

**Department of Investment
DIVISION OF BANKING**

ITEM 147 of the Budget Bill

Budget page 457
Budget line No. 7

For Support of Division of Banking From the State Banking Fund

Amount requested -----	\$277,048
Estimated to be expended in 1950-51 Fiscal Year -----	248,272
 Increase (11.6 percent) -----	 \$28,776

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$17,769	\$3,213	\$14,556	458	48
Operating expense -----	9,007	5,031	3,976	458	49
Equipment -----	2,000	375	1,625	458	50
 Total increase -----	 \$28,776	 \$8,619	 \$20,157		

RECOMMENDATIONS

Amount budgeted -----	\$277,048
Legislative Auditor's recommendation -----	277,048
 Reduction -----	 None

ANALYSIS

The increase in the amount budgeted for support of the division is due mainly to the request for three additional examiner positions to provide for the examination of private trust business.

The examining of private trusts is a new service extended to those financial institutions coming under the supervision and regulation of the Superintendent of Banks as provided in the Banking Code adopted by the 1949 Legislature. The division has had little experience in the matter of private trust business but feels that three examiners will be the minimum number required to do the work. While we recognize the necessity for additional help in performing this function, we recommend that the division maintain adequate statistical data relative to this service in order that proper evaluation may be made of the activity for future budgeting.

The work of the Division of Banking as a whole indicates continued steady growth. Statistics for the postwar period show the number of banks and branches under the supervision of the division estimated at 125 banks and 220 branches for 1952 as compared to 115 banks and 171 branches for 1946.

California ranks second only to New York State in total banking assets. State regulated banks presently show more than \$3.7 billion in banking assets with continued increase to approximately \$3.9 billion forecast for 1952. Dollar volume of loans are estimated at \$1.3 billion for 1952, or double that for 1946, which was \$696,000 000.

The Division of Banking is supported from the State Banking Fund which carries an unbudgeted surplus of approximately \$550,000 derived from assessment, license and other fees levied on the banking industry.

Department of Investment
DIVISION OF BUILDING AND LOAN

ITEM 148 of the Budget Bill

Budget page 459
Budget line No. 8

*For Support of the Division of Building and Loan From the
Building and Loan Inspection Fund*

Amount requested -----	\$139,879
Estimated to be expended in 1950-51 Fiscal Year -----	136,049
Increase (2.8 percent) -----	\$3,830

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$1,992	\$1,992	---	460	56
Operating expense -----	1,386	1,386	---	460	57
Equipment -----	452	452	---	460	58
Total increase -----	\$3,830	\$3,830	---		

RECOMMENDATIONS

Amount budgeted -----	\$139,879
Legislative Auditor's recommendation -----	139,879
Reduction -----	None

ANALYSIS

The work load estimated for the division indicates continued increase during the ensuing year at the present level of service. However, the budget for the agency provides for some increases in salary adjustments and other costs which appear to be reasonable.

Some indication of the growth of the building and loan business under state supervision and the work load of the division during the period since 1946 is shown in the following statistics :

	1946	1947	1948	1949	1950*
Number of associations † -----	107	108	110	111	114
Number of branches -----	11	15	19	21	27
Assets (000 omitted) -----	\$335,713	\$393,762	\$462,150	\$550,883	\$613,017

* As of September 15, 1950.

† As of June 30, 1950.

Percent of Increase 1950 Over 1946

Associations and branches -----	19%
Amount of assets -----	82%

As shown above, there has been a 19 percent increase in the number of associations and branches during the period since 1946, while total assets as of June 30, 1950, reflect an increase of more than \$277,000,000, or approximately 82 percent.

This trend would indicate continual increase in dollar volume of assets which has shown gains of between 17 and 18 percent per year for the past five years. The volume of loans has also shown considerable increase during this period, having gone from \$244.5 million to \$517,000,000 as of June 30, 1950, or an increase of 112 percent since 1946. However, the effect of greater federal restrictions imposed on credit and building materials will undoubtedly be reflected to some extent in the volume of loan transactions during the 1951-52 Fiscal Year.

In view of the trend in the number of building and loan associations operating under the supervision of the division, and considering some possible decline in loan transactions as indicated, it would appear that the agency's budget for 1951-52 is reasonable and adequate.

