

Business and Transportation Agency
DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Item 155 from the General

Fund

Budget p. 73 Program p. 360

| | |
|---|-------------|
| Requested 1972-73 | \$6,441,851 |
| Estimated 1971-72 | 6,263,277 |
| Actual 1970-71 | 5,963,481 |
| Requested increase \$178,574 (2.8 percent) | |
| Increase to improve level of service \$13,860 | |
| Total recommended reduction | None |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Fair Trade Contracts. Recommend legislation to eliminate minimum price maintenance contract and price posting provisions in the Alcoholic Beverage Control Act. 229

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 442.4 positions.

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

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

Licensing Element

The objective of licensing premises wherein alcoholic beverages are produced, sold, or consumed is to prevent unqualified persons from engaging in the sale, manufacture or importation of such beverages and to prevent such operations in locations where the peace and quiet

of the neighborhood would be disturbed and police problems aggravated. Licensing involves the investigation of applicants' background, character, and financing to assure that those who qualify will be less likely to engage in disorderly or unlawful conduct. The department processes applications from individuals, partnerships and corporations for 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

| <i>Detail</i> | <i>Calendar year</i> | | | |
|------------------------------|-----------------------|--------------------------|--------------------------|--------------------------|
| | <i>Actual</i> 1970 | <i>Estimated</i> 1971 | <i>Estimated</i> 1972 | <i>Estimated</i> 1973 |
| Total applications | 14,217 | 14,750 | 14,750 | 14,750 |
| Applications denied | 253 | 300 | 300 | 300 |
| Applications withdrawn | 1,840 | 1,550 | 1,550 | 1,550 |
| Licenses issued | 12,602 | 1,300 | 1,300 | 1,300 |
| Total active licenses..... | 49,347 | 49,575 | 49,600 | 49,700 |

Table 2 shows cost and staffing data for the licensing element.

Table 2
Cost and Staffing Data, Licensing Element

| <i>Detail</i> | <i>Fiscal year</i> | | |
|-----------------|--------------------------|-----------------------------|-----------------------------|
| | <i>Actual</i> 1970-71 | <i>Estimated</i> 1971-72 | <i>Estimated</i> 1972-73 |
| Man-years | 181.6 | 187.4 | 187.4 |
| Cost | \$2,383,085 | \$2,479,437 | \$2,558,424 |

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.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

Table 3
Selected Workload Data, Compliance Element

| <i>Detail</i> | <i>Calendar Year</i> | | | |
|-------------------------------|------------------------|---------------------------|---------------------------|---------------------------|
| | <i>Actual 1970</i> | <i>Estimated 1971</i> | <i>Estimated 1972</i> | <i>Estimated 1973</i> |
| Complaints investigated | 2,924 | 3,000 | 3,000 | 3,000 |
| Accusations filed | 2,490 | 2,750 | 2,750 | 2,750 |
| Hearings held | 1,278 | 1,400 | 1,400 | 1,400 |
| Licenses revoked | 255 | 225 | 225 | 225 |
| Arrests | 1,640 | 1,600 | 1,600 | 1,600 |

Table 4, showing cost and staffing data for the compliance element, reflects the proposed addition of an investigative auditor for the department's northern division. Presently, the department is authorized one investigative auditor who is based in Los Angeles and used throughout the state. Investigative workload now warrants the addition of an auditor for the department's northern division. Based on the department's experience in the southern region, the auditor position should more than recoup its cost from compromise (penalty) payments arising from investigations. The law authorizes such payments in lieu of license suspension for violations of rules.

Table 4
Cost and Staffing Data, Compliance Element

| <i>Detail</i> | <i>Fiscal Year</i> | | |
|-----------------|---------------------------|------------------------------|------------------------------|
| | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
| Man-years | 145.1 | 149.6 | 150.6 |
| Cost | \$2,280,614 | \$2,386,544 | \$2,450,047 |

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

| <i>Detail</i> | <i>Fiscal Year</i> | | |
|------------------------|---------------------------|------------------------------|------------------------------|
| | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
| General Administration | | | |
| Man-years | 96.3 | 99.3 | 99.3 |
| Cost | \$1,367,963 | \$1,417,296 | \$1,453,380 |

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

During the budget year, the department proposes an expenditure of \$6,441,851 which is \$178,574 or 2.8 percent above estimated current-year expenditures. This increase is comprised of \$55,896 for operating expenses and equipment and \$119,678 for salaries, wages and staff benefits. Included in the wage increase is \$13,860 for the previously mentioned investigative auditor in the department's northern regional office.

In past years, we have commented critically on the department's estimated level of salary savings. The department is estimating budget-year salary savings of \$131,058 representing six man-years. Based on the department's previous experience, this estimate again appears to be 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.

Policy Recommendation

We recommend legislation to eliminate all minimum price maintenance contract and posting requirements in the Alcoholic Beverage Control Act.

As discussed in previous analyses, we believe that the minimum price maintenance and price-posting requirements in the Alcoholic Beverage Control Act serve primarily to protect the liquor industry from the effects of a "free market" thus denying the public the price advantages found in free and open competition and imposing a substantial public cost. The price-posting provisions constitute, in effect, a subsidy to the alcoholic beverage industry because the state's police power is used to enforce a minimum pricing structure established by the industry. There is evidence that under free trade conditions, average retail liquor prices would decline. Moreover, abolition of these laws would save the state an estimated \$100,000 annually in enforcement costs.

The experience of the State of New York appears supportive of this recommendation. In 1964 New York removed the minimum resale price provisions from its Alcoholic Beverage Control Law, added a prohibition on sales below "cost," and repealed restrictions concerning required distances between package liquor stores. Thereafter, advises the New York State Liquor Authority, retail prices fell considerably in competitive areas, with some "discounters" selling some items at 2 to 3 percent over their bottle cost. In 1971 the statute was amended to define "cost" as the scheduled bottle price (i.e., the

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL—Continued

price to the retailer) plus 12 percent, and a provision was added requiring wholesalers to file schedules of prices to retailers showing the minimum resale price under the 12-percent law.

There were about 4,200 package liquor stores in New York State in 1964, a figure that had remained relatively constant during a 17-year moratorium on the issuance of new off-premises liquor licenses. Some 1,800 new license applications were received in 1964, the year the moratorium was lifted, and in the intervening period the number of new licenses issued brought the total to 5,500. During the past two years, the total number has declined to approximately 5,000, which is still substantially above the 1964 level. The New York State Liquor Authority, noting that many of the 500 retail stores which have ceased business were first licensed in 1965 or later, concludes that the absence of a minimum price law was a factor in their closing "but not necessarily the only reason."

As a means of eliminating the possibility of ruinous competition in the liquor industry, California could consider, in conjunction with repeal of the present price control law, the enactment of legislation similar to that adopted by New York prohibiting retail sales at less than a fixed percentage (such as 10 or 12 percent) above cost. "Cost" could be defined as the bottle price to the retailer.

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 1972-73 will amount to \$7,100,000, which exceeds the estimated departmental cost of operations for the same period by \$658,149.

Business and Transportation Agency**ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD**

Item 156 from the General

Fund

Budget p. 73 Program p. 365

| | |
|--|-----------|
| Requested 1972-73..... | \$140,203 |
| Estimated 1971-72 | 135,998 |
| Actual 1970-71 | 127,889 |
| Requested increase \$4,205 (3.1 percent) | |
| Total recommended reduction | None |

GENERAL PROGRAM STATEMENT

The Alcoholic Beverage Control Appeals Board was established by a constitutional amendment in 1954 to provide an administrative review for any person aggrieved by a decision of the Department of Alcoholic Beverage Control relating to penalty assessments or to the issuance, denial, transfer, suspension or revocation of any alcoholic beverage license. The board consists of a chairman and two members appointed by the Governor with the consent of the Senate and serving at the Governor's pleasure. The board members are salaried and meet regularly in Los Angeles, San Francisco and Sacramento. Board staff consists of two attorneys and two senior legal stenographers. Approximately 25 percent of the possible appealable decisions rendered by the department over the years have actually been appealed to the board. The board is an independent agency and is not 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 |
| 1970-71 | 223 | 196 |

In fiscal year 1970-71, as indicated in Table 1, 223 appeals were filed with the board and the board issued 196 decisions. Twenty-eight of those decisions reversed the action of the department. The depart-

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD—Continued

ment sought court review of four of the reversals, and licensees sought court review of 36 cases in which the appeals board had 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 \$140,203, which is \$4,205 or 3.1 percent greater than estimated expenditures for the current year. This increase consists of \$2,607 for salaries, wages and staff benefits and \$1,598 for operating expenses.

It should be noted that elimination of the Alcoholic Beverage Minimum Price Law would save a portion of this agency's cost as discussed in our analysis of the Department of Alcoholic Beverage Control.

**Business and Transportation Agency
STATE BANKING DEPARTMENT**

Items 157 and 158 from the
General Fund and the State
Banking Fund

Budget p. 74 Program p. 369

| | |
|-----------------------------------|----------|
| State Banking Fund | |
| Requested 1972-73..... | \$32,500 |
| Estimated 1971-72 | 32,500 |
| Requested increase—None | |
| Total recommended reduction | None |

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1483, Statutes of 1969, established a "local agency security" program under which the Superintendent of Banks is designated as the "Administrator of Local Agency Security" with the responsibility of supervising the handling of county, city and district funds by depository banks, both state and national (see our analysis of Item 159). Operating costs for the budget year are estimated at \$32,500.

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.

**Business and Transportation Agency
STATE BANKING DEPARTMENT**

Item 159 from the Banking

Fund

Budget p. 74 Program p. 367

| | |
|---|-------------|
| Requested 1972-73 | \$1,626,134 |
| Estimated 1971-72 | 1,470,895 |
| Actual 1970-71 | 1,371,071 |
| Requested increase \$155,239 (10.6 percent) | |
| Total recommended reduction | None |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Training. Recommend State Banking Department discontinue use of United California Bank's management training program to train entry-level examiners.

