increased Activity Expected.* Due to technical and financing problems, this program is having a slow start. With the easing of the money market, however, it is expected to grow rapidly with 13 plants anticipated in production by the end of the current year and expanding to 25 by the end of the budget year. The department is proposing a staff increase of 1.7 man-years to handle the expected increase in workload.

**Special Projects**

This element consists of two functions:

1. It provides limited technical assistance to local communities, industry and state agencies, analyzing and interpreting housing standards and regulations.
2. It enforces the Earthquake Protection Law in Alpine, Mariposa, Sierra, and Trinity Counties.

The first function is similar to the "general assistance" provided by other program elements and is a justifiable charge on the General Fund.

Direct inspection cost of the second function was to be fee-supported, but, in fact, has been subsidized by the General Fund. The 1970 Legislature eliminated this subsidy, placing the direct inspection portion of this element on a reimbursement basis. The department proposes that the direct inspection cost will be supported from the General Fund (i.e. inspection revenues) rather than reimbursements during the budget year.

#### TECHNICAL ASSISTANCE PROGRAM

The general objective of this program is to work toward the improvement and solution of California's housing problems through technical assistance, research and information to governments, business and the general public. It is administered by the Division of Housing and Community Development, acting in a catalyst and liaison role to achieve this objective.

By legislative mandate, the division is required to provide information and advice regarding the nature and availability of federal aid for housing, community development and technology. This service receives top priority. Interpretation of housing-related activities which have statewide application is also emphasized.

Program activities may be initiated by the state or local government, private enterprise or private or public nonprofit organizations.

Table 4 shows the proposed staff and expenditures for the elements in this program. The element titles indicate their general objectives.

Federal funds have been secured for partial support of elements 2, 4, and 6 in Table 4 and are pending for subelements 1b, c and d. Element 2 will also receive \$40,350 local support.

**Table 4**  
**Personnel and Expenditures of the Technical Assistance Program**

	Man-years			Expenditures		
	Actual 1969-70	Estimated 1970-71	Proposed 1971-72	Actual 1969-70	Estimated 1970-71	Proposed 1971-72
1. Statewide housing policy						
a. Relating to housing -----	2	0.7	1.1	\$35,046	\$13,454	\$19,694
b. Local assistance -----	0.9	0.6	2	35,320	11,591	35,725
c. Special assistance to small communities -----	-	3	3	-	53,445	53,445
d. Training of local citizens and officials -----	-	0.7	0.7	-	33,057	33,057
e. Research and statistics ----	0.5	1.1	1.1	8,246	21,112	19,694
2. Low/moderate income housing, housing for the elderly, low- income home management ----	1.5	2.1	2.6	26,800	201,555	208,117
3. Rural housing -----	1	1.5	1.5	18,554	28,771	26,794
4. Community development, reha- bilitation and code enforcement	4	2.3	2.5	81,185	45,342	44,656
5. General assistance -----	1.6	2.5	2	28,862	47,813	35,725
6. Housing inventory and market aggregation -----	1.1	3.8	-	18,212	67,587	-
<b>Totals -----</b>	<b>12.6</b>	<b>18.3</b>	<b>16.5</b>	<b>\$252,225</b>	<b>\$523,727</b>	<b>\$476,907</b>
<b>Reimbursements:</b>						
Federal -----				-40,000	-223,283	-177,110
Local -----				-	-40,350	-40,350
<b>GENERAL FUND COST -----</b>				<b>\$212,225</b>	<b>\$260,094</b>	<b>\$259,447</b>

## Department of Housing and Community Development—Continued

The professional staff of the division includes the division chief, three coordinators, who specialize in various technical and liaison roles of housing and community development, and four area representatives, who assist the coordinators. Changes in the proposed technical assistance program include expansion of the statewide housing policy element and introduction of the low-income home management element. Both are expected to receive partial federal support. The housing inventory and market aggregation element will terminate with the current fiscal year. California's operation breakthrough factory-built housing prototype project, entirely federal-funded, is proceeding on schedule. Ground-breaking at the old state fairgrounds site was held in October 1970. By May 1971 plans call for the completion of several housing units.