**Department of Investment
DIVISION OF CORPORATIONS**

ITEM 149 of the Budget Bill

Budget page 461
Budget line No. 7

For Support of the Division of Corporations From the General Fund

Amount requested	\$631,497
Estimated to be expended in 1950-51 Fiscal Year	622,758
Increase (1.4 percent)	8,739

Summary of Increase

	Total increase	INCREASE DUE TO			Budget page	Line No.
		Work load or salary adjustments	New services			
Salaries and wages	\$5,586	\$5,586	---	---	463	17
Operating expense	2,970	2,970	---	---	463	18
Equipment	183	183	---	---	463	19
Total increase	\$8,739	\$8,739	---	---		

RECOMMENDATIONS

Amount budgeted	\$631,497
Legislative Auditor's recommendation	631,497
Reduction	None

ANALYSIS

The total net increase in the amount of \$8,739 budgeted for the division for the 1951-52 Fiscal Year is based on costs at the existing level of service with some allowance for price increases and additional work load. Of the total increase, \$3,216 is requested for one additional accountant-auditor, grade 1, position. The need for the position is predicated on increased work load and appears to be justified by continued increase in the number of licenses issued and licensees to be examined.

Some indication of the trend of work load for the division since 1944-45 is reflected in the following statistics:

**Comparison of Revenues and Expenditures for the Division of Corporations
for the Period 1944 to 1952, Showing Number of Permits to Issue
Securities and the Number of Licenses Issued**

<i>Fiscal year</i>	<i>Revenue</i>	<i>Expenditures</i>	<i>Security permits</i>	<i>Licenses issued</i>
1944-45	\$336,937	\$259,275	3,050	2,897
1945-46	678,620	287,171	6,910	3,681
1946-47	909,551	388,380	10,350	4,676
1947-48	865,987	473,206	9,883	4,739
1948-49	785,784	540,730	8,634	5,081
1949-50	804,130	598,326	8,382	5,359
1950-51*	840,325	622,758	8,600	5,632
1951-52†	859,800	631,497	8,600	5,928

* Actual and estimated
† Estimated

As shown above, the actual total income for the 1949-50 Fiscal Year was \$804,130. This represents a gain of \$467,193, or 138 percent, over the figure for 1944-45, while expenditures for support have gone up \$339,051, or 130 percent. Permits to issue securities have increased from 3,050 to 8,382 for a gain of 175 percent during the same period with the peak having been reached in 1947. The number of licenses issued has shown a gradual climb from 2,897 to 5,359, or 88 percent, with continued increase forecast for the 1951-52 Fiscal Year.

The Division of Corporations, unlike other divisions within the Department of Investment, is supported from the General Fund with license and other fees accruing thereto. As shown in the foregoing table, revenues for the 1949-50 Fiscal Year exceeded expenditures by \$205,804, or 34 percent, while the estimates for 1951-52 show anticipated revenues over expenditures to be \$228,303, or 36 percent.

In view of the present trend of business coming within the scope of the division's jurisdiction, it appears that the estimates for the ensuing year are reasonable and that the budget for the division will be adequate. However, should a downward trend manifest itself within the coming year, the agency should be prepared to make adjustments in expenditures accordingly.

**Department of Investment
DEPARTMENT OF INSURANCE**

ITEM 150 of the Budget Bill

Budget page 464
Budget line No. 7

For Support of the Department of Insurance From the Insurance Fund

Amount requested	\$988,884
Estimated to be expended in 1950-51 Fiscal Year	982,676
Increase (0.6 percent)	\$6,208

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$4,302	\$4,302	---	469	50
Operating expense	2,782	2,782	---	469	51
Equipment	-4,876	-4,876	---	469	52
Plus:					
Decrease in reimbursements	4,000	4,000	---	469	56
Total increase	\$6,208	\$6,208			

RECOMMENDATIONS

Amount budgeted	\$988,884
Legislative Auditor's recommendation	988,884
Reduction	None

ANALYSIS

The proposed increase in expenditures for support of the department for the 1951-52 Fiscal Year is due primarily to the request for an additional \$9,660 for three proposed new positions consisting of two junior insurance investigators and one junior counsel position in the compliance and legal division. However, this amount is partially offset by the elimination of four half-year positions in the conservation and liquidation division as a result of completion of the liquidation of several estates.