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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 86 positions. As discussed later in this analysis, the department proposes a net addition of nine positions in the budget year. The department currently engages in the following five programs:

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

LICENSING AND SUPERVISION OF BANKS AND TRUST COMPANIES

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

Investigation of Applications

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

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

Table 1
Bank and Trust Company License Applications
Workload and Staffing Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--|---------------------------|------------------------------|------------------------------|
| New banks | 23 | 24 | 24 |
| New branches | 78 | 80 | 85 |
| New trust facilities | 1 | 1 | 1 |
| Applications for new foreign banking | 2 | 5 | 7 |
| Program cost | \$69,608 | \$75,645 | \$83,221 |
| Man-years utilized | 4 | 4.3 | 4.6 |

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 super-

STATE BANKING—Continued

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--------------------------------------|---------------------------|------------------------------|------------------------------|
| Number of Institutions | | | |
| Banks..... | 85 | 94 | 102 |
| Branches..... | 656 | 715 | 776 |
| Trust companies..... | 8 | 9 | 10 |
| Foreign bank corporations | 23 | 28 | 35 |
| Input Data—Bank Supervision | | | |
| Cost | \$965,536 | \$1,046,827 | \$1,174,639 |
| Man-years..... | 55.3 | 59.2 | 65.4 |
| Input data—trust company supervision | | | |
| Cost | \$87,572 | \$97,606 | \$106,413 |
| Man-years..... | 5 | 5.5 | 6 |

vision and periodic examination by the Banking Department. Workload, cost and staffing data are shown in Table 3.

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|----------------------------|---------------------------|------------------------------|------------------------------|
| Companies supervised | 7 | 9 | 9 |
| Agents licensed | 5,000 | 6,000 | 6,000 |
| Program costs | \$2,500 | \$2,500 | \$2,500 |
| Man-years | 0.1 | 0.1 | 0.1 |

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-chartered 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. It is the department's view that under the current regulatory structure covering security issuance, continued supervision in this area by the banking department is no longer necessary. Legislation transferring this responsibility to the Department of Corporations, which is already authorized to supervise the issuance of securities, failed in the 1970 and 1971 legislative sessions. Table 4 shows program workload and cost data for the certification of securities element.

Table 4
Workload and Cost Data, Certification of Securities

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|-----------------------------|---------------------------|------------------------------|------------------------------|
| Applications received | 135 | 130 | 130 |
| Securities certified | 114 | 120 | 120 |
| Program cost | \$2,500 | \$2,500 | \$2,500 |
| Man-years | 0.1 | 0.1 | 0.1 |

ADMINISTRATION OF LOCAL AGENCY SECURITY

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

The department originally requested, and the Legislature authorized, five positions at a cost of \$73,500 to administer this program in 1970-71. Last year, on the basis of a departmental estimate that the program would only require the equivalent of three full-time positions, two of the five positions were deleted from the budget. Based on subsequent workload experience, the department has transferred 2.1 of the remaining positions to other activities and reports that it needs only a part-time position (0.9 position) to administer the program at a budget-year cost of \$32,500, including travel and pro rata overhead charges.

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

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--------------------------------|---------------------------|------------------------------|------------------------------|
| Participating Banks | — | 140 | 140 |
| No. of Agency Depositors | — | 1,500 | 1,500 |
| Aggregate Deposits | — | \$2 billion | \$2 billion |
| Program Costs | \$24,594 | \$31,164 | \$32,500 |
| Man-years | 0.7 | 0.9 | 0.9 |

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|---------------------------|---------------------------|------------------------------|------------------------------|
| Cost | \$257,689 | \$245,817 | \$256,861 |
| Personnel man-years | 13.2 | 12.9 | 12.9 |

STATE BANKING—Continued**ANALYSIS AND RECOMMENDATIONS***We recommend approval.*

The department proposes an expenditure of \$1,626,134, which is a net increase of \$155,239 or 10.6 percent above estimated expenditures in the current year. However, reimbursements estimated at \$32,500 in the budget year (representing recovery of the cost of administering the local agency security program) will produce a total expenditure program of \$1,658,634. The increase consists of \$148,898 in salaries, wages and staff benefits, and \$7,677 in operating expenses. The major portion of the salary increase (\$122,610) is attributable to a proposed total of 11 new positions—10 examiners and one legal counsel. This request, combined with the deletion of two authorized clerical positions, results in a net increase of nine positions.

Workload Crisis Requires New Positions

The department advises that the new examiners are needed to meet an examination workload that has grown substantially since 1968 and resulted in a serious backlog. The number of authorized bank examiner positions has remained fairly constant since 1968 while the assets of commercial banks subject to examination by the department have increased by eight percent annually. As a result, for the past two years the department has not been able to comply with statutory requirements to examine each bank once each calendar year. In 1970, the department was unable to examine 17 of the 84 banks (with assets of \$1.0 billion) under its supervision, and in 1971 it failed to examine 26 of the 86 banks (with assets of \$2.5 billion) under its supervision.

A similar workload problem exists in the trust examination element which, during the past five years, has experienced a 26-percent increase in court-established trusts and approximately a 100-percent increase in private trust activity. As a result, the department anticipates that with presently authorized staff it will be able to examine in the current year only 22 of the 28 banking trust departments which are under its supervision. The department also states that during the past three years, it has examined the records of none of the more than 6,000 agents of transmitters of money abroad and that in 1971 it was unable to make all required EDP examinations of banks having EDP facilities. The 10 new examiner positions requested is the maximum number that can be effectively trained during the budget year, but the department believes that additional examiners could be justified on a workload basis.

The department's legal element, which presently consists of two authorized attorneys, is requesting the legal position to handle a back-

log of daily legal activities and assist in the development of uniform regulations and policies.

In view of the department's special fund financing and the availability of ample revenues and fund surpluses (as noted in the statement on departmental funding below), workload conditions should not have been allowed to reach crisis proportions before apprising the Legislature of the need for additional positions. The pattern of workload growth has been apparent for the past three years. Staff adjustments should have been proposed during that time to meet the department's statutory responsibilities and avoid the backlog problems that now exist.

Departmental Funding

The department is supported by the State Banking Fund, which consists of assessments (now at 70 percent of the authorized maximum rate) paid by banks and trust companies, license and application fees and service charges. Budget-year revenues accruing to the fund are estimated at \$1,676,750, which is \$50,616 more than proposed expenditures. The fund will have an estimated surplus of \$1,048,763 at the end of the budget year.

Policy Recommendation

We recommend that the State Banking Department discontinue the use of the United California Bank's management training program to train entry-level examiners.

For about the past 18 months, in lieu of continuing an on-the-job training program, the department has assigned its beginning examiners to a 14-week training program conducted by United California Bank for its new management level staff. The State Banking Department personnel attend at no state cost except for their regular salaries. The department states that it is utilizing the program because, for the past year or so, its new examiners have tended to be less experienced and have needed more intensive training than the in-service method of training offered. The propriety of using one particular banking institution for training purposes is open to serious question. No state agency should have to rely on a licensee to train the agency's audit or examiner personnel.

Business and Transportation Agency**DEPARTMENT OF CORPORATIONS**

Item 160 from the General

Fund

Budget p. 75 Program p. 372

| | |
|--|-------------|
| Requested 1972-73 | \$3,187,000 |
| Estimated 1971-72 | 3,190,811 |
| Actual 1970-71 | 3,076,224 |
| Requested decrease \$3,811 (0.1 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 281 positions, but the department proposes a reduction of 7 for a total of 274 in the budget year. In addition to an office of policy, the department consists of four divisions—administration, corporate finance, lender-fiduciary laws, and trading and markets.

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

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

SECURITIES AND FRANCHISE PROGRAM

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

Securities Qualification

The Corporate Securities Law provides that all proposed security issues, with certain exceptions, must be "qualified" (approved) by the corporation commissioner before they may be sold in California. Securities which need not be qualified include certain issues offered to a limited number of purchasers under conditions specified in the Corporations Code. To ascertain compliance with the law, the department reviews notices of intent filed by corporations proposing to issue such securities. Upon application for qualification of nonexempt securities, the commissioner reviews the applicant's business history and financial condition and determines whether the proposed plan of business and security issuance is fair, just and equitable. If he so finds, he allows the proposed issue to become effective, either by issuing a permit or by a process known as "coordination" or, in cases where the securities are already registered with the federal Securities and Exchange Commission, "notification". Unless the commissioner issues a stop order, authorization to issue such securities is automatically given at the same time that the federal registration becomes effective under the coordination procedure and at the end of 10 days under the notification procedure. Workload and costs of this activity are shown in Table 1.

Our review of securities qualification statistics indicates that recent workload and cost projections have not materialized, largely as a consequence of adverse economic conditions, and the department accordingly is proposing to reduce staff in this element as reflected in Table 1.

Table 1
Securities Qualification Workload and Cost Data

| <i>Security issues approved</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|----------------------------------|---------------------------|------------------------------|------------------------------|
| Permit method | 5,851 | 7,000 | 7,200 |
| Coordination method | 1,395 | 2,000 | 3,000 |
| Notification method..... | 247 | 400 | 500 |
| Notices of exempt offerings..... | 13,145 | 15,000 | 16,500 |
| Orders issued..... | 5,786 | 10,050 | 12,500 |
| Personnel man-years | 108.6 | 116.4 | 110.2 |
| Cost | \$1,797,294 | \$1,968,207 | \$1,929,778 |

Franchise Registration

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

DEPARTMENT OF CORPORATIONS—Continued

agement of the franchise poses an unreasonable financial risk to prospective franchisees.