## ADMINISTRATION

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

## DEPARTMENT OF INSURANCE

Item 162 from the General Fund

Vol. II p. 40 Budget p. 99

Requested 1971-72 -----	\$4,767,316
Estimated 1970-71 -----	4,465,418
Actual 1969-70 -----	4,024,726
Requested increase \$301,898 (6.8 percent)	
Total recommended reduction -----	\$50,000

## SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. *Reduce travel expenditures \$50,000.*

## GENERAL PROGRAM STATEMENT

The Department of Insurance 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 facilities located in Los Angeles, San Diego and Sacramento. Current staff consists of 294.5 authorized positions. Salary and wage expenditures account for 79.8 percent of the requested budget. As discussed later in this analysis, the department requests nine new positions in the budget year to handle workload increases in the areas of field examination and rate regulation.

Insurance is the only interstate business which is wholly regulated by the several states rather than by the federal government. As a California industry, its worth is estimated at \$6.8 billion. Regulation of the insurance industry in California began in 1868 with the creation of the Office of Insurance Commissioner, and has been continuous since that time. The present department, established in 1941, regulates

the activities of 900 companies and 125,000 agents and brokers. It collects annually over \$120 million in taxes and \$4 million in fees.

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

#### REGULATION OF INSURANCE COMPANIES

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

1. *Field Examination.* This element conducts periodic financial examinations of domestic insurers and participates with agents of regulatory bodies of other states in conducting similar examinations of foreign insurers admitted to do business in California. The purpose of this activity is to protect California policyholders against possible losses resulting from insolvency of insurers, to determine if insurers are fair and just in paying claims, and to protect the premium taxes owed to the state by insurers. Staff requirements in this element relate to the size, complexity and problems of the insurers being examined as well as to the number of examinations completed. "Problem" companies are placed under continuing review by the solvency surveillance element mentioned below. To handle additional workload, principally arising from an increase in the number of foreign insurers, the field examination element is requesting 6.6 new positions.

2. *Regulation of Property and Casualty Insurance Rates.* Although insurance companies in California set their own rates, the insurance commissioner is responsible for preventing the use of rates which are excessive, inadequate, or discriminatory. This element provides statistical and actuarial analysis on the basis of which insurance rate structures, rules, and classifications are evaluated and approved by the commissioner in accordance with standards prescribed by state law.

3. *Solvency Surveillance.* This element provides continuing review of the financial and management practices of insurers which have been identified by the field examination element as having potential solvency problems or unsound operating procedures.

4. *Tax Collection and Audit.* This element collects premium, retaliatory and surplus line broker taxes.

5. *Regulation of Proxy Solicitations.* This element reviews proxy statements to insure that proper disclosures are made to investors.

6. *Conservation and Liquidation.* The objective of this element is to prevent or minimize losses to policy holders and claimants in the event an insurer becomes insolvent. Pursuant to court orders and review, the element may take over the operations of a company in an effort to rehabilitate it or provide for its liquidation. The cost of this activity is reimbursed to the department from charges paid by the estate of the company which is placed under conservatorship for liquidation.

## Department of Insurance—Continued

7. *Preadmission.* This element processes all applications for certificates and licenses to do business in California and determines whether an insurer has adequate capital and surplus and meets statutory requirements to do business in California. The staff also reviews requests

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

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
<i>Field Examination</i>			
Domestic insurers -----	156	156	156
Foreign insurers -----	807	822	840
Man-years -----	50.1	49	55.6
Cost -----	\$942,861	\$1,013,407	\$1,204,587
<i>Property and Casualty Rates</i>			
Examinations of rating practices --	42	52	52
Man-years -----	18.1	17.7	18.7
Cost -----	\$294,735	\$327,648	\$347,718
<i>Solvency Surveillance</i>			
Companies under surveillance -----	153	130	130
Number, corrective recommendations	33	35	35
Man-years -----	16.7	16.9	16.9
Cost -----	\$235,766	\$263,268	\$270,974
<i>Tax Collection and Audit</i>			
Taxes collected (millions) -----	\$137.5	\$143	\$150
Man-years -----	7.8	7.8	7.8
Cost -----	\$118,849	\$134,107	\$138,246
<i>Proxy Solicitation</i>			
Number, solicitations approved ----	20	17	15
Man-years -----	0.4	0.4	0.4
Cost -----	\$5,264	\$5,917	\$6,100
<i>Conservation/Liquidation</i>			
Conservatorships -----	3	3	3
Liquidations -----	9	11	11
Man-years -----	4	4	4
Cost (reimbursed) -----	\$47,763	\$54,856	\$56,550
<i>Preadmission</i>			
Certificates processed -----	61	62	64
Man-years -----	12.6	11.4	12.4
Cost -----	\$220,923	\$242,150	\$254,960
<i>Postadmission</i>			
Stock permits processed -----	70	75	80
Mergers, etc. -----	58	65	70
Disciplinary actions -----	65	70	70
Man-years -----	17.4	17	18.6
Cost -----	\$297,915	\$325,387	\$334,970
<i>Approval of Policy Forms</i>			
Submissions processed -----	7,210	7,500	8,000
Man-years -----	10.4	11.3	11.6
Cost -----	\$136,467	\$146,060	\$150,000
<i>Policy Complaints</i>			
Complaints processed -----	14,467	15,520	17,000
General inquiries -----	59,953	64,000	67,500
Man-years -----	45.9	45.9	45.9
Cost -----	\$564,646	\$607,014	\$622,514



