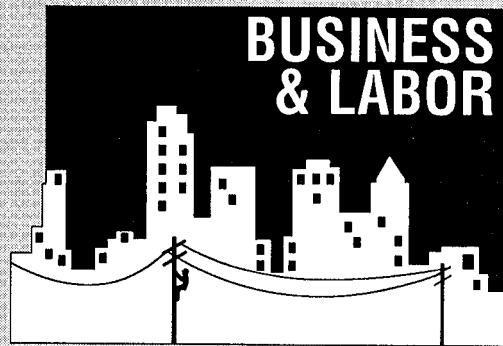


# BUSINESS & LABOR





## MAJOR ISSUES

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### **■ *Restructure Consumer-Related Boards and Commissions.***

There are currently 27 separate consumer-related boards and bureaus within the Department of Consumer Affairs and three others located outside the department. This fragmented regulatory approach limits the state's effectiveness and efficiency in terms of its ability to protect consumers. We recommend that the Legislature (1) eliminate all separate boards and bureaus as independent entities and (2) remove the state's regulatory role over 13 consumer-related business activities, resulting in a \$33 million special fund savings in 1993-94. (See page 11.)

**■ *Consolidate Financial Regulatory Programs.*** The state's current regulation of financial services is fragmented and uncoordinated. Consolidation into a Department of Financial Services would result in state savings, better service to the business community and improved consumer protection. (See page 19.)

**■ *Modify CALDAP to Shift More Insurance Burden to Property Owners.*** Given the state's acute fiscal condition and the ability of property owners to insure themselves against property damage, we recommend the Legislature limit CALDAP coverage to \$15,000 of earthquake damage and increase the loan interest rate to cover a greater share of the state's cost. (See page 24.)


**■ *Housing Element Law Needs Fundamental Reform.*** The housing element law has failed to meet its stated objectives and

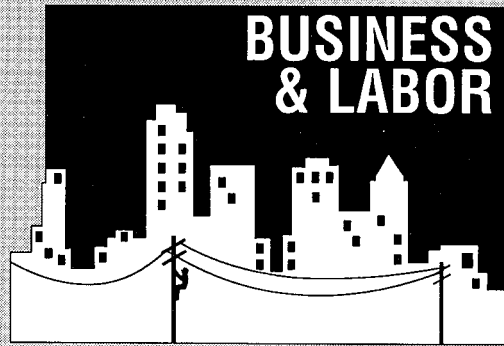
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needs fundamental reform. We recommend several steps the Legislature can take to redesign the housing element law to better serve state goals. (See page 26.)

■ ***Terminate State-Chartered Savings and Loan Associations Program.*** The decline in the number of state-chartered associations, coupled with extensive federal regulation and enforcement, eliminates the need to continue a state-charter program. Consequently, we recommend the Legislature enact legislation by July 1, 1993—effective January 1, 1994—terminating this program. (See page 36.)

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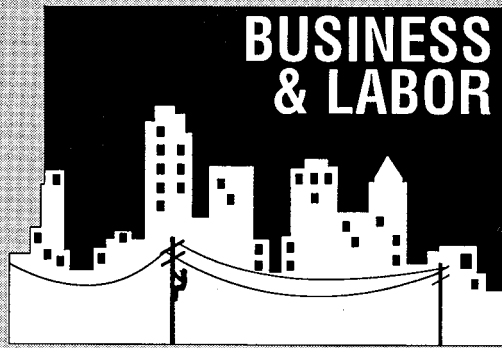
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## OVERVIEW

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**E**xpenditures for business and labor programs in 1993-94 are proposed to decline by about 10 percent compared to the current year, primarily because of the reduced need for expenditures for disaster relief associated with the Loma Prieta earthquake and the termination of the earthquake insurance program.

The budget proposes total state expenditures of \$934 million for business and labor programs in 1993-94. This level of spending is a decrease of \$100 million, or 9.7 percent from the estimated current-year expenditures.