Table 2
Franchise Workload and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|------------------------------|---------------------------|------------------------------|------------------------------|
| Franchise registration | 174 | 450 | 650 |
| Personnel man-years | 1.8 | 4.8 | 4.8 |
| Cost | \$32,837 | \$81,748 | \$85,000 |

Regulation and Enforcement

To transact business in California, broker-dealers, agents, commodity advisors and investment advisors must apply to the department for licenses or certificates of operation and all applicants, other than agents, must file financial statements. The department reviews the background and financial information contained in the applications and issues a certificate or license to qualified applicants. This element also investigates complaints filed by the public and takes disciplinary action or institutes criminal proceedings against licensees as required. Table 3 shows workload and cost data for the regulation and enforcement element.

Table 3
Regulation and Enforcement Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|-----------------------------------|---------------------------|------------------------------|------------------------------|
| Licenses issued | 30,988 | 34,000 | 36,000 |
| Consents to transfer | 7,591 | 8,000 | 8,500 |
| Enforcement cases processed | 1,766 | 2,250 | 2,500 |
| Personnel man-years | 50.7 | 51 | 51.2 |
| Cost | \$847,222 | \$860,500 | \$895,000 |

LENDER-FIDUCIARY PROGRAM

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

Retirement Systems' Law of 1949, the department licensed and periodically examined the banks of certain nonpublic retirement systems. In 1958, the federal 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. Chapter 1443, Statutes of 1970, eliminated the state's licensing and periodic examination provision for retirement systems and enacted disclosure standards similar to the federal standards. This has resulted in a substantial decline in the Retirement Systems' Disclosure Law element's workload and cost of operation.

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|---|---------------------------|------------------------------|------------------------------|
| Licensed locations | 4,190 | 4,350 | 4,500 |
| Investigations and examinations conducted | 2,785 | 2,850 | 2,950 |
| Personnel man-years | 92.8 | 85.8 | 83.8 |
| Cost | \$1,444,771 | \$1,347,672 | \$1,355,200 |

ADMINISTRATION

The department's administration program comprises two elements, general office activities and accounting and personnel matters. The program, which has an authorized staff of 14 positions, is requesting a 1971-72 budget of \$196,893, an increase of approximately \$9,700 over current-year expenditures. These administrative costs are prorated to the department's two operating programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The request of \$3,187,000 is \$3,811 or 0.1 percent under estimated expenditures for the current year. However, the department anticipates budget-year reimbursements of \$1,077,978, primarily representing fees for examining financial records of licensees, resulting in a total proposed expenditure program of \$4,264,978.

Because of reduced workload, the department proposes the elimination of seven currently authorized positions (two clerk II's, two auditor I's, two legal counsels and a special investigator) for a savings of \$64,296. It also expects a salary savings of \$100,000 from normal personnel turnover.

Departmental Funding

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

Table 5
Departmental Revenue and Expenditures

| <i>Fiscal Year</i> | <i>Revenue</i> | <i>Expenditures (net)</i> |
|---------------------------|----------------|---------------------------|
| 1970-71 (actual) | \$5,900,944 | \$3,076,224 |
| 1971-72 (estimated) | 5,974,250 | 3,190,811 |
| 1972-73 (estimated) | 6,591,650 | 3,187,000 |

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Item 161 from the General
Fund

Budget p. 76 Program p. 379

| | |
|---|-------------|
| Requested 1972-73 | \$1,312,662 |
| Estimated 1971-72 | 1,273,672 |
| Actual 1970-71 | 1,805,549 |
| Requested increase \$38,900 (3 percent) | |
| Total recommended reduction | None |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

- | | |
|--|-----|
| 1. Rural Housing Services. Recommend the department make its general and technical assistance services on rural housing available to migrant farm labor in order to provide, when requested, information on how to obtain help in securing low-income permanent housing. | 389 |
| 2. Labor Camp Inspectors. Recommend the department encourage its labor camp inspectors to develop a working knowledge of Spanish. | 389 |
| 3. Equalize Inspection Workload. Recommend the department equalize the employee housing and labor camp inspection workload among the different areas of the state. | 388 |

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.

As a result of Chapter 1320, Statutes of 1971 (AB 2955), effective March 1972, the name of the two divisions will be changed to Division of Codes and Standards and Division of Research and Assistance, respectively.

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

| Program elements | Man-Years | | | Expenditures | | |
|-------------------------------------|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1970-71 | Estimated 1971-72 | Proposed 1972-73 | Actual 1970-71 | Estimated 1971-72 | Proposed 1972-73 |
| State Housing Law and | | | | | | |
| Earthquake Protection Law | 6.2 | 7.4 | 7.1 | \$117,889 | \$129,620 | \$130,715 |
| Employee housing and | | | | | | |
| labor camps | 8.5 | 10.0 | 9.5 | 157,105 | 174,719 | 171,270 |
| Mobilehome parks and | | | | | | |
| accessory structures | 35.0 | 27.8 | 28.2 | 602,832 | 516,529 | 527,827 |
| Mobilehome manufacturers | 32.5 | 48.9 | 49.1 | 618,694 | 865,551 | 910,378 |
| Factory-Built Housing Law | 3.7 | 6.5 | 6.7 | 81,224 | 129,378 | 130,604 |
| Special projects ¹ | 3.5 | 2.9 | 2.9 | 65,471 | 58,976 | 57,468 |
| Totals | 89.4 | 103.5 | 103.5 | \$1,643,215 | \$1,874,773 | \$1,928,262 |
| Reimbursements | | | | | | |
| Federal | | | | -8,707 | — | — |
| Other | | | | -44,564 | -865,551 | -910,378 |
| General Fund cost | | | | \$1,589,944 | \$1,009,222 | \$1,017,884 |

¹ Includes Earthquake Protection Law for past and current fiscal years.

Total expenditures in the budget year are \$53,489 (2.8 percent) above the current year level, but most (\$44,827) of this increase is in the mobilehome inspection element. This element, however, is budgeted on a complete reimbursement basis. Therefore, this increase will be offset by an identical increase in mobilehome inspection revenues, with the result that General Fund costs of the entire program will increase by \$8,662, or 0.86 percent.

For several years the Legislature has maintained the policy that

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

direct inspection costs of all housing standards inspection elements be completely fee-supported. As indicated in our 1971-72 analysis, the department made substantial progress in that direction during the past fiscal year, and now informs us that, for both current and budget years, anticipated inspection revenues will cover all the proposed direct inspection costs. Revenue estimates and projected costs for each inspection element for the budget year are shown in Table 2.

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.

During the budget year, general assistance activities will be (1) reduced slightly for the State Housing Law, (2) reduced by about two-thirds for the mobilehome park category, and (3) increased slightly for the employee housing and special project elements. Workload in the mobilehome park and accessory structure element is expanding rapidly, but the staff has remained constant, with the result that general assistance services will have to be reduced.

Table 2
Building and Housing Standards Inspection Program 1972-73

| <i>Inspection elements</i> | <i>Man-years</i> | <i>Estimated inspection revenue</i> | <i>Costs</i> | | |
|---------------------------------|------------------|---|------------------------------|-------------------------------|-----------------------|
| | | | <i>Direct inspection</i> | <i>General assistance</i> | <i>Total cost</i> |
| State Housing Law and | | | | | |
| Earthquake Protection Law | 7.1 | \$50,000 | \$50,000 | \$80,715 | \$130,715 |
| Employee housing and | | | | | |
| labor camps | 9.5 | 85,000 | 85,000 | 86,270 | 171,270 |
| Mobilehome parks and | | | | | |
| accessory structures | 28.2 | 480,000 | 480,000 | 47,827 | 527,827 |
| Mobilehome manufacturers | 49.1 | 910,378 | 910,378 | — | 910,378 |
| Factory-Built | | | | | |
| Housing Law | 6.7 | 130,604 | 130,604 | — | 130,604 |
| Special projects | 2.9 | — | — | 57,468 | 57,468 |
| Totals | 103.5 | \$1,655,982 | \$1,655,982 | \$272,280 | \$1,928,262 |

Table 3
District Representative Comparative Workload Information Estimates for 1971-72
 (as of November 1971)

| <i>Inspection responsibility</i> | | | | | | | | | | | |
|----------------------------------|----------------------------------|-------------------------|---------------|-------------------------|-------------------------|--------------------------------------|---------------|----------------------------------|----------------------|--------------------------------------|---------------|
| <i>Area office</i> | <i>Number of DR's Man-yr</i> | <i>Employee housing</i> | | <i>Mobilehome parks</i> | | | | <i>SHL & EPL¹</i> | | <i>Factory-built housing</i> | |
| | | <i>Camps on record</i> | <i>Man-yr</i> | <i>Number of parks</i> | <i>Number of spaces</i> | <i>Accessory structures per year</i> | <i>Man-yr</i> | <i>GA² Man-yr</i> | <i>DI Man-yr</i> | <i>Number of manu- facturers</i> | <i>Man-yr</i> |
| Northern----- | 10 | 1,346 | 2.64 | 842 | 30,298 | 2,255 | 5.88 | 0.18 | 1.11 | 6 | 0.19 |
| Central----- | 10 | 1,595 | 3.17 | 620 | 28,881 | 3,621 | 5.19 | 0.27 | 0.97 | 7 | 0.40 |
| Southern----- | 8 | 368 | 2.12 | 206 | 16,321 | 2,924 | 3.84 | 1.07 | 0 | 21 | 0.97 |
| Totals----- | 28 | 3,309 | 7.93 | 1,668 | 75,500 | 8,800 | 14.91 | 1.52 | 2.08 ³ | 34 | 1.56 |

¹ State Housing Law and Earthquake Protection Law.

² Man-years spent on "general assistance."