of new insurers for name reservations to avoid the use of names which may be confusing or misleading to the public.

8. *Postadmission.* This element, which supervises the activities of companies which have been admitted to do business in California, reviews applications for stock issues and mergers, supervises rating bureaus (associations of insurers which formulate premium rates), and takes disciplinary or corrective action against companies engaging in hazardous or illegal activities.

9. *Approval of Policy Forms.* This element checks all proposed policy forms for compliance with the law and rules promulgated by the commissioner.

10. *Policy Complaints.* This element assists policyholders who have complaints about insurers' claims practices and responds to general inquiries from the public. In 1968, the element recovered almost \$2.6 million for policyholders.

Table 1 shows workload and cost data for each program element.

#### REGULATION OF INSURANCE PRODUCERS

The objective of this program is to protect the public and policyholders from discrimination and unlawful and fraudulent practices through the licensing and regulation of insurance agents and brokers. The program consists of the following four elements, workload and cost data for which are shown in Table 2.

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

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
<b>License Issuance</b>			
Licenses issued .....	36,275	37,863	38,814
Licenses renewed .....	53,367	61,411	56,035
Man-years .....	39.4	42.2	42.2
Cost .....	\$402,865	\$430,853	\$441,624
<b>Producer Examination</b>			
Examined .....	22,693	23,374	24,242
Passed .....	12,484	12,848	13,358
Man-years .....	13.5	13.5	13.8
Cost .....	\$151,593	\$163,677	\$175,952
<b>Disciplinary Proceedings</b>			
Disciplinary actions .....	487	544	500
Licenses revoked, suspended .....	89	78	105
Licenses restricted .....	126	114	125
Man-years .....	10.2	10	10
Cost .....	\$150,749	\$175,370	\$178,842
<b>Producer Investigations</b>			
Producers and companies .....	4,379	5,157	5,250
Applications screened .....	6,653	6,564	6,800
Man-years .....	38.4	37.7	37.4
Cost .....	\$514,097	\$575,704	\$584,279

1. *License Issuance.* This element issues and renews life, disability, and casualty insurance licenses. The life and disability licenses are renewed biennially in the odd-numbered years, and the fire and casualty licenses are renewed in the even-numbered years.

2. *Producer Examinations.* The objective of this element is to protect the public by insuring that applicants for licenses have adequate

## Department of Insurance—Continued

knowledge of the business of insurance which the license will authorize them to conduct and of the related laws and regulations.

3. *Producer Investigations.* This element investigates complaints against insurance producers and companies involving such matters as negligence, incompetence, embezzlement, misrepresentation, and mishandling of premium funds. Violations of criminal statutes are referred to the appropriate local law enforcement body. Administrative penalties, such as revocation of licenses, are determined by the disciplinary proceedings element.

4. *Disciplinary Proceedings.* Following an administrative hearing, this element determines the penalty for violations of rules or regulations by licensees. The penalties may include revocation, suspension, or restriction of the license.

## ADMINISTRATION PROGRAM

This program directs, coordinates, and provides common services for the agency's two operating programs to which administrative costs are pro-rated. These costs and staff data are shown in Table 3.