Figure 1 shows that expenditures for business and labor programs from all state funds reached a peak of about \$1.1 billion in 1991-92 and have declined over the last two years. Over the eight-year period shown in Figure 1, expenditures for these programs increased by nearly \$200 million, representing an average annual increase of 3.1 percent. When these expenditures are adjusted for inflation, total spending since 1986-87 has decreased by an average of 0.1 percent annually. The General Fund share of program expenditures, however, has declined from 51 percent in 1986-87 to 26 percent in 1993-94. As a result, special funds are proposed to finance 74 percent of program expenditures for the budget year.

## SPENDING BY MAJOR PROGRAMS

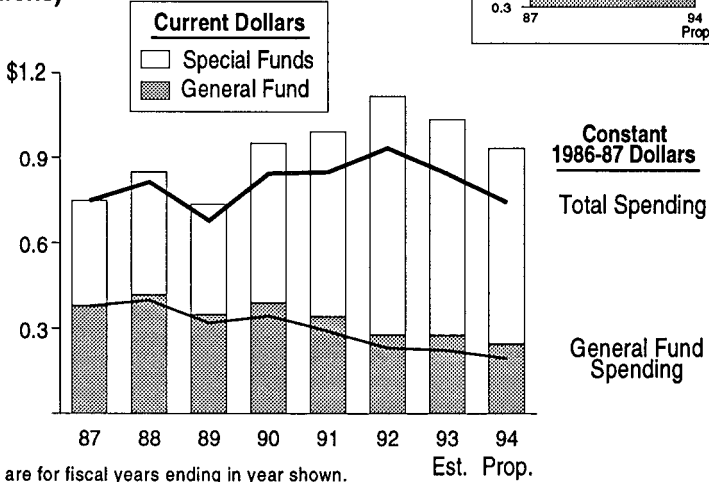
Figure 2 provides the spending trends for selected major business and labor programs from 1991-92 through 1993-94. The figure shows

that General Fund expenditures of the Department of Housing and Community Development will decline by nearly 80 percent in the budget year. This reflects the reduced requirement for local assistance and disaster relief associated with the Loma Prieta earthquake. The budget for the Department of Insurance reflects reduced special fund expenditures of over 40 percent resulting from termination of the earthquake insurance program in 1992-93. In addition, expenditures for the Department of Savings and Loan are proposed to be reduced by nearly 77 percent, reflecting the proposed "downsizing" of the department to an office within the Business, Transportation and Housing Agency.

**Figure 1**

**Business and Labor Expenditures  
Current and Constant Dollars  
1986-87 through 1993-94<sup>a</sup>**

(In Billions)



<sup>a</sup>Data are for fiscal years ending in year shown.

Figure 2 also shows that the budget for the new Trade and Commerce Agency is proposed to increase by 52 percent (\$12.5 million) in General Fund expenditures. The majority of this increase is for economic and employment development programs. The budget also proposes to eliminate all General Fund support for the Department of Alcoholic Beverage Control, pursuant to Ch 900/92 (AB 432—Floyd).

Figure 2

### Business and Labor Budget Summary Selected Program Funding 1991-92 through 1993-94

(Dollars in Millions)