³ Man-years spent on direction inspection in Mariposa, Sierra, and Trinity Counties.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

General Description of Inspection Program Elements. The direct inspection activities of this division are performed by 60 authorized positions, called district representatives. During 1971-72 these positions will perform the equivalent of 57 man-years of work. Half of these representatives are assigned to the mobilehome inspection program which is budgeted on a reimbursement basis, the remaining 28 positions are shared by the other five inspection elements, which means that each inspector is responsible for the enforcement of the law and providing "technical assistance" in the fields of employee housing, mobilehome parks and accessory structures, factory-built housing, as well as the State Housing and Earthquake Protection Laws. The amount of enforcement-time spent on each of these elements in each district is supposed to be regulated by the local workload.

In order to evaluate the department's inspection capability, we requested detailed workload information on its current inspector force and this information for the five elements, which share the district representatives, is shown in Table 3.

Workload information for the mobilehome inspection element is shown in a table under the budget discussion of that element.

State Housing Law and Earthquake Protection Law

This element is responsible for the establishment, interpretation and enforcement of statewide minimum building and housing, as well as earthquake protection standards. The State Housing Law and the Earthquake Protection Law designate the appropriate local authorities as primary enforcement agencies. Their responsibilities include issuance of building permits, inspection and fee collection. They may establish regulations different than those prescribed by state law only after satisfying the department that local conditions justify such divergence. In this case, the state acts only in an advisory capacity. With the recent addition of Alpine County, 55 counties have now assumed local inspection responsibility. In Mariposa, Sierra and Trinity Counties, however, the department remains the primary inspection authority and these counties indicate that they do not wish to take over enforcement responsibility. For the budget year, enforcement of the Earthquake Protection Law has been transferred, together with its 0.5 man-year of inspector personnel, from special projects to this element. The 0.3 man-year net staff reduction for this element is due to cut-backs in supervisory and clerical personnel, in order to reduce overhead.

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 department has the inspection responsibility, unless assumed by a city or county enforcement agency. To

date, only Kern, San Bernardino and Stanislaus Counties have assumed local enforcement responsibility.

Inspection Problems Continue. The current law requires annual inspection of camps with five or more occupants. Legislation enacted in 1970 and effective in 1971 imposed inspection fees and registration fees, based on the number of occupants. The department contends that this inspection function, for the first time, will be self-supporting in that fee revenues will cover direct inspection costs during fiscal 1971-72.

During the first half of this fiscal year, about 1,700 labor camps were registered under the new law. There are about 3,300 camps on record with the department, which have been active at some time in the recent past.

In the event of nonregistration, or other noncompliance with the law, the enforcing agency may order such camps closed, but currently it has no authority to prosecute violators. It may only request legal action through the district attorney. If that office does not act promptly, or fails to support the enforcement agency in its complaint, these camps may continue to operate.

Each district representative allocates his total inspection time among the five inspection elements shown in Table 3. In recent years, the workload in several elements, mobilehome parks and accessory structures, in particular, has increased considerably. Due to budgetary restrictions, however, the added workload was absorbed by the existing staff through readjusting inspection time among the five elements, usually at the cost of labor camp inspection. As a result of the legislative mandate to cover direct inspection costs, the department allocated its inspector staff to concentrate their efforts on the better revenue-producing elements, such as mobilehome parks and accessory structures, instead of spending time on the low-revenue-yielding and time-consuming labor camp inspection.

Inspection Activity Increased. A review of the department's employee housing inspection activity indicates improvement during calendar 1971. This was largely due to the enactment of Chapter 1062, 1970 Statutes, that mandated annual inspection of all active labor camps with five or more occupants. The department rescheduled inspection workloads of the district representatives, in order to gain additional inspection time for employee housing. It now indicates that 7.9 inspector man-years will be spent on this activity during the cur-

Table 4
Employee Housing Inspection Record for Calendar 1971

| Area | Camps ¹ on record | Registered | Inspected | Approved | Closed ² | Referred to dist. attorney |
|----------------|---------------------------------|------------|-----------|----------|---------------------|-------------------------------|
| Northern..... | 1,346 | 596 | 581 | 483 | 27 | 7 |
| Central | 1,595 | 829 | 829 | 469 | 112 | 5 |
| Southern | 368 | 297 | 278 | 94 | 59 | 10 |
| Totals | 3,309 | 1,722 | 1,688 | 1,046 | 198 | 22 |

¹ On record as of November 1971.

² Closed as direct result of department's action.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

rent year, up from the originally budgeted 6.0 inspector man-years. Table 4 summarizes the department labor camp inspection activity for calendar 1971.

New Law Expected to Improve Enforcement. Chapter 1720, Statutes of 1971, strengthened the state's enforcement efforts by authorizing the Attorney General's office, upon the department's request, to investigate and prosecute violations of the law.

The effectiveness of the new enforcement, however, will depend on the extent of inspection coverage, as well as on the speed and effectiveness of investigation and prosecution of the violators.

We note that, for fiscal 1972-73, the department proposes a total personnel strength of 9.5 man-years, 6 man-years of which represent inspector personnel. The latter figure would be a 1.9 man-year reduction from the current-year level (see Table 3). The department is proposing this staff reduction, because it expects a workload reduction due to (1) better enforcement and (2) the anticipated takeover of this inspection activity by certain counties. We fail to see the basis for this reduction in workload. In prior years there also were rumors about the possible takeover of this inspection responsibility in certain counties. However, neither Fresno nor San Joaquin Counties, the two candidates referred to by the department, have indicated a definite commitment to take over this enforcement responsibility. *As a result, the department's proposed cutback in this inspection activity is premature.*

Variations in Inspection Workload. An examination of the department's workload statistics indicates wide variations in the number of labor camps per inspector. For example, in San Diego County, 0.4 man-year was spent inspecting 35 labor camps, while in Fresno County, 0.6 of a man-year was allocated to the inspection of 159 camps. *We recommend that the department equalize the inspection workload among the different areas of the state.*

It should be possible to shift inspectors so that they may temporarily help out in districts with heavier workloads. The department has done this in the past to cover increased mobilehome park and accessory structure workload and also to insure coverage of one-man districts during periods of illness.

Our review of the detailed inspection workload information indicates that districts in the central area, Fresno County in particular, could periodically use additional help to provide adequate labor camp inspection coverage.

Housing Guidance for Migrant Farm Labor Needed. At present, an almost total lack of federal, state or local housing programs for migrant farmworkers has left that responsibility to farmers or to manag-

ers of corporate farms. These people do not wish to be in the labor camp business, but provide such service because they need migrant farm labor. In the past, migrant workers were housed in large labor supply camps and, lacking transportation, were usually bused to work by the contractors. Now, many workers have their own cars and could commute to work if there were adequate housing nearby and if costs were within their budgetary limits. As a result of agricultural mechanization, the need for migrant farm labor is diminishing. No one realizes this more acutely than the migrant farm worker. He would like to settle down and obtain permanent work, but, usually, he is untrained and there is insufficient permanent housing available for him in certain areas of the state.

The Farmers' Home Administration and the Department of Housing and Urban Development provide federal help for building low-income housing and the Department of Housing and Community Development's technical assistance program will help the permanently located rural needy to secure such federal help. But, at present, there is no such service available to migrant farm labor.

We recommend that the department make its general and technical assistance services on rural housing available to migrant farm labor, in order to provide, when requested, information on how to obtain help in securing low-income housing.

Farm Labor Camp Inspectors Should Know Spanish. In certain areas, the southern counties in particular, inspectors encounter situations when they are unable to communicate in English with any of the labor camp residents. In the interest of improving the working relationship between inspector and residents, *we recommend that the department encourage its labor camp inspectors to develop a working knowledge of Spanish.*

In addition to improving the working relationship, this action may also provide information which could be used to improve inspection and enforcement.

Mobilehome Parks and Accessory Structures

Mandated by the Health and Safety Code, the department establishes preemptive, uniform health and safety standards for the construction and operation of mobilehome recreational parks. It is also responsible for establishing uniform construction and safety standards for mobilehome accessory structures. Such regulations insure statewide standardized construction, utility hookup, health and sanitation rules for the parks. They also allow manufacturers of accessory structures to receive a single state approval, acceptable to all enforcement agencies. Standards are enforced by the department, or may be delegated, upon request, to local agencies that are capable of effective enforcement. Fees are collected by the appropriate enforcement agency for park construction and annual operating permits, as well as for the erection and inspection of accessory structures.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

Inspection Workload Increases. As a result of a 1970 statutory change, requiring biennial rather than annual inspection of parks and the anticipated takeover by several local enforcement authorities, the department reduced its staff for this element by six man-years during 1971-72. However, it did not experience its anticipated reduction in workload, because of a steady increase in mobilehome park construction. Table 5 shows the anticipated increase in the department's mobilehome park inspection workload during the budget year.

Table 5
Mobilehome Park Inspection Workload

| | <i>Actual</i> 1970-71 | <i>Revised estimate</i> 1971-72 | <i>Estimated</i> 1972-73 |
|--|--------------------------|------------------------------------|-----------------------------|
| Number of parks | 1,741 | 1,668 | 1,850 |
| Number of spaces | 73,872 | 75,500 | 77,000 |
| Number of accessory structures per year | 8,000 | 8,800 | 10,000 |
| Inspector man-years allocated | 22.2 | 18.0 | 18.0 |

The proposed budget indicates an 0.4 man-year total personnel increase for this element, but the increase is proposed only in supervisory and clerical personnel. The inspector man-years remain unchanged, in spite of an anticipated workload increase. We mentioned earlier that, in the past, inspector time had been diverted from other elements to cover the increased workload in mobilehome parks. In light of the anticipated workload, this transfer may occur again in 1972-73.