Table 3  
Man-Year and Cost Data Administration Program

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Man-years -----	53.5	50.9	51.4
Cost (distributed) -----	\$838,621	\$953,304	\$979,763

## ANALYSIS AND RECOMMENDATIONS

*We recommend approval in the reduced amount of \$4,717,316, representing a reduction of \$50,000 in travel costs.*

The department's proposed expenditure of \$4,767,316 is \$301,898 or approximately 6.8 percent over estimated expenditures for the current year. The increase includes \$91,548 in salary costs for nine proposed new examiner positions to handle increased workload in field examination and rate regulation activities relating primarily to out-of-state companies. The department's examination costs are covered by fees charged to the companies examined. These fees, estimated at \$1,552,305 in the budget year, are General Fund revenues.

*Travel Costs Overbudgeted—We Recommend a \$50,000 Reduction.*

Most of the remaining portion of the budget-year increase represents additional travel costs, up from an estimated \$188,458 in the current year to \$326,319 in the budget year, an increase of \$137,861 or 73 percent. The department advises that current travel and per diem costs average \$600 per examiner per month. On this basis, the proposed 9 new examiner positions represent a full-year travel cost of \$64,800. Allowing \$14,000 to cover executive element travel and normal cost increases for the department's proposed field staff of 66 examiners and rate analysts (including the nine new positions) and assuming a \$9,000 increase in travel costs resulting from an anticipated lower staff vacancy level in the budget year than in the current year, we find no justification for a \$137,861 increase in travel expenditures. Accordingly, we recommend a reduction of \$50,000.

## REVENUE

Since 1968, the Department of Insurance has been supported by the General Fund. The Insurance Fund is used only for the deposit of revenues and payment of certain refunds. All remaining balances therein are transferred to the General Fund. Table 4 shows departmental revenue operating costs and net General Fund revenues.

Table 4  
Department of Insurance, Revenues and Costs

<i>Fiscal year</i>	<i>Revenue received</i>	<i>Cost of operation</i>	<i>Net General Fund Revenue</i>
1969-70	\$4,481,161	\$4,024,726	\$56,435
1970-71	4,550,000	4,465,418	84,582
1971-72	4,868,343	4,767,316	101,027

## RIOT AND CIVIL DISORDERS INSURANCE

Item 163 from the General Fund

Vol. II p. 52 Budget p. 100

Requested 1971-72	\$1,750,000
Estimated 1970-71	1,600,000
Actual 1969-70	1,500,000
Requested increase \$150,000 (9.4 percent)	
Total recommended reduction	None

## GENERAL PROGRAM STATEMENT

The 1967 riots and civil disturbances in American cities, including the Watts area in Los Angeles, brought such tremendous losses to insurance companies that they were no longer able to provide adequate property insurance coverage against fire, vandalism, and other perils at a reasonable cost to owners of residential, business and other private property situated in many inner city areas. High premium rates or the inability of property owners to secure any insurance in such situations resulted from the lack of a reinsurance facility for insurance companies (i.e., another insurance company which insures a portion or all of the liability on the risk). Reinsurers found the reinsuring of the policies written on riot hazards to be uneconomic.

In response to this situation, Congress passed the 1968 Urban Property Protection and Reinsurance Act which established a program, requiring state financial participation, under which reinsurance is made available to companies operating in states where reinsurance has been difficult or impossible to obtain because of potential riot losses. It is contemplated that this program will terminate in 1978 should conditions improve to the extent that federal riot reinsurance is no longer necessary. This act is administered by the federal Secretary of Housing and Urban Development whose administrative responsibility for the program is scheduled to end on April 30, 1975, except for (1) continuing existing reinsurance coverage until April 30, 1978, and (2) paying claims for any losses which may arise under that coverage.

## Riot and Civil Disorders Insurance—Continued

The federal law requires the secretary on April 30, 1978, or as soon thereafter as possible, to submit a plan to Congress for the liquidation and termination of the reinsurance program. The liability of the state for its share of losses would terminate on this date, and no further riot insurance premiums will be paid to the California Riot and Civil Disorders Association.

Under the federal law, insurance companies participating in a federally required state program buy reinsurance policies from the federal Secretary of Housing and Urban Development, paying the secretary a premium equivalent to approximately 1.25 percent of their earned premiums. Under the reinsurance policies, the companies agree to retain approximately 2.5 percent of earned premiums as their share of a loss. Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970) established California's program.