Programs	Actual 1991-92	Estimated 1992-93	Proposed 1993-94	Change From 1992-93	
				Amount	Percent
<b>Consumer Affairs</b>					
General Fund	\$1.8	—	—	—	—
Special funds	205.0	\$209.4	\$212.7	\$3.3	1.6%
<b>Totals</b>	<b>\$206.8</b>	<b>\$209.4</b>	<b>\$212.7</b>	<b>\$3.3</b>	<b>1.6%</b>
<b>Alcoholic Beverage Control</b>					
General Fund	\$20.6	\$3.6	—	-\$3.6	-100.0%
Special fund	—	20.5	22.9	2.4	11.7
<b>Totals</b>	<b>\$20.6</b>	<b>\$24.1</b>	<b>\$22.9</b>	<b>-\$1.2</b>	<b>-5.0%</b>
<b>Banking (special fund)</b>	<b>\$15.1</b>	<b>\$16.1</b>	<b>\$15.4</b>	<b>-\$0.7</b>	<b>-4.3%</b>
<b>Corporations</b>					
General Fund	\$9.0	—	—	—	—
Special fund	0.2	\$26.5	\$28.1	\$1.6	6.0%
<b>Totals</b>	<b>\$9.2</b>	<b>\$26.5</b>	<b>\$28.1</b>	<b>\$1.6</b>	<b>6.0%</b>
<b>Housing &amp; Community Development</b>					
General Fund	\$52.0	\$43.5	\$9.3	-\$34.2	-78.6%
Special funds	6.1	5.7	5.8	0.1	1.8
<b>Totals</b>	<b>\$58.1</b>	<b>\$49.2</b>	<b>\$15.1</b>	<b>-\$34.1</b>	<b>-69.3%</b>
<b>Insurance (special fund)</b>	<b>\$97.8</b>	<b>\$157.8</b>	<b>\$93.0</b>	<b>-\$64.8</b>	<b>-41.1%</b>
<b>Real Estate (special fund)</b>	<b>\$27.7</b>	<b>\$25.9</b>	<b>\$25.6</b>	<b>-\$0.3</b>	<b>-1.2%</b>
<b>Savings &amp; Loan (special fund)</b>	<b>\$3.0</b>	<b>\$3.0</b>	<b>\$0.7</b>	<b>-\$2.3</b>	<b>-76.7%</b>
<b>Trade and Commerce</b>					
General Fund	\$23.6	\$23.8	\$36.3	\$12.5	52.5%
Special funds	1.1	9.9	5.6	-4.3	-43.4
<b>Totals</b>	<b>\$24.7</b>	<b>\$33.7</b>	<b>\$41.9</b>	<b>\$8.2</b>	<b>24.4%</b>
<b>Agricultural Labor Relations Board (General Fund)</b>	<b>\$5.1</b>	<b>\$4.7</b>	<b>\$4.8</b>	<b>\$0.1</b>	<b>2.1%</b>
<b>Industrial Relations</b>					
General Fund	\$119.9	\$118.7	\$120.7	\$2.0	1.9%
Special funds	26.8	26.6	29.6	3.0	11.3
<b>Totals</b>	<b>\$146.7</b>	<b>\$145.3</b>	<b>\$150.3</b>	<b>\$5.0</b>	<b>3.4%</b>
<b>Food &amp; Agriculture</b>					
General Fund	\$58.6	\$53.1	\$53.7	\$0.6	1.1%
Special funds	112.8	110.1	114.4	4.3	3.9
<b>Totals</b>	<b>\$171.4</b>	<b>\$163.2</b>	<b>\$168.1</b>	<b>\$4.9</b>	<b>3.0%</b>
<b>Public Utilities Commission (special fund)</b>	<b>\$80.5</b>	<b>\$75.8</b>	<b>\$78.0</b>	<b>\$2.2</b>	<b>2.9%</b>



## MAJOR BUDGET CHANGES

Figure 3 summarizes major budget changes proposed for business and labor programs. The proposed *reductions* include baseline adjustments for 1992-93 expenditures, such as those for disaster relief associated with the Loma Prieta earthquake by the Department of Housing and Community Development (\$34 million General Fund) and termination of the earthquake insurance program in the Department of Insurance (\$68.2 million special fund). As mentioned above, the budget proposes to reduce the status of the Department of Savings and Loan to an office and reduce its budget by \$2.3 million (77 percent). This reduction would virtually eliminate the ability of this entity to regulate state-chartered associations. In our analysis of this department we have recommended elimination of this state function.

As shown in Figure 3, the budget proposes augmentations totaling \$13.2 million from the General Fund under the Trade and Commerce Agency for economic development programs. The budget also proposes to expand regulatory programs for the Department of Insurance by \$16.7 million (special fund) to improve monitoring of the financial condition of insurance companies and also to reduce the incidence of fraud in auto and worker compensation insurance.