Mobilehome Manufacturers

The Health and Safety Code specifies uniform minimum construction and inspection standards for mobilehomes, commercial coaches and travel trailers, in order to insure the health and safety of their occupants. Promulgation and enforcement of regulations has been preempted by the state. The safety regulations cover electrical, gas and plumbing equipment, as well as structural, occupancy and fire safety standards. The latter three were added in 1971. All units continuously used in California must be approved by the department for compliance with the standards set in these fields. An official state insignia, attached to the vehicle, indicates state approval. Inspections are made in manufacturing plants, on dealer lots and for private individuals, upon request. Table 6 summarizes workload information in this inspection element.

Table 6
Mobilehome¹ Inspection Workload Estimate for 1971-72

| <i>Area office</i> | <i>Number of inspectors assigned</i> | <i>Number of manufacturing plants</i> | <i>Number of units/mo.</i> | <i>Requested inspection/mo.</i> | <i>Complaints per mo.</i> |
|--------------------|--|---|--------------------------------|-------------------------------------|-------------------------------|
| San Jose | 7 | 69 | 2,287 | 171 | 45 |
| Los Angeles | 10 | 103 | 5,309 | 181 | 25 |
| Riverside | 12 | 135 | 9,097 | 648 | 54 |
| Totals | 29 | 307 | 16,693 | 1,000 | 124 |

¹ Includes recreational vehicles.

This inspection function is entirely self-supported by inspection fees. In fact, during the past fiscal year it operated at a substantial surplus.

Recent Fee Changes. As a result of continued increase in mobile-home production, effective November 1971, construction plan fees were reduced from \$6 to \$3. But visual inspection fees (i.e. individual unit inspections, upon request), unchanged for the last 10 years, were raised from \$11 to \$21, reflecting higher labor costs.

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.

Fees are expected to cover the entire cost of this program for the current as well as for the budget year.

During the past fiscal year the department used an \$8,700 Title VIII federal grant for the training of local government building and housing officials in construction, engineering and design concepts for factory-built housing.

Increased Activity Expected. From June 1970 to September 1971 plans were submitted by 29 manufacturers and 1,214 units were produced. The department indicates that a total of 10,000 units are expected to be produced in California during fiscal 1971-72. Table 3 shows the workload and inspection time spent on this element by the department. Our analysis of the current and proposed personnel for this program indicates that the number of professional and inspector man-years are to remain unchanged, despite the anticipated increase in workload.

Special Projects

Activities in this category include technical assistance to local communities, industry and state agencies, analysis and interpretation of housing standards and regulations, as well as legislative liaison work concerning issues within the responsibilities of the Division of Building and Housing Standards.

Through the current year, enforcement of the Earthquake Protec-

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

tion Law has been under special projects. For the budget year, it is transferred to the State Housing Law element. There is a corresponding decrease in expenditures for special projects, but the staff level remains unchanged.

TECHNICAL ASSISTANCE

Working toward the improvement of California's housing and community development problems through technical assistance and research, and coordination and dissemination of information to governments, businesses and the general public are the basic objectives of this program. It is administered by the Division of Housing and Community Development, acting primarily in a liaison or catalyst role.

The professional staff of the division includes the chief, four coordinators, specializing in various technical and liaison activities concerning housing and community development, and five area representatives who assist the coordinators.

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 7 summarizes the proposed staff and expenditures for the elements in this program. The element titles indicate their general objectives. More significant changes in the program will be discussed briefly hereafter.

Subelements 1a, 1d, and elements 2 and 4 will receive partial federal support. In addition, element 4 is to receive local matching funds and a portion of the expenditures for subelement 5b will be reimbursed by the State Division of Highways.

Increased emphasis on certain technical assistance activities (partially solved by interprogram shift of personnel and expenditures), the addition of one new element and an 8 percent decrease in reimbursements resulted in a \$30,328 (11.5 percent) increase in the General Fund support of this program for the budget year.

Program Changes Proposed. The California Community Development Corporation is proposed as a new element. Through this public entity, the department hopes to secure available federal funds and increase private sector support for community development, as well as provide a possible vehicle for future revenue-sharing programs. Mandated by recently enacted legislation (Chapter 1291, Statutes of 1971), the department is to expand assistance in housing relocation to

Table 7
Personnel and Expenditures of the Technical Assistance Program

| Program elements | Man-years | | | Expenditures | | |
|---|-------------------|----------------------|---------------------|-------------------|----------------------|---------------------|
| | Actual 1970-71 | Estimated 1971-72 | Proposed 1972-73 | Actual 1970-71 | Estimated 1971-72 | Proposed 1972-73 |
| 1. Statewide housing activities. | | | | | | |
| a. Housing element | 3.6 | 3.3 | 4.5 | \$62,988 | \$66,619 | \$81,607 |
| b. Local technical assistance | 1.3 | 2.0 | 2.0 | 21,404 | 35,639 | 39,952 |
| c. California Community Dev. Corporation | — | — | 2.0 | — | — | 25,000 |
| d. Training of local citizens and officials | 1.2 | 1.2 | 1.0 | 48,401 | 34,733 | 29,882 |
| e. Research and statistics | 0.6 | 1.1 | 1.0 | 9,996 | 19,775 | 19,797 |
| 2. Market aggregation and housing development assistance | 2.1 | 2.0 | 1.5 | 34,143 | 53,628 | 39,182 |
| 3. Low- and moderate-income housing, including housing for the elderly .. | 0.9 | 2.1 | 1.3 | 14,884 | 37,710 | 26,464 |
| 4. Low-income home management training programs | 0.9 | 0.5 | 1.0 | 160,093 | 170,316 | 181,198 |
| 5. a. Community and neighborhood development | 1.4 | 1.0 | 1.0 | 23,250 | 17,703 | 19,798 |
| b. Housing relocation | — | 0.2 | 0.9 | — | 3,734 | 17,283 |
| c. Rehabilitation and code enforcement .. | 0.6 | 1.5 | 1.0 | 11,408 | 25,753 | 20,001 |
| 6. Rural housing | 0.5 | 1.5 | 1.0 | 9,560 | 25,753 | 18,148 |
| 7. General assistance | 1.6 | 2.0 | 1.0 | 27,922 | 35,639 | 18,102 |
| Totals | 14.7 | 18.4 | 19.2 | \$424,049 | \$527,002 | \$536,414 |
| Reimbursements | | | | | | |
| Federal | | | | — 174,225 | — 209,902 | — 197,786 |
| Local | | | | — 34,219 | — 52,650 | — 43,850 |
| General Fund cost | | | | \$215,605 | \$264,450 | \$294,778 |

families who lose their homes due to government action. Expenditure for the low-income home management training program is also to increase. But all of the additional cost is to be borne by the General Fund, because federal and matching local funds, which comprise the main support for this activity, are to remain constant.

Program changes also include reduction of personnel and expenditures for the low- and moderate-income housing, rural housing and general assistance elements. These functions have the responsibility of providing information and assistance to governmental and private entities, as well as to individuals on the availability of federal housing programs for all income levels.

Need to Maintain and Increase Program Effectiveness. The department indicates that a portion of the workload affected by the

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT—Continued

cutback will be taken over by some of the elements being expanded. The balance of the workload cutback is proposed to be offset by assignment of positions recently obtained through the federal Public Employment Program, but these positions are not included in the man-year figures in Table 7. Thus, the department indicates that the current level of technical assistance will be maintained for the budget year.

California's Operation Breakthrough, a federal-funded factory-built housing prototype project, is proceeding on schedule. Groundbreaking at the old state fairgrounds in Sacramento was held in October 1970. To date, two project participants who build fiberglass systems completed nine units, and the assembly of other prototype systems is in progress. Several participants established local plants. Target date for completion of the entire project is September 1972. Last October, a department-sponsored workshop familiarized local building officials with the project, as well as with other new concepts in building technology and land use, brought on by the advent of factory-built housing.

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.

Business and Transportation Agency**DEPARTMENT OF INSURANCE**

Item 162 from the General

Fund

Budget p. 77 Program p. 388

| | |
|---|-------------|
| Requested 1972-73..... | \$3,230,197 |
| Estimated 1971-72 | 4,717,316 |
| Actual 1970-71 | 4,248,348 |
| Requested decrease \$1,487,119 (31.5 percent) | |
| Total recommended augmentation..... | \$20,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. We recommend that the Department of General Services, under its pilot accounting-system improvement program, review and upgrade the accounting system of the Department of Insurance and that \$12,000 be added to the 1972-73 Department of Insurance budget to finance this service. A progress report on the results of this effort should be submitted to the Joint Legislative Budget Committee by No-

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vember 1, 1972, and a final report should be submitted on May 1, 1973.

2. We recommend an augmentation of \$8,000 to permit the department to acquire (on a contract basis) the services of a data processing systems analyst to define the department's program information needs and study the feasibility of automating the department's licensing function. The results of this study, together with recommendations, cost estimates and time schedules, should be submitted to both the Department of Finance and the Joint Legislative Budget Committee for review and approval before any funds are included in the department's budget for this purpose. 400

1. GENERAL PROGRAM STATEMENT

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 \$7.5 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, 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. The department has a currently authorized staff of 303.5 positions and, as discussed later in this analysis, is requesting one new clerical position to accommodate workload increases in the field examination element.

The department is responsible for regulating the activities of 1,000 insurance and title companies and 124,000 agents and brokers. It collects annually over \$150 million in taxes and \$4.5 million in fees.

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

REGULATION OF INSURANCE COMPANIES

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

DEPARTMENT OF INSURANCE—Continued

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.

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 policyholders 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.

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 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 fiscal year 1970-71, the element recovered more than \$3.5 million for policyholders.

The department requests \$3,430,189 for support of the company regulation program in the budget year. There is no reliable basis, however, for showing the allocation of this cost among program elements because the department's cost accounting system does not permit identification of costs by element. Workload data and estimated allocations of the 191.9 man-years assigned to this program are listed by element in Table 1.