If losses occur in California under the riot and civil disorders reinsurance program, the companies involved pay their retained share of the loss, and the federal secretary then pays, out of reinsurance premium payments made by all of the California insurers, the additional loss, if any. In the event a loss which exceeds the insurers' retentions and their accumulated reinsurance premium payments, the state is required by the federal reinsurance act to pay the difference up to a limit of 5 percent of the aggregate earned property insurance premiums paid in California for the preceding year. Based on a projected premium base of \$700 million in 1970, the liability of the state could reach approximately \$35 million in the budget year. Because their risk of loss is thus limited, the companies are willing to sell insurance policies at reasonable rates to owners of high-risk properties.

The 1969 legislation establishing the state program (1) created the California Riot and Civil Disorders Association, a self-supporting agency, membership in which is required of all companies writing lines of insurance which are reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the association to insure the state's potential liability under the program. The premium for this insurance protection in the budget year, based on 5 percent of the state's liability limit, is the amount requested in this item. Table 1 shows earned annual property insurance premiums in California, the state's liability for riot losses, and the premium for insurance to cover that liability.

The premiums for years 1968 and 1969 were not paid until the current year. Hence, under the Controller's bookkeeping system, the total

Table 1  
Components of State Liability for Riot Losses

Year	Earned annual property insurance premiums	Maximum state liability for loss (5% of earned premiums)	State premium cost
1968 -----	\$578,252,000	\$30,000,000	\$1,500,000
1969 -----	635,000,000	32,000,000	1,600,000
1970 (est.) -----	700,000,000	35,000,000	1,750,000

of the two premiums (\$3,100,000) is shown as a current-year expenditure in the budget document. For purposes of clarity, we show the premiums as originally appropriated (\$1.5 million in 1969 by Chapter 649, Statutes of 1969, and \$1.6 million by the 1970 Budget Act).

#### Refund Provisions

Based on riot loss experience, the state's insurance contract with the association provides for annual partial refunds of the premium payments beginning January 1, 1975. The first such refund (covering premiums for the first five contract years and assuming favorable loss experience) will be 15 percent of the total premiums paid. Should conditions in core areas of cities permit termination of the federal reinsurance program by 1978 as presently planned, 75 percent of the remaining accumulated premium payments will be refunded to the state.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The \$1,750,000 requested for the state's insurance premium for fiscal year 1971-72 exceeds the estimated current-year expenditure by \$150,000 or 9.4 percent. The increase results from the application of the 5 percent premium formula to the projected earned premium base as explained above. No losses have occurred to date.

Table 2 illustrates how the riot insurance program would operate in the event of losses based on the data shown in Table 1 for year 1970.

Table 2

#### Illustration of Operation of Riot and Civil Disorders Insurance Program

Assumed net insured loss from a riot	\$60,000,000
Apply participating companies' retention at 2.5 percent of earned premiums (2.5 percent of \$700 million)	17,500,000
Loss balance	42,500,000
Apply reinsurance premium deposits held by HUD at 1.25 percent of earned premiums	8,750,000
Loss balance representing the state's liability which is covered by insurance	33,750,000

The state's \$35 million liability limit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$1,250,000. Losses exceeding the state's \$35 million liability limit would be covered by the premium payments received by the federal secretary from the insurance associations of the other participating states.

The program described, although costly to the state, provides insurance coverage against losses which might result from riots and civil disorders under a sharing method involving property owners, insurance companies, the state and the federal governments. The program, in effect, subsidizes insurance costs for owners of property in high risk areas. However, inability of citizens to secure adequate insurance at reasonable rates in areas where a riot potential exists may result in further deterioration of such areas and a mounting economic loss to the state. No state staffing is required for this program.

## DEPARTMENT OF REAL ESTATE

Items 164 and 165 from the Real Estate Fund and the Real Estate Education, Research and Recovery Fund. (Budget totals shown do not include a research allocation of \$133,200 to the University of California from the Real Estate Education, Research and Recovery Fund.)

Vol. II p. 53 Budget p. 100

Requested 1971-72		\$3,955,868
Real Estate Fund	\$3,524,267	
Education, etc. Fund	431,601	
Estimated 1970-71		3,482,650
Real Estate Fund	3,044,110	
Education, etc. Fund	438,540	
Actual 1969-70		3,510,160
Real Estate Fund	2,970,163	
Education, etc. Fund	539,997	
Requested increase \$473,218 (13.6 percent)		
Total recommended reduction		None

## GENERAL PROGRAM STATEMENT

The responsibility of the Department of Real Estate 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 created. This 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 210.4 positions. A proposed budget-year addition of 18 new positions (8 technical and 10 clerical) is discussed later in this analysis. Headquartered in Sacramento, the department maintains offices in San Francisco, Fresno, Los Angeles, and San Diego.