**Figure 3**

### Business and Labor Programs Proposed Major Changes for 1993-94 General and Special Funds

Department of Housing and Community Development	Requested:	\$15.1 million
	Decrease:	\$34.1 million (-69.3%)



- \$2.0 million for emergency shelter for the homeless (special fund)



- \$34 million adjustment for expenditures in 1992-93 for disaster assistance related to the Loma Prieta earthquake (General Fund)

*Continued*

<b>Department of Insurance</b>	<b>Requested:</b>	<b>\$93.0 million</b>
	<b>Decrease:</b>	<b>\$64.8 million (-41.1%)</b>



- \$14.2 million for the department and district attorneys to reduce fraud in auto and worker compensation insurance (special fund)
- \$2.5 million for increased regulation and financial examination of insurers (special fund)



- \$68.2 million adjustment for termination of the California Residential Earthquake program in 1992-93 (special fund)

<b>Department of Savings and Loan</b>	<b>Requested:</b>	<b>\$0.7 million</b>
	<b>Decrease:</b>	<b>\$2.3 million (-76.7%)</b>



- \$2.3 million to change the function to an office (special fund)

<b>Trade and Commerce Agency</b>	<b>Requested:</b>	<b>\$41.9 million</b>
	<b>Increase:</b>	<b>\$8.2 million (+24.4%)</b>



- \$8.2 million for a new Strategic Technology program related to economic development (General Fund)
- \$3.0 million in local assistance as a loan for development of the Olympic Training Facility in San Diego (General Fund)
- \$2.0 million for expanding the California Small Business Loan Guarantee Program (General Fund)



- \$4.3 million in adjustments for expenditures in 1992-93 for local economic development and disaster relief assistance (special fund)

<b>Department of Industrial Relations</b>	<b>Requested:</b>	<b>\$150.3 million</b>
	<b>Increase:</b>	<b>\$5.0 million (+3.4%)</b>

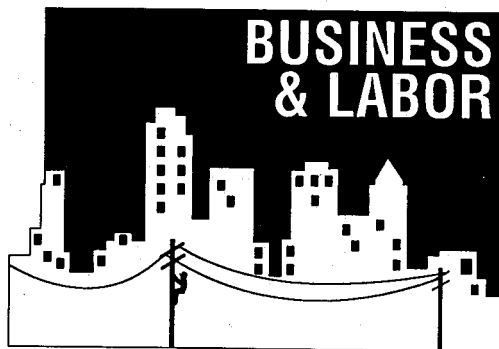


- \$5.3 million for full-year funding of Workers' Compensation Reform Act of 1989 (\$4.2 million General Fund; \$1.1 million special fund)
- \$1.7 million for the Industrial Medical Council, pursuant to Ch 1352/92 (AB 3660, Margolin) (special fund)



- \$1.8 million adjustment for one-time expenditures for On-the-Job Training Program in 1992-93 (special fund)





## CROSSCUTTING ISSUES

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### RESTRUCTURING CONSUMER-RELATED BOARDS AND BUREAUS

*There are 27 separate consumer-related boards and bureaus within the Department of Consumer Affairs, and 3 others located outside the department. We recommend that many of these boards and bureaus be eliminated and that the remaining regulatory functions be consolidated and placed under the Director of the Department of Consumer Affairs.*

#### **Background**

*Boards and Bureaus Within the Department of Consumer Affairs.* The Department of Consumer Affairs is responsible for promoting consumerism and protecting the public from deceptive and fraudulent business practices, while supporting a fair and competitive marketplace. The department includes 27 regulatory boards, bureaus, and programs. These regulatory entities license and regulate over 2 million practitioners from various occupations and professions. Only four bureaus and one program are statutorily under the direct control of the department. The others are under the statutory control of the appointed representatives (typically, board members) of the occupations and professions they license and regulate.

*Boards Outside the Department of Consumer Affairs.* In addition to the Department of Consumer Affairs, there are three independently funded regulatory boards that we include in this analysis. These are the Board of Chiropractic Examiners, the Board of Osteopathic Examiners,

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and the Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun. Each of these agencies is mandated to regulate its respective profession to assure that its licensees meet recognized standards of practice to ensure that the interest of California's consumers are protected.

The 30 boards and bureaus discussed above generally have their own regulatory and administrative staff. In 1993-94 these staff totaled approximately 1,960 positions.