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--|---------------------------|------------------------------|------------------------------|
| Field Examination | | | |
| Domestic insurers..... | 157 | 158 | 159 |
| Foreign insurers | 816 | 833 | 850 |
| Field examinations completed | 81 | 155 | 143 |
| Man-years | 49 | 55.6 | 55.6 |
| Rate Regulation | | | |
| Examinations of rating practices | 38 | 42 | 52 |
| Man-years | 17.7 | 18.7 | 18.7 |
| Solvency Surveillance | | | |
| Companies under surveillance | 177 | 175 | 175 |
| Man-years | 16.9 | 16.9 | 16.9 |
| Tax Collection and Audit | | | |
| Taxes collected (millions) | \$153.5 | \$164 | \$175 |
| Man-years | 7.8 | 7.8 | 7.8 |
| Proxy Solicitation | | | |
| Number, solicitations approved | 13 | 15 | 15 |
| Man-years | 0.4 | 0.4 | 0.4 |
| Conservation/Liquidation | | | |
| Conservatorships..... | 6 | 4 | 5 |
| Liquidations | 6 | 8 | 9 |
| Man-years | 4 | 4 | 4 |
| Preadmission | | | |
| Certificates processed | 46 | 48 | 50 |
| Man-years | 11.4 | 12.4 | 12.4 |
| Postadmission | | | |
| Stock permits processed | 37 | 40 | 42 |
| Mergers, etc. | 43 | 50 | 55 |
| Disciplinary actions | 42 | 40 | 40 |
| Man-years | 17 | 18.6 | 18.6 |
| Approval of Policy Forms | | | |
| Submissions processed..... | 8,136 | 8,800 | 9,500 |
| Man-years | 11.3 | 11.6 | 11.6 |
| Consumer Complaint Investigations | | | |
| Complaints processed | 16,513 | 18,990 | 21,838 |
| General inquiries | 65,876 | 72,463 | 79,709 |
| Man-years | 45.9 | 45.9 | 45.9 |

DEPARTMENT OF INSURANCE—Continued

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.

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 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.

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

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|-----------------------------------|---------------------------|------------------------------|------------------------------|
| <i>Producer Examination</i> | | | |
| Number examined | 22,015 | 22,896 | 23,154 |
| Number passed | 13,273 | 13,804 | 14,080 |
| Man-years | 13.5 | 13.8 | 13.8 |
| <i>License Issuance</i> | | | |
| Licenses issued | 35,013 | 36,156 | 37,240 |
| Licenses renewed | 66,126 | 52,907 | 72,738 |
| Man-years | 42.2 | 42.2 | 42.2 |
| <i>Disciplinary Proceedings</i> | | | |
| Disciplinary actions | 400 | 480 | 528 |
| Licenses revoked, suspended | 96 | 121 | 133 |
| Licenses restricted | 84 | 100 | 115 |
| Man-years | 10 | 10 | 7.0 |
| <i>Producer Investigations</i> | | | |
| Complaints investigated | 4,116 | 4,527 | 4,970 |
| Applications investigated | 4,894 | 3,950 | 3,500 |
| Man-years | 37.7 | 37.4 | 37.4 |

The department requests \$1,383,012, representing 100.4 man-years, for support of the producer regulation program in the budget year. Workload data and approximate man-year allocations are listed by element in Table 2. As noted in our comments on the company regulation program, reliable cost data by element are not available.

ADMINISTRATION PROGRAM

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

Table 3
Administration Program, Man-Year and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--------------------------|---------------------------|------------------------------|------------------------------|
| Man-years | 41.3 | 37.4 | 37.7 |
| Cost (distributed) | (\$882,648) | (\$766,721) | (\$800,355) |

ANALYSIS AND RECOMMENDATIONS

We recommend approval in the increased amount of \$3,250,197, representing an augmentation of \$20,000.

The department's requested appropriation of \$3,230,197 is \$1,487,119 or 31.5 percent below estimated expenditures for the current year. However, the department is proposing a total program expenditure of \$4,812,201 which is \$94,885 or 2 percent above estimated current-year expenditures. The difference between the requested appropriation and proposed expenditures is primarily the result of a change in the method of accounting for \$1,582,000 in insurance company examination fees. Pursuant to Chapter 418, Statutes of 1971, fees collected from field examinations of insurance companies will be treated as departmental reimbursements rather than as General Fund revenue. As a result, it is no longer necessary to make a budget appropriation for the reimbursable activities of the field examination division.

The proposed increase in program expenditures for fiscal year 1972-73 includes approximately \$5,600 in salary costs for one additional clerical position in the field examination division to accommodate workload increases, and \$22,000 to reimburse the State Treasurer for coupon clipping services on insurance security deposits.

During the current year, the department created a new Consumer Services Division consisting of 73 positions formerly in the Legal Division and 13 positions from the Administration Division. The new division, operating through field offices in Los Angeles, San Francisco, San Diego and Sacramento, handles policy complaints, producer investigations, disciplinary actions and conservation and liquidation functions.

The expenditures proposed for fiscal year 1972-73 should maintain departmental activity approximately at current levels, although the full benefit of nine additional field examiner positions authorized last

DEPARTMENT OF INSURANCE—Continued

year should be felt in 1972-73, thereby increasing output in that activity.

Anticipated General Fund revenues from departmental fees (for producers' licenses and other services) are estimated at approximately \$3.6 million in the budget year, exceeding the department's appropriation request and our recommended augmentations by approximately \$400,000.

1) *We recommend that the Department of General Services under its pilot accounting system improvement program, review and upgrade the accounting system of the Department of Insurance and that \$12,000 be added to the 1972-73 Department of Insurance budget to finance this service. A progress report on the results of this effort should be submitted to the Joint Legislative Budget Committee by November 1, 1972, and a final report should be submitted on May 1, 1973.*

As previously noted in our comments on the workload data presented in Tables 1 and 2, the department's cost accounting system is totally inadequate to identify the costs associated with program elements. This lack of cost information also represents a severe budgetary handicap as demonstrated by the fact that the department experienced budget surpluses of \$383,485 in 1969-70 and \$224,624 in 1970-71.

The Department of General Services, through its accounting and fiscal management office, is responsible for assuring that state agencies properly and accurately account for their fiscal affairs. Pursuant to Resolution Chapter 160 (ACR 88), 1971 session, this office has developed a task force unit to assist agencies in improving their internal accounting and fiscal management systems. The task force, which consists of specialists in budgeting, accounting, and reporting systems, is developing such a system for the Department of Education as a pilot project. The purpose of this pilot program is to capitalize on knowledge and experience gained by state personnel from installing similar systems for other state agencies and thereby develop fiscal and budgeting systems for all state agencies that are more effective, economical and uniform.

2) *We recommend an augmentation of \$8,000 to permit the department to acquire, on a contract basis, the services of a data processing systems analyst to define the department's information needs and study the feasibility of automating the department's licensing function. The results of this study, together with recommendations, cost estimates and time schedules, should be submitted to both the Department of Finance and the Joint Legislative Budget Committee for review and approval before any funds are included in the department's budget for this purpose.*

Since 1947, the Department of Insurance has been considering methods for improving its licensing function, including the implemen-

tation of automated procedures. These efforts have thus far been unsuccessful, and there appears to be little chance of successfully initiating any new program until a study has been completed by an outside agency with staff skilled in analyzing potential methods for improving the department's operations.

We believe that the Department of Insurance should acquire from the Department of General Services the services of a data processing systems analyst to carry out the study described above. Section 4 of the Budget Act of 1971 requires this procedure to obtain funds for expenditures relating to any electronic data processing system. More importantly, without this kind of detailed analysis, there is little chance that any automation program will succeed. Once the study is completed, the Department of Finance and the Legislative Analyst can review the findings and conclusions prior to the allocation of any funds for the installation of an automated system.

Business and Transportation Agency

CRIME INSURANCE

Item 163 from the General

Fund

Budget p. 78 Program p. 395

| | |
|-----------------------------------|-----------|
| Requested 1972-73 | \$500,000 |
| Estimated 1971-72 | 500,000 |
| Actual 1970-71 | None |
| Requested increase None | |
| Total recommended reduction | 500,000 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

1. Crime Insurance Pool. Reduce \$500,000. Contingent upon repeal of Chapter 415, Statutes of 1971, recommend this item be deleted and that the State of California withdraw from its contract with the Crime Insurance Pool upon expiration of the current term in June, 1972.

GENERAL PROGRAM STATEMENT

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

Pursuant to this legislation, a contract has been negotiated between the Crime Insurance Pool and the State of California whereby the state has agreed to reimburse the Crime Insurance Pool up to \$500,000

CRIME INSURANCE—Continued

should the combined losses and expenses of the pool exceed 105 percent of earned premiums. Should losses exceed this level of state participation, the Crime Insurance Pool would be liable for any remainder. Federal guidelines established by the Federal Insurance Administration are followed in determining the eligibility of risks and policy rates.

ANALYSIS AND RECOMMENDATIONS

Contingent upon the repeal of Chapter 415, Statutes of 1971, we recommend that this item be deleted and that the State of California withdraw from its contract with the Crime Insurance Pool upon expiration of the current term in June, 1972.

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

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

During the first six months of its operation, the state pool has sold approximately 200 policies having a total premium value of \$15,151, which represents only a small fraction of the total crime insurance premium volume (about \$105 million) written in the state. Approximately 50 percent of this \$105 million total represents crime insurance protection generally included as a part of the standard "homeowners" policy.

The state derives approximately \$2.5 million in premium tax revenue (2.35 percent of gross premiums) on the \$105 million in crime insurance premiums. Although it is possible that some premium tax

revenue might be lost as a result of federal involvement in crime insurance (due to the fact that premiums payable to the federal government are not subject to the state tax), it is unlikely that an appreciable amount of the existing crime insurance premium volume would be "forfeited" by the private insurance industry through diversion of business to the federal program. The fact that only 200 crime insurance policies (with a total premium value of \$15,151) have been written under the state pool, suggests that most of the crime insurance now in force covers "standard risk" situations and would likely be retained by the private insurers.