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

## TRANSACTION ACTIVITIES PROGRAM

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

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

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

Table 1 contains selected workload items in the Transactions Activities Program and Table 2 shows program staffing and cost data.

Table 1  
Selected Workload Data, Transaction Activity Program

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Total Licenses -----	159,167	161,950	164,730
New applications processed -----	44,579	49,000	50,000
Reexaminations processed -----	2,683	2,800	2,850
Renewal applications -----	27,450	30,000	31,500
Examinations given -----	52,088	52,000	53,000
Complaints -----	3,663	3,570	3,680
General inquiries -----	89,686	100,000	102,000
Suspensions, revocations -----	242	270	270
Recovery claims -----	42	50	50

Table 2  
Transaction Activity Program, Staffing and Cost Data

Detail	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
<i>Licensing</i>			
Man-years -----	54.5	51	56.8
Cost -----	\$805,790	\$811,489	\$939,100
<i>Regulatory and Recovery</i>			
Man-years -----	76.5	73.6	87.7
Cost -----	\$1,481,127	\$1,515,008	\$1,742,418

## OFFERINGS AND SECURITIES PROGRAM

The Offerings and Securities Program provides protection to the public with respect to the sale of in-state subdivided land and the sale of real estate securities such as notes, sales contracts, real estate syndicate securities, and out-of-state subdivisions. The program contains

## Department of Real Estate—Continued

two regulatory elements, one for in-state subdivisions and the other for real estate securities.

## Regulation of Instate Subdivisions Element

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

## Regulation of Real Property Securities Element

The department is responsible for regulating the sale of real property securities, which are classified into four categories—(1) notes, (2) sales contracts, (3) syndicate securities, and (4) offerings of out-of-state subdivisions. In each case, the department seeks to determine whether the offering is fair, just and equitable before approving applications for permits to engage in sales. Activities of this element include periodic audits of real property security dealers to ascertain whether their operations comply with statutory requirements and review and approval of advertising proposals as a means of protecting the public from fraud and misrepresentation. In the case of out-of-state subdivision offerings, the element requires an appraisal of the property before it issues a public report and sales permit. The cost of the appraisal, report and permit is paid by the subdivider.

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

Table 3  
Selected Workload Data, Offerings and Securities Program

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Subdivision filings .....	1,885	1,800	2,000
Reports issued .....	1,412	1,400	1,600
Out-of-state subdivisions filed .....	30	30	30
Securities applications .....	4	5	6
Applications approved .....	2	3	4
Syndicate applications .....	106	200	210

Table 4  
Offerings and Securities Program, Staffing and Cost Data

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
<i>Subdivisions</i>			
Man-years .....	39.8	38.8	42.8
Cost .....	\$717,536	\$714,102	\$801,505
<i>Real Property Securities</i>			
Man-years .....	7.8	12.6	11.6
Costs .....	\$133,827	\$133,502	\$141,235

## EDUCATION AND RESEARCH PROGRAM

The purpose of the department's education and research program is to improve the level of competence of license applicants and licensees, all of whom are encouraged to take professional real estate courses. The program sponsors research in all phases of real estate activity, including



study of the needs of real estate education, marketing, financing, land use, urban problems and other facets of 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>Detail</i>	<i>Actual</i>	<i>Estimated</i>	<i>Estimated</i>
<i>Schools and Attendance</i>	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>
<i>Community Colleges</i>			
Programs .....	77	73	78
Number of students .....	39,804	40,000	40,000
<i>University of California Extension</i>			
Programs .....	7	5	5
Number of students .....	2,685	2,400	2,200
<i>State Colleges</i>			
Programs .....	13	13	13
Number of students .....	960	970	975
Research projects .....	11	10	11
<i>Other Universities</i>			
Programs .....	3	3	4
Number of students .....	355	360	365
Research projects .....	9	10	15
<i>Program Requirements</i>			
Department man-years .....	2.6	2.6	2.6
Programs costs .....	\$242,003	\$195,981	\$253,988

#### ADMINISTRATION PROGRAM

The administration program includes the leadership and policy guidance activities of the commissioner's office and central services for such matters as personnel and accounting, and the publication of real estate manuals, bulletins and reference books. The program costs, shown in Table 6, are distributed to the three operational programs.