The request for the three additional positions is predicated on additional work load and elimination of backlog. To keep abreast of continued increase in the insurance business in the State, it is recommended that the positions be allowed. However, should a downward trend of the industry develop in the ensuing year, the department should be prepared to make corresponding adjustments in expenditures for support.

Some indication of the growth of the insurance industry in California and the activities of the Department of Insurance from 1945 is reflected in the following statistics :

Year	Expenditures for support	Gross revenue	California premiums	Premium tax to general fund	Licenses issued
1945	\$372,450	\$517,376	\$694,268,914	\$14,469,041	61,379
1946	387,820	615,746	830,856,169	17,311,814	80,200
1947	454,892	801,053	993,029,470	20,154,287	85,134
1948	705,897	995,151	1,121,830,562	22,857,068	88,539
1949	841,237	1,097,951	1,144,024,547	23,089,156	85,898
1950*	901,017	1,231,512	1,200,000,000	24,300,000	94,000
1951*	982,676	1,197,800	1,300,000,000	25,000,000	95,000

* Actual and estimated.

As indicated above, the actual gross operating revenues for 1949 have more than doubled since 1945, expenditures for support have gone up 125 percent while the premium tax payable to the General Fund has increased \$8.6 million, or 60 percent, during the same period.

The insurance industry in California ranks second among the states with values of premiums running over the billion dollar mark. This is more than three times greater than premiums written during 1940, while premium tax payable to the General Fund has likewise tripled during the same 10-year period and is estimated to reach approximately \$25,000,000 during 1952.

The Department of Insurance is a special fund agency supported from the Insurance Fund to which accrue all licenses and other fees levied on the insurance industry. To facilitate the licensing and regulations of those entities qualified to do insurance business in California, offices are maintained in San Francisco, Los Angeles, Sacramento and San Diego. The unbudgeted surplus in the Insurance Fund is estimated at \$2.4 million or more than twice the sum of \$988,884 budgeted for expenditures in the 1951-52 Fiscal Year.

**Department of Investment
DIVISION OF REAL ESTATE**

ITEM 151 of the Budget Bill

Budget page 470
Budget line No. 8

For Support of the Division of Real Estate From the Real Estate Fund

Amount requested	\$562,418
Estimated to be expended in 1950-51 Fiscal Year	529,274
Increase (6.3 percent)	\$33,144

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$18,826	\$14,086	\$4,740	472	56
Operating expense -----	22,648	6,848	15,800	472	57
Equipment -----	-8,330	-8,330	---	472	58
Total increase -----	\$33,144	\$12,604	\$20,540		

RECOMMENDATIONS

Amount budgeted -----	\$562,418
Legislative Auditor's recommendation -----	541,878
Reduction -----	\$20,540

ANALYSIS

We recommend that the request for \$20,540 in support of new or expanded services be disallowed. This will result in the following reductions on page 472 of the Budget:

1. Line 35—delete \$4,740 proposed for new position.
2. Line 38—reduce printing costs by \$7,050.
3. Line 41—reduce postage costs by \$8,000.
4. Line 42—delete \$750 for travel expenses.

The request for \$20,540 in support of new or expanded services is made in connection with an educational program proposed for the benefit of those engaged in the real estate business in the State and to assist the Institute of Real Estate at the University of California and, as a result, raise the standards of the business.

In further justification for this request, it is pointed out that the 1950 Legislature appropriated \$150,000 from the State Real Estate Fund to the University of California for the purpose of establishing a real estate institute. This sum of money is to be used at the rate of \$50,000 annually for three years, and in order to realize the fullest use of the money so appropriated, the Division of Real Estate is of the opinion it should extend close cooperation to the university in its new educational program and at the same time expand its own media for dissemination of information to the licensees along educational lines.

Coordination between the University through its real estate institutes, and the real estate industry is certainly desirable and was intended at the time of the creation of the institutes. However, the request this year results in a situation in which funds would be provided for the university to coordinate with the industry and further funds for the industry through the Real Estate Board to coordinate with the university.

We believe that there should be no overlapping nor duplication in such a cooperative program which might tend to expand this service beyond reasonable limits and recommend that the Budget be held to the existing program without further expansion.

The Division of Real Estate is supported from license and other fees levied on the real estate business. Annual revenues accruing to the fund have exceeded expenditures whereby unbudgeted surplus in the fund has been built up to approximately \$1.6 million.