It does not appear equitable that California citizens should be required to assist in the funding of crime insurance programs in other states through their federal taxes (assuming that the federal program incurs deficits) and at the same time be asked to support California's own program through subsidy to the Crime Insurance Pool. Accordingly, we recommend that the State of California withdraw from its contract with the Crime Insurance Pool and that the \$500,000 not be appropriated.

Business and Transportation Agency RIOT AND CIVIL DISORDERS INSURANCE

Item 164 from the General

Fund

Budget p. 79 Program p. 396

| | |
|--|-------------|
| Requested 1972-73 | \$1,650,000 |
| Estimated 1971-72 | 1,750,000 |
| Actual 1970-71 | 3,100,000 |
| Requested decrease \$100,000 (5.7 percent) | |
| Total recommended reduction | None |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Report on Cost of Property Insurance. Recommend State Department of Insurance study impact of Riot and Civil Disorders Insurance program and the California FAIR Plan on the availability, adequacy and cost of property insurance in areas where riot potential exists and report to Legislature no later than September 1, 1972.

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GENERAL PROGRAM STATEMENT

The 1967 riots and civil disturbances in American cities resulted in such abnormally high losses to the insurance industry that reinsurance for companies writing policies on property situated in many inner city areas became impossible or uneconomic to obtain. This lack of a rein-

RIOT AND CIVIL DISORDERS INSURANCE—Continued

insurance facility for insurers resulted in high premium rates and inadequate coverage for many inner city property owners seeking to insure against fire, vandalism and other perils.

Federal Act

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

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

Sharing of Losses

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

In the event of a loss which exceeds the insurers' retentions and their accumulated reinsurance premium payments, the state is required by the federal reinsurance act to pay the difference up to a limit of 5 percent of the aggregate earned property insurance premiums paid in the state for the preceding year. (Based on a projected premium base of \$840 million in 1971, the liability of California could reach approximately \$42 million in the budget year.) Because their risk of loss is thus limited, the companies are willing to sell basic property insurance policies at more reasonable rates to owners of high-risk properties.

California's Participation

Chapter 649, Statutes of 1969 (as amended by Chapter 572, Statutes of 1970) established California's program. This legislation (1) created the California Riot and Civil Disorders Association, a self-supporting agency, membership in which is required of all companies writing lines of insurance which are reinsured by the federal program, and (2) required the state to negotiate an insurance contract with the associa-

tion to insure the state's potential liability under the program. The premium for this insurance protection in the budget year, based on 5 percent of the state's liability limit, is the amount requested in this item.

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

Table 1
Components of State Liability for Riot Losses

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

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

Refund Provisions

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

Program Termination

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The \$1,650,000 requested for the state's insurance premium for fiscal year 1971-72 represents a decrease of \$100,000 or 5.7 percent from the current-year premium of \$1,750,000. This reduction was negotiated with the Riot and Civil Disorders Association as a result of favorable loss experience.

RIOT AND CIVIL DISORDERS INSURANCE—Continued

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 1971.

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 \$840 million) | 21,000,000 |
| Loss balance | 39,000,000 |
| Apply reinsurance premium deposits held by HUD at 1.25 percent of earned premiums | 10,500,000 |
| Loss balance representing the state's liability which is covered by insurance | 28,500,000 |

The state's \$42 million liability limit (5 percent of premiums written by California companies) is totally covered in this example, leaving a loss "cushion" of \$13,500,000. Losses exceeding the state's \$42 million liability limit would be covered by loans from the U.S. Treasury to the Secretary of HUD, to be repaid out of future reinsurance premiums received.

Report Requested

We recommend that the State Department of Insurance study the impact of the Riot and Civil Disorders Insurance program and the California FAIR Plan on the availability, adequacy and cost of property insurance in areas where riot potential exists and report thereon to the Legislature no later than September 1, 1972.

California's participation in this program was predicated on the assumption that the availability of a state-federal reinsurance facility would enable insurance companies to make adequate coverage available at reasonable rates to owners of property in areas where a riot potential exists. Since the Riot and Civil Disorders Insurance program and the California FAIR Plan are now three years old, it would seem appropriate at this time for the State Department of Insurance to prepare a report to the Legislature assessing the impact of these programs on the availability, adequacy and cost of property insurance in high-risk areas.

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

Items 165, 166 and 167 from
the Real Estate Fund and
the Real Estate Education,
Research and Recovery
Fund

Budget p. 79 Program p. 397

| | |
|---|-------------|
| Requested 1972-73..... | \$4,629,534 |
| Real Estate Fund..... | \$3,609,133 |
| Education, etc. Fund | 1,020,401 |
| Estimated 1971-72 | 3,926,137 |
| Real Estate Fund..... | 3,494,536 |
| Education, etc. Fund | 431,601 |
| Actual 1970-71 | 3,420,324 |
| Real Estate Fund..... | 3,116,906 |
| Education, etc. Fund | 303,418 |
| Requested increase \$703,397 (17.9 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. 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 228.4 positions. A proposed budget-year addition of a 4.6 new positions (including 2.6 positions in temporary help) 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 activi-

DEPARTMENT OF REAL ESTATE—Continued

ties, (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

| | <i>Actual</i> 1970-71 | <i>Estimated</i> 1971-72 | <i>Estimated</i> 1972-73 |
|---------------------------------|--------------------------|-----------------------------|-----------------------------|
| Total licenses..... | 166,306 | 170,500 | 173,000 |
| New applications processed..... | 37,350 | 38,000 | 37,000 |
| Renewal applications..... | 32,632 | 31,000 | 32,000 |
| Examinations given | 47,000 | 50,000 | 43,000 |
| Complaints..... | 3,810 | 3,900 | 4,000 |
| General inquiries | 81,812 | 85,000 | 85,000 |
| Suspensions, revocations..... | 233 | 245 | 260 |
| Recovery claims | 44 | 50 | 50 |

Table 2
Transaction Activity Program, Staffing and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|-------------------------|---------------------------|------------------------------|------------------------------|
| Licensing | | | |
| Man-years | 59.8 | 66.8 | 69.4 |
| Cost | \$890,788 | \$1,012,574 | \$1,039,815 |
| Regulatory and Recovery | | | |
| Man-years | 65.1 | 73.3 | 73.3 |
| Cost | \$1,354,007 | \$1,473,807 | \$1,534,534 |

The budget-year reduction in the number of licensing examinations reflected in Table 1 is the result of additional eligibility requirements specified by Chapter 305, Statutes of 1968, effective January, 1972. The proposed increase of 2.6 man-years in the licensing element would enable existing personnel who are diverted from other activities to proctor licensing examinations to remain with their regular duties.

We note that the department has experienced some difficulty during the past two years in budgeting for data processing services which its licensing element receives from the Department of General Services. The Department of Real Estate advises that these charges have increased from an initial \$5,400 in 1970-71 to \$26,000 in the current and budget years with no significant change in the level of service. The Department of Real Estate should seek to clarify the basis for these charges in order to stabilize costs and improve budget projections.

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 three regulatory elements: 1) in-state subdivisions, 2) real estate securities and 3) real estate syndicates.

Regulation of In-state 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

DEPARTMENT OF REAL ESTATE—Continued

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 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|---------------------------------------|---------------------------|------------------------------|------------------------------|
| Subdivision filings..... | 2,228 | 2,200 | 2,200 |
| Reports issued | 1,909 | 1,970 | 2,070 |
| Out-of-state subdivisions filed | 28 | 30 | 30 |
| Securities applications..... | 2 | 6 | 5 |
| Applications approved | 2 | 4 | 4 |
| Syndicate applications..... | 157 | 170 | 180 |

Table 4
Offerings and Securities Program, Staffing and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--------------------------|---------------------------|------------------------------|------------------------------|
| Subdivisions | | | |
| Man-years | 43.5 | 49.5 | 49.5 |
| Cost | \$789,944 | \$898,211 | \$922,374 |
| Real Property Securities | | | |
| Man-years | 2.0 | 2.0 | 2.0 |
| Cost | 45,574 | 62,329 | 64,017 |
| Real Estate Syndicates | | | |
| Man-years | 7.0 | 7.0 | 7.0 |
| Cost | 159,508 | 170,850 | 175,436 |

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—Schools and attendance</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--------------------------------------|---------------------------|------------------------------|------------------------------|
| Community Colleges | | | |
| Programs..... | 73 | 79 | 79 |
| Number of students..... | 40,000 | 40,000 | 45,000 |
| University of California Extension | | | |
| Programs..... | 5 | 5 | 5 |
| Number of students..... | 2,011 | 2,200 | 2,200 |
| State Colleges | | | |
| Programs..... | 13 | 11 | 13 |
| Number of students..... | 960 | 975 | 975 |
| Research projects..... | 10 | 10 | 10 |
| Other Universities | | | |
| Programs..... | 3 | 4 | 4 |
| Number of students..... | 365 | 365 | 365 |
| Research projects..... | 14 | 14 | 14 |
| Program Requirements | | | |
| Department man-years..... | 3.2 | 3.2 | 5.2 |
| Program costs | \$202,395 | \$230,166 | \$781,358 |

As discussed below, the department is requesting two new positions for this program in the budget year to review and approve real estate courses offered by private vocational schools as required by Chapter 1539, Statutes of 1971.

Also included in program costs for the budget year are: (1) an annual allocation (made pursuant to Section 10451.5 of the Business and Professions Code) to the University of California for real estate education and research amounting to \$172,000 in 1972-73 and (2) an appropriation of \$500,000 to establish at the University a real estate research endowment fund. Both of these proposed expenditures are discussed later in this analysis.