**Table 6**  
**Administrative Program, Staffing and Cost Data**

<i>Detail</i>	<i>Actual</i>	<i>Estimated</i>	<i>Estimated</i>
<i>Executive Office</i>	<i>1969-70</i>	<i>1970-71</i>	<i>1971-72</i>
Man-years .....	10.5	10	10
Cost .....	\$218,865	\$216,723	\$217,065
<i>Business Services</i>			
Man-years .....	10.9	10.4	10.5
Cost .....	\$100,900	\$105,000	\$112,800
<i>Publications</i>			
Man-years .....	2.4	2.4	2.4
Cost .....	\$87,043	\$52,963	\$77,386

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

Requested budget-year expenditures from both supporting funds total \$3,955,868, which is \$473,218 or 13.6 percent above estimated expenditures for the current year. Salary costs account for approximately 68.5 percent of the proposed budget. Reflected in the increase is a workload request for the following 18 new positions representing a salary cost of \$131,265 plus related operating expenses.

## Department of Real Estate—Continued

<i>Position</i>	<i>Function</i>	<i>Salary</i>
4 clerk-typist II -----	Licensing	\$20,400
2 stenographer II -----	Licensing	10,980
4 stenographer II -----	Regulation	21,960
1 associate property appraiser -----	Regulation	11,976
1 associate counsel -----	Regulation	16,044
6 deputy commissioner trainee -----	Regulation	49,896

During the last four fiscal years, the department has reduced its staff by more than 70 authorized positions, 42 of which were eliminated last year in anticipation of reduced workload as a consequence of the depressed economy and high mortgage interest rates. However, the department advises that real estate activity has not diminished to the extent expected and, on the basis of existing workload levels, it is now facing a serious backlog of work which can be expected to increase in the budget year unless staff is added. We are informed that because this is a special fund agency, the "freeze on hiring" recently announced by the administration will not apply to these requested additional positions.

Not included in the department's proposed budget is an additional allocation 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. The amount of the annual allotment is determined by the Real Estate Commissioner. As indicated in the statement of fund condition in the budget document, the sum scheduled to be transferred in the budget year is \$133,200, the same for the current and past fiscal years.

**Support Funds**

The Department of Real Estate is supported by two funds: the Real Estate Fund, which is composed of license and other fees, and the Real Estate Education, Research and Recovery Fund, which receives as revenue 25 percent of the fee collected for each real estate license issued or renewed. These amounts are paid into the State Treasury for credit to the fund. Approximately 7.8 percent of department's budget-year request is budgeted from the Real Estate Education, Research and Recovery Fund (excluding the special allocation to the University of California).

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

Budget estimates indicate that the surplus levels of both real estate funds are expected to increase substantially by June 30, 1972, as a result of increased real estate activity by licensees.

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

Item 166 from the Savings and Loan.

Inspection Fund

Vol. II p. 62 Budget p. 102.

Requested 1971-72	\$2,878,475
Estimated 1970-71	2,875,719
Actual 1969-70	2,702,344
Requested increase \$2,756 (0.1 percent)	
Total recommended reduction	None

**GENERAL PROGRAM STATEMENT**

The Department of Savings and Loan is administered by the Savings and Loan Commissioner, who is appointed by the Governor and serves at his pleasure. Headquarters is in Los Angeles, and a branch office is in San Francisco. Salaries and wages for the department's currently authorized staff of 163 positions represent approximately 81 percent of the budget requirements. As discussed later in this analysis, the department proposes a budget-year staff reduction of eight positions, six technical and two clerical.

The department is responsible for protecting funds of the investing public by preventing conditions and practices which would jeopardize the safety and solvency of state-regulated savings and loan associations. Institutions of the savings and loan type have existed in the state since 1865. By 1891, there were 130 "building and loan" associations in existence, and in 1893, they were placed under the regulation of a board of commissioners. Some associations have chosen to be regulated by the federal government. The size of the state-regulated industry is indicated in Table 1, which shows a decline (attributable to mergers) in the number of associations under the department's supervision. Our review of departmental statistics indicates that the increases in association assets for fiscal years 1968-69 and 1969-70 have been less than previously projected, while growth in the number of savers has exceeded projections.