In the following discussion, we recommend that the Legislature eliminate the separate boards and bureaus. (Please refer to our write-up on this issue that appeared in the 1992-93 *Analysis*, pages 11-16.) We also suggest criteria the Legislature can use to assess whether or not to continue the state's regulatory role in these areas. Based on these criteria, we recommend the Legislature eliminate the state's regulatory role in 13 of these areas and consolidate the remaining 17 functions under the Director of the Department of Consumer Affairs. Finally, we discuss the need for the boards and bureaus to provide the Legislature data demonstrating the effectiveness of current regulatory functions in those areas the Legislature decides to continue as a state function.

This analysis addresses consumer-related boards and bureaus only. We do not include the myriad of state advisory boards or other types of special-function boards (such as the Wildlife Conservation Board and the Franchise Tax Board).

### **Eliminate All Separate Boards and Bureaus as Independent Entities**

*We recommend the enactment of legislation to eliminate separate boards, bureaus, and programs as independent entities, and to consolidate them under the Director of the Department of Consumer Affairs.*

*Fractionalized Organization Hinders an Effective and Responsive Process.* Under the current organizational framework, most consumer regulatory bodies are independent entities, with their own governing boards and staffs. We have identified certain problems with the current structure:

- First, most appointed board members are representatives and practitioners of the occupations and professions they license and regulate. This may create conflicts of interest and diminish public confidence in the effectiveness of the regulatory process.
-

- Second, most boards and bureaus have their own regulatory and administrative staff, management, and offices. This is the case even though many of those entities have extremely small staffs (less than ten employees). As such, the state cannot take advantage of the economies of scale that would be realized if there was a pool of staff to perform the overall licensing and regulatory responsibilities.
- Third, boards maintain separate data bases regarding their licensee's activities, such as complaints filed, enforcement actions, and dispositions. This makes it difficult for boards to cross-check licensee's records in order to prevent, where appropriate, licensees barred from one profession from becoming licensed in another profession.
- Finally, the fragmentation of licensing and regulatory activities makes it difficult for licensees as well as the general public to access the regulatory bodies for needed information. For example, there is no centralized location (or telephone number) for the public to make inquiries, transact business, or file complaints with the boards.

Overall, the existing fractionalized organization hinders the coordination of regulatory efforts, results in uneven enforcement activities—if any—and limits the effectiveness and efficiency of the overall licensing and regulatory programs in terms of their ability to protect consumers.

*Eliminate All Separate Boards, Bureaus, and Programs.* Our analysis indicates that a major problem with the current organizational framework is the separate independent boards and bureaus. As discussed above, this fragmented organization hinders the effectiveness and responsiveness of the state's regulatory process.

In order to mitigate this problem, we recommend the Legislature eliminate these separate boards and bureaus. Any regulatory functions the Legislature determines are necessary should be consolidated within the Department of Consumer Affairs. The Director of the department could, if appropriate, establish advisory bodies comprised of representatives from regulated areas to assist in the department's licensing and regulatory activities. We believe that the resulting organization will be less restrictive on businesses, occupations, and professions and will provide better services to consumers. This restructuring would have no effect on the Bureau of Automotive Repair, which is currently under the Director of Consumer Affairs.

Consolidation of these entities would result in potentially multimillion dollar savings annually to special funds from reducing the costs of administration and management overhead.

### **The State Should No Longer Engage in Several Regulatory Functions**

*We recommend enactment of legislation to remove the state's regulatory role over several consumer-related business activities (special fund savings of \$33 million).*

*The State's Regulatory Role Should Be Reassessed.* Another concern with the current framework of consumer-related boards and bureaus is whether or not the state needs to continue regulating certain activities. Many of the current regulatory functions have been in existence for many years and have not been reassessed either for the need to continue them or for the effectiveness of the regulatory function. In conjunction with reorganization of the current fragmented framework, we believe the Legislature should reassess each of the current regulatory functions to determine if the state should continue its role in each area.