The expansion and growth of the real estate business in California during the postwar period is reflected to some extent in statistics which

show total licenses issued in 1949-50 reached an all time high at 91,000 as compared to 41,000 for 1945-46, for a gain of more than 120 percent. Subdivisions filed during the 1949-50 Fiscal Year were approximately 1,900 as compared with 400 filed during 1945-46, or a 375 percent gain. The industry has entered the current year reaching an all time record high across the Nation in real estate loans outstanding while, according to late reports, building permit registrations in California established a new record in November, having reached the \$1.4 billion mark, representing a 45 percent increase over the same period last year.

Although this trend appears to be holding up thus far, there will undoubtedly be some decline in new home construction as a result of greater federal restrictions on credit and production for civilian consumption. Should there be a significant drop in the real estate business during the ensuing year, the division should be prepared to make corresponding reductions in expenditures.

**Department of Investment
CALIFORNIA DISTRICTS SECURITIES COMMISSION**

ITEM 152 of the Budget Bill

Budget page 474
Budget line No. 8

*For Support of California Districts Securities Commission
From the General Fund*

Amount requested -----	\$29,035
Estimated to be expended in 1950-51 Fiscal Year -----	25,326
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Increase (14.6 percent) -----	\$3,709

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages -----	\$3,336	---	\$3,336	474	52
Operating expense -----	363	\$363	---	474	68
Equipment -----	10	10	---	474	74
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Total increase -----	\$3,709	\$373	\$3,336		

RECOMMENDATIONS

Amount budgeted -----	\$29,035
Legislative Auditor's recommendation -----	29,035
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Reduction -----	None

ANALYSIS

The California Districts Securities Commission is charged with the direction and supervision of bond financing, construction of works and expenditures of bond proceeds of irrigation districts and other agriculture or water districts which apply to the commission for certification of bonds as legal investments for savings banks and trust funds. Also, pursuant to Chapter 368 of the Statutes of 1943, the commission is required to investigate and report upon all contracts for water service and construction of works proposed to be entered into between the Federal Government and districts.

The increase of \$3,709 budgeted for 1951-52 consists mainly of \$3,336 requested for the proposed new position of assistant executive secretary

for the last half of the 1951-52 Fiscal Year. The request is made in anticipation of the retirement of the executive secretary to the commission as of the close of the 1951-52 Fiscal Year to allow six months understudy preparatory to a new employee assuming the duties of the executive secretary position. This position should be eliminated after six months.

This appears to be a reasonable request in view of the present organizational structure of the commission with a limited staff of three in number including the executive secretary. However, in our opinion, the Legislature should consider the consolidation of the functions of this agency with those of the Corporation Commissioner.

DEPARTMENT OF JUSTICE

ITEM 153 of the Budget Bill

Budget page 475
Budget line No. 62

For Support of the Department of Justice From the General Fund

Amount requested	\$2,186,625
Estimated to be expended in 1950-51 Fiscal Year	1,930,096
Increase (13.3 percent)	\$256,529

Summary of Increase

	Total increase	INCREASE DUE TO		Budget page	Line No.
		Work load or salary adjustments	New services		
Salaries and wages	\$126,274	\$106,834	\$19,440	484	9
Operating expense	82,647	79,042	3,605	484	10
Equipment	28,059	19,843	8,216	484	11
Plus:					
Decreased reimbursements	19,549	19,549	---	--	--
Total increase	\$256,529	\$225,268	\$31,261		

RECOMMENDATIONS

Amount budgeted	\$2,186,625
Legislative Auditor's recommendation	2,155,364
Reduction	\$31,261

ANALYSIS

Summary of Recommended Reductions

	Amount	Budget Page	Line No.
Salaries and Wages			
2 Student legal assistants	\$5,280	479	12
4 Special investigators	14,160	483	43
Operating Expenses			
Expenses for 2 new narcotic offices	2,705	483	69
Radio maintenance	900	483	62
Equipment			
Equipment for 2 new narcotic offices	8,216	483	80
Total reductions	\$31,261		

Division of General Administration

This division includes the office of the Attorney General, accounting section, stenographic pool, teletype section, and the Bureau of Statistics. The amount requested is \$705,844 for 1951-52. This is an increase of \$21,869 or 3.0 percent over the estimated expenditures for the 1950-51 Fiscal Year.

Five new positions are proposed. Two of these are teletypewriter operators for the Los Angeles control center. These are necessary to