It should be noted that the \$172,000 education and research item mentioned above is treated by the budget bill as an appropriation but is reported in the Governor's Budget only as a change in fund condition. The amount must be appropriated to the Department of Real Estate before it can be transferred to the University.

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

Table 6
Administrative Program, Staffing and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--------------------------------------|---------------------------|------------------------------|------------------------------|
| Executive Office & Business Services | | | |
| Man-years | 20.4 | 20.4 | 20.4 |
| Cost | (\$714,838) | (\$812,810) | (\$834,677) |
| Publications | | | |
| Man-years | 2.2 | 2.2 | 2.2 |
| Cost | \$59,636 | \$67,808 | \$69,632 |

DEPARTMENT OF REAL ESTATE—Continued

real estate manuals, bulletins and reference books. The program costs, which include departmental overhead expenditures, are distributed to the three operational programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Requested budget-year expenditures from both supporting funds total \$4,629,534 which is \$703,397 or 17.9 percent above estimated expenditures for the current year. As discussed below, the increase consists of \$500,000 as a one-time expenditure to establish a real estate research endowment fund at the University of California, and approximately \$163,397 to accommodate workload increases.

Research Endowment

Not included in the department's proposed program budget (but included in Item 166 of the budget bill) is an annual allocation for research which, pursuant to Section 10451.5 of the Business and Professions Code, is transferred by the State Controller to the University of California from the Real Estate Education, Research and Recovery Fund. The amount of the annual allotment is determined by the Real Estate Commissioner, and, depending upon fund condition, it has varied from year to year. The proposed allocation for the budget year is \$172,000, an increase of approximately \$40,000 over the current year allocation. However, this amount is substantially less than the annual allocations of more than \$300,000 made in the early 1960's when the economy was generating more real estate activity.

Due to the possibility of future fluctuations in the amount of funds available for allocation to real estate research, the department is seeking a means to guarantee that some basic amount will always be available for this purpose. Therefore, it is proposing an appropriation of \$500,000 to establish an endowment fund with the University of California for real estate research. Income from investment of this money (currently an average of 4.7 percent on University investments) would be used for funding real estate research projects approved by the University and the Real Estate Commissioner's Advisory Committee.

In addition, to the extent permitted by the balances of the Education Fund, the department expects to continue its annual allocations for university research.

New Positions (Licensing)

The department conducts statewide licensing examinations for brokers and salesmen almost every Saturday of the year. Proctors for these examinations have been regular departmental staff members who are compensated for their Saturday work by receiving time off equivalent to one and one-half times the weekend hours worked. In order to return these employees to their regular duties on a full-time

basis and absorb an estimated 4 percent increase in workload, the department is proposing to hire the equivalent of 2.6 man-years of temporary help to assume the proctoring function at a budget year cost of \$13,500.

New Positions (Education)

Chapter 1539, Statutes of 1971, provided that in order to establish equivalency to certain college level courses required by current licensing law, courses offered by private vocational schools and other private "supervised courses of study" must be approved by the Real Estate Commissioner. The department estimates that one professional and one clerical position will be required to perform this screening and approval function in the budget year. The resulting additional costs of \$29,000 should be offset by fees which will accompany the equivalency applications.

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 7.7 percent of department's budget-year support request is budgeted from the Real Estate Education, Research and Recovery Fund (excluding the special appropriation for 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.

The surplus levels of both real estate funds have been increasing substantially due to increased real estate activity and a resulting increase in licensing. However, legislation passed in the 1971 session (AB 324, Chapter 95), authorizes the commissioner to reduce license fees, thus providing some control over the accumulation of surpluses.

Business and Transportation Agency
DEPARTMENT OF SAVINGS AND LOAN

Item 168 from the Savings and
 Loan Inspection Fund

Budget p. 81 Program p. 404

| | |
|---|-------------|
| Requested 1972-73 | \$2,925,825 |
| Estimated 1971-72 | 2,878,475 |
| Actual 1970-71 | 2,761,682 |
| Requested increase \$47,350 (1.6 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, wages and staff benefits for the department's currently authorized staff of 155 positions represent approximately 81 percent of the budget requirements.

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. (Associations have the discretion and sometimes choose to be regulated by the federal government because of differences between state and federal requirements relating to such matters as capitalization and stock ownership.) The size of the state-regulated industry is indicated in Table 1, which shows a decline (attributable to mergers) in the number of associations under the department's supervision. Currently, there are about 49 million saving and share accounts in 137 state-licensed associations. There has been a 1.25 percent increase in the number of these holdings over the prior year with amounts in individual accounts averaging about \$3,400.

Table 1
State-Regulated Savings and Loan Industry in California

| <i>Detail</i> | <i>Actual 1969-70</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|---|---------------------------|---------------------------|------------------------------|------------------------------|
| Number of associations | 154 | 137 | 126 | 122 |
| Assets of associations (billions) | \$20.8 | \$23.2 | \$24.4 | \$27 |
| Number of savings accounts (millions) | 4.9 | 4.9 | 5.0 | 5.1 |

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

Examination Element

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

A review of the workload and cost data for the examination element indicates that the element's manpower is remaining constant while the number of associations examined is decreasing. The department states that the decline in examinations reflects projected mergers of associations. However, these mergers, plus the increased level of assets of associations (as indicated in Table 1), and the resultant increase in numbers of loans have required increased utilization of examiner time and therefore have justified the constant examiner-manpower figure. If the merger rate continues, we believe a reduction in examiner personnel man-years for the examination element might be in order.

Table 2
Examination Element Workload and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Actual 1971-72</i> | <i>Estimated 1972-73</i> |
|------------------------------------|---------------------------|---------------------------|------------------------------|
| Associations examined..... | 145 | 139 | 131 |
| Below average associations | 30 | 33 | 33 |
| Average associations | 104 | 96 | 88 |
| Strong associations | 11 | 10 | 10 |
| Holding company examinations | 12 | 20 | 20 |
| Personnel man-years | 76.4 | 77 | 77 |
| Cost | \$1,367,125 | \$1,480,959 | \$1,426,873 |

Appraisal Element

This program element 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 associations' lending policies covering such matters as construction loan disbursement and risk analysis.

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

DEPARTMENT OF SAVINGS AND LOAN—Continued

Our review of departmental statistics indicates that the number of lending policy reviews performed by the appraisal element is substantially less than previously projected. For example, last year the department projected 120 reviews in 1970-71 and 100 reviews in 1971-72. This year the department reports that only 50 reviews were conducted in 1970-71 and estimates that there will be 57 reviews in 1971-72 and 40 reviews in 1972-73. Table 3 summarizes workload and cost data for the appraisal element.

Table 3
Appraisal Element Workload and Cost Data

| <i>Detail</i> | <i>Actual 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|--|---------------------------|------------------------------|------------------------------|
| Number of appraisal examinations | 140 | 134 | 130 |
| Number of appraisal reports | 4,465 | 4,450 | 4,500 |
| Number of security reviews | 340 | 325 | 400 |
| Number of lending policy reviews | 50 | 57 | 40 |
| Personnel man-years | 34 | 34 | 34 |
| Cost | \$651,624 | \$682,750 | \$689,798 |

Administration

The administration element consists of three components: (1) executive management, which provides direction and guidance in policy implementation, (2) facilities licensing, which conducts hearings and renders decisions on application for new associations, branch offices and mergers, and (3) "support services," which provides personnel, accounting and clerical functions. This element also maintains a special advisory staff of two positions, a financial specialist and a savings and loan economist. As discussed later, this element proposes an increase of one clerical position and additional expenditures for consultant and EDP services. 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 1970-71</i> | <i>Estimated 1971-72</i> | <i>Estimated 1972-73</i> |
|----------------------------|---------------------------|------------------------------|------------------------------|
| Executive orders..... | 400 | 400 | 400 |
| Regulations issued | 25 | 25 | 25 |
| Facilities hearings..... | 110 | 110 | 110 |
| Facilities decisions | 176 | 176 | 176 |
| Personnel man-years | 41 | 43 | 44 |
| Cost | \$742,933 | \$714,766 | \$809,154 |

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The department's requested expenditure of \$2,925,825 is \$47,350 above estimated expenditures for the current year. This increase consists primarily of (1) \$24,000 for consultant services to review and

develop recommendations for revision of the law applicable to the state-supervised savings and loan industry, (2) \$15,000 to increase the EDP capability of the department's management information system to meet current information needs, and (3) \$5,484 for an additional clerical position to assist in the preparation of source documents for data processing and various other projects. The remaining increase is for merit salary increases and miscellaneous operational expenses.

Departmental Funding

The department is supported from the Savings and Loan Inspection Fund which derives its revenue from 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 \$783,166 which is sufficient to support the department for approximately three months at the current level of operation.

Business and Transportation Agency

OFFICE OF TRANSPORTATION PLANNING AND RESEARCH

Items 169-172 from the General Fund, Harbors and Watercraft Revolving Fund and Motor Vehicle Account and Aeronautics Account in the State Transportation Fund

Budget p. 82 Program p. 409

| | |
|---|-----------|
| Requested 1972-73..... | \$431,287 |
| Estimated 1971-72 | 234,100 |
| Actual 1970-71 | 80,241 |
| Requested increase \$195,187 (83.4 percent) | |
| Total recommended reduction | \$101,393 |

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. Transfer of Staff. Recommend legislation to transfer the office staff to the State Transportation Board. 419
2. *Delete New Positions. Reduce \$48,690.* Recommend the two proposed planning engineers be deleted. 420
3. *Operating Expenses. Reduce \$49,850.* Recommend reimbursement for "outside departments" be deleted from operating expenses. 422
4. *Clerical Needs. Reduce \$2,853.* Recommend salary and staff benefits for requested senior steno be reduced \$2,- 422