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

Detail	Actual 1968-69	Actual 1969-70	Estimated 1970-71	Estimated 1971-72
Number of associations	191	154	140	130
Assets of associations (billions)	\$20.7	\$20.8	\$21.8	\$22.9
Number of Investors and savers (millions)	4.5	4.8	4.9	5.0

The department discharges its responsibilities under a single program of "Supervision and Regulation," which is divided into three elements: (1) examination, (2) appraisal, and (3) administration. In this department, the cost of administration is not prorated to the other program elements. The program elements are discussed below.

**Examination Element**

The function of the examination element is to obtain, compile, and analyze information for the commissioner indicating whether associa-

## Department of Savings and Loan—Continued

tions are complying with the law and regulations governing their operations and whether their policies and management provide for sound performance. In 1969, the law was amended to require that all associations be examined at least once every two years instead of every year, thus permitting the department a degree of flexibility in scheduling examinations more frequently for "problem" associations than for those having above average performance records. The reduced number of examinations shown in Table 2 reflects projected mergers of associations.

Table 2  
Examination Element Workload and Cost Data

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
<i>Associations Examined</i> -----	140	153	143
Below average associations -----	---	54	54
Average associations -----	---	86	76
Strong associations -----	---	13	13
<i>Holding company examinations</i> -----	20	25	25
<i>Personnel man-years</i> -----	78.3	79.5	77
<i>Cost</i> -----	\$1,374,514	\$1,488,978	\$1,480,959

## Appraisal Element

Through this program element, the commissioner secures information concerning the nature and current value of real estate loans made by associations and real estate owned by associations. This information is obtained from field appraisals of real property on which loans have been made and reviews of association lending policies covering such matters as construction loan disbursements and risk analysis. Table 3 summarizes workload and cost data for this element.

Table 3  
Appraisal Element Workload and Cost Data

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Number of appraisal examinations -----	140	140	140
Number of parcels appraised -----	4,588	4,600	4,600
Number of lending policy reviews -----	122	120	100
Personnel man-years -----	34.6	34	34
<i>Cost</i> -----	\$634,190	\$669,422	\$682,750

## Administration Element

The administration element consists of three components: (1) executive management, which provides direction and guidance in policy implementation, (2) facilities licensing, which conducts hearings and renders decisions on application for new associations, branch offices and mergers, and (3) "support services," which provides personnel, accounting, and clerical functions. This element also maintains a special advisory staff of two positions, a financial specialist and a savings and loan economist. Table 4 shows selected workload and cost data for the administration element.

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

<i>Detail</i>	<i>Actual 1969-70</i>	<i>Estimated 1970-71</i>	<i>Estimated 1971-72</i>
Executive orders -----	400	400	400
Regulations issued -----	18	20	20
Facilities hearings -----	93	111	111
Facilities decisions -----	161	180	180
Personnel man-years -----	43.5	46	43
Cost -----	\$693,640	\$717,319	\$714,768

#### ANALYSIS AND RECOMMENDATIONS

*We recommend approval.*

The department's requested budget-year expenditure of \$2,878,475 is \$2,756 above estimated expenditures for the current year. A \$97,719 salary increase is part of current-year expenditures.

The department proposes the elimination of eight currently authorized positions in the budget year (four auditors I, two clerks, and two assistant appraisers) for a saving of \$64,752. These positions are vacant, and the department states that the lower staff level reflects the efficiencies of selective scheduling of examinations, improved evaluation procedures, and the decline in the number of associations.

#### Departmental Funding

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-regulated associations. The assessment is proportional to association assets and is set at a level to cover the department's annual operating costs. At the end of the budget year, the fund will have an estimated surplus of \$1,844,772, which is sufficient to provide for support of the department for nearly two-thirds of a year at the current level of operation.

### OFFICE OF TRANSPORTATION PLANNING AND RESEARCH

Items 167-170 from the General Fund,  
 Aeronautics Fund; Harbors and Wa-  
 tercraft Revolving Fund and Motor  
 Vehicle Fund

Vol. II p. 69 Budget p. 104

Requested 1971-72 -----	\$234,100
Estimated 1970-71 -----	113,750
Actual 1969-70 -----	
Requested increase \$120,350 (105.8 percent)	
Total recommended reduction -----	None

#### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis  
page*

1. Recommend legislation to establish the State Transportation Board as a body separate from the Business and Transportation Agency. 343