The state regulates occupations and professions to ensure that the interests of California's consumers are protected. A case could be made that all regulatory functions address such a basic mission. The degree of risk to the public, however, ranges from minimal to very high. For example, risk of significant harm to consumers from activities regulated by the Tax Preparers' Program is minimal, while activities regulated by the Board of Medical Quality Assurance are directly related to the public's health and safety. In determining whether or not to continue a regulatory function, we suggest the Legislature use the basic premise that the mission of the state's regulatory process should be to protect the public's health, safety, and welfare against serious harm. Any regulatory function that does not meet this test should not be a state responsibility. An exception to this would be if the state is mandated by the federal government to regulate a certain activity. Therefore, we recommend the Legislature use the following criteria to assess whether or not the state should continue to regulate a particular area:

- Does the board or bureau protect the public from a potential health or safety risk that could result in death or serious injury?
  - Does the board or bureau protect the consumer from severe financial harm?
-

- Are there federal mandates that require the state to regulate certain activities?

***The State Should No Longer Regulate Certain Areas.*** Based on these criteria, our analysis indicates that the 13 boards, bureaus, and regulatory functions identified in Figure 4 should be eliminated (for a special fund savings of \$33 million). For many of these functions—such as barbering, cosmetology, appliance repair, and home furnishings—the risks to consumers are small, and it does not appear to us that continued state regulation and enforcement is warranted. Other areas where there is not a clear necessity for state regulation is for occupations such as shorthand reporters, accountants, and tax preparers. While, the competency of individuals in these occupations is important (for example, the competency of shorthand reporters is necessary for court and judicial proceedings), it is unclear why the state must oversee these occupations in order to assure the necessary level of competency. These occupations do not place the public in great risk, and indeed it is ultimately the users of these services who determine whether or not the individual is performing competently.

In making the recommendation to eliminate these functions, some calls were easy to make and some were more difficult. The criteria we used are fairly general, and people will differ in their assessments of the risks involved. In considering any legislation to eliminate state regulatory functions, the Legislature's policy committees will have to make their own risk determinations.

Furthermore, we are not suggesting that the state has no role to play in the regulatory areas proposed to be eliminated. Consumers would still have various protections provided through state laws (such as contract disclosure) and other remedies (such as through the judicial system). Moreover, consumers would still have information available on the competency of individuals providing services through various professional and nonprofit organizations.

***Consolidate Regulatory Functions of Remaining Boards and Bureaus Within the Department of Consumer Affairs.*** As discussed earlier, the current fractionalized organization of separate regulatory boards and bureaus hinders the effectiveness of the regulatory process. Consolidation of regulatory functions within the Department of Consumer Affairs with advisory bodies comprised of representatives from various professions to assist in the department's licensing and regulatory activities will improve regulatory effectiveness and ensure maximum consumer protection. Regulatory activities would be more effective because licensing and enforcement activities would be performed by staff under consistent guidelines and with an integrated data base.



Figure 4

**Restructuring Consumer-Related Boards and Bureaus  
Areas the State Should No Longer Regulate**

- Board of Accountancy
- Athletic Commission
- Board of Barbering and Cosmetology
- Board of Guide Dogs for the Blind
- Cemetery Board
- Bureau of Investigative Services
- Bureau of Electronic and Appliance Repair
- Board of Funeral Directors and Embalmers
- Bureau of Home Furnishing and Thermal Insulation
- Board of Landscape Architects
- Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun
- Certified Shorthand Reporters Board
- Tax Preparers Program

In summary, these changes would increase the state's efficiency and flexibility in regulation and enforcement and would enhance consumer protection. Therefore, for those remaining regulatory functions which meet the criteria discussed earlier, we recommend consolidation under the Director of the Department of Consumer Affairs, as shown in Figure 5.

**Regulatory Programs Should Demonstrate Effectiveness**

*To ensure the effectiveness of the state's regulatory process, we recommend that boards and bureaus provide information that demonstrates their effectiveness to the Legislature.*

Consolidation would improve the effectiveness of the regulatory process and would result in regulatory entities that are more responsive to consumers. However, the Legislature needs to ensure that any regulatory function that is sustained as a state responsibility is address-

ing adequately the Legislature's goals and objectives regarding the particular activity. Thus, for any state regulatory function that the Legislature decides to continue, the boards/bureaus responsible for the specific functions should demonstrate to the Legislature how they meet these goals and objectives and why continuation is necessary.

**Figure 5****Restructuring Consumer-Related Boards and Bureaus  
Areas the State Should Consolidate and Regulate  
Under the Department of Consumer Affairs****Relating to the construction industry:**

- Board of Architectural Examiners
- Board of Registration for Professional Engineers and Land Surveyors
- Structural Pest Control Board
- Contractors State License Board
- Board of Registration for Geologist and Geophysicists

**Relating to the medical and health professions:**

- Board of Dental Examiners
- Medical Board of California
- Board of Optometry
- Board of Pharmacy
- Board of Registered Nurses
- Board of Behavioral Science Examiners
- Board of Vocational Nurse and Psychiatric Technician Examiners
- Board of Examiners of Nursing Home Administrators
- Board of Chiropractic Examiners
- Osteopathic Medical Board
- Board of Examiners in Veterinary Medicine

**Federally mandated regulations:**

- Bureau of Automotive Repair

For instance, a professional engineer should maintain both adequate knowledge and up-to-date technical expertise. The Board of Registration for Professional Engineers and Land Surveyors should explain to the Legislature the requirements, if any, for registered engineers to keep current through continuing education requirements or whether retesting is used in order to maintain a license. In addition, the board should explain the range of complaints and disciplinary actions taken against professional engineers the prior year.

To help ensure the effectiveness of regulatory programs, we recommend that boards and bureaus inform the Legislature of the following:

- The process used to ensure competency of the licensee (for example, minimum education and experience requirements, requirements for continuing education, extent of initial testing, and continuing and periodic retesting).
- Frequency of on-site investigation and the results of these investigations.
- Types of complaints filed, how complaints are processed, and resolved.
- Types of disciplinary actions initiated against violators and the outcome of these actions.

The boards should be prepared to provide this information at budget hearings or at joint hearings involving the policy committees and the appropriate budget subcommittees.

Boards and bureaus—in varying degrees—are typically responsible for performing these regulatory functions. In order to ensure that these services are provided in an efficient and effective manner, regulatory entities should periodically report the type of data discussed above to the Legislature. This information will help the Legislature determine if, for example, the Board of Osteopathic Examiners is truly protecting the health and safety of the public. This information would also form the basis for measuring the effectiveness of regulatory programs and ensuring that the objectives the Legislature set forth are being met. Moreover, this will ensure that the professional and business services offered to the public are carried out with the standards of skill, knowledge, and integrity necessary for the public's health, safety and welfare.

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## STATE FINANCIAL REGULATORY PROGRAMS

*The state's current regulation of financial services (such as those provided by banks and savings and loans) is fragmented and uncoordinated. Consolidation of these regulatory programs into a Department of Financial Services would result in state savings, better service to the business community, and improved consumer protection.*

### Background

Currently, state regulation of financial services programs (including investments, checking, savings, lending, accounting, and other similar financial operations) for individuals and institutions in the business of lending money and providing related financial services, is scattered among four departments. These are the Departments of State Banking, Savings and Loan, Corporations, and Real Estate. The existence of different regulatory agencies resulted from past legal constraints.

Prior to 1982, state-chartered lenders were restricted by law to providing specific lending activities and related financial services. For example, banks made primarily commercial and consumer loans and offered checking and savings accounts. Savings and loan associations made real estate loans and offered savings accounts and certificates of deposit with strict interest-rate limitations. Credit unions and industrial loan companies made primarily consumer loans and took "share" deposits from their members. Thus, the state's regulatory framework reflected the segmented nature of the lenders and the services they provided.

In 1982 and 1983, the federal and state governments deregulated the lending and related financial services industry. As a result, functional differences which existed among lenders prior to 1982 have virtually been eliminated. For instance, banks, savings and loan associations, and credit unions now provide and compete for interest-bearing deposits and checking accounts. They also offer very similar types of loans and investments in annuities, mutual funds, and other securities. Despite these functional changes brought about by deregulation, the state regulatory programs have not been reorganized. Instead, these programs remain scattered among the four different departments. This has resulted in several problems.

## **Fragmented Regulation Limits Effectiveness and Increases Risks**

Our analysis indicates that continued fragmentation of regulatory programs limits the effectiveness of these departments by hindering timely and effective coordination of regulatory activities. Lack of effective coordination and timely exchange of information by regulatory departments subjects consumers, business, and the state to undue risks. For example, in the past, higher risk, so called "junk" bonds of a company were allowed (by the Department of Corporations) to be issued and sold to customers of a savings and loan association (regulated by the Department of Savings and Loan). If information from the Department of Savings and Loan regarding the financial condition of this company had reached the Department of Corporations sooner, issuance of these bonds would probably not have been authorized. Consequently, the savings and loan association and its customers would not have suffered the losses they did. Moreover, the state would have avoided any potential liability from allowing these bonds to be issued and sold at a state-chartered association without the required disclosure of the risks.

Also, each department has a separate regulatory database. This makes it more difficult for the departments to exchange regulatory information and cross-check enforcement records. Such cross-checking and exchange of regulatory information would protect consumers and businesses alike by preventing—where appropriate—licensees barred by one department from becoming licensed by another regulatory department.

## **Consolidation Would Improve Services to Consumers and Businesses**

Consolidation of these financial regulatory programs into one department would improve regulatory coordination and would result in more effective and efficient administration of these programs. For example, consolidation would:

- Promote close coordination and sharing of regulatory information on a timely basis.
  - Result in a more uniform application and enforcement of regulatory laws.
  - Provide consistency in program management as well as policy development and interpretation.
-

- Allow for effective and efficient use of staff as regulatory workload fluctuates among the programs under the department.
- Reduce management and administrative services staff.
- Provide businesses and consumers a "one-stop" department to deal with.

## **Consolidation Would Save Money**

We estimate that the consolidation of these regulatory programs would also result in combined annual administrative savings of about \$500,000 to various special funds in the proposed 1993-94 budget. Thus, consolidation would also result in lower costs to licensees and consumers of financial services.

The savings would come primarily from reducing the costs for administration and management overhead through economies of scale that can be realized by consolidating programs under one department. Through consolidation, certain management positions (such as commissioner and superintendent) and administrative staff (such as for accounting, budgeting, data processing and personnel) can be shared by the regulatory programs in the consolidated department, instead of each program having separate management and administrative staffs.

## **State Regulation of Financial Services Should Be Consolidated**

*We recommend enactment of legislation to consolidate the State Banking Department, the Department of Savings and Loan, the lending and fiduciary-related programs of the Department of Corporations, and the Mortgage Broker-Salesperson program of the Department of Real Estate into a new Department of Financial Services.*

The state's current fragmented approach to regulation of financial service programs is outdated, inefficient, and potentially risky to consumers. Consolidation of these programs would increase the state's efficiency and effectiveness in its regulatory role. Furthermore, the consolidated programs would better meet the needs of businesses and consumers.

Accordingly, we recommend that existing programs be consolidated into a new Department of Financial Services. Figure 6 shows the current programs and those recommended for consolidation. Programs that are not lending and fiduciary-related would remain in current departments. (In our analysis of the Department of Savings and Loan later in the

*Analysis, we recommend enactment of legislation to eliminate the department and to terminate the authority to operate state-chartered associations in California.)*

Figure 6

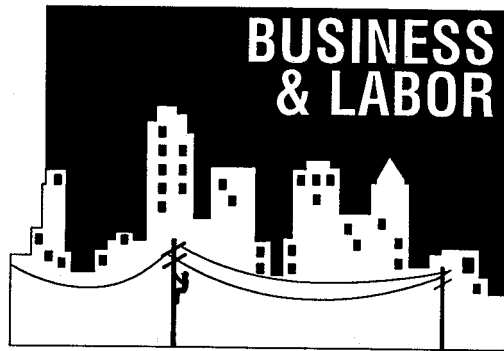
### Financial Regulatory Programs Recommended for Consolidation

(Dollars in Millions)

Regulated Programs	Recommendation	Budget Affected by Consolidation <sup>a</sup>	
		Staff (pys)	Amount
<b>Banking</b>			
<ul style="list-style-type: none"> <li>• State-chartered banks, trust companies</li> <li>• Business and industrial development corporations</li> <li>• Money transmitters</li> <li>• Local agency investment security</li> </ul>	Consolidate all programs	202.0	\$15.4
<b>Savings and Loan<sup>b</sup></b>			
<ul style="list-style-type: none"> <li>• State-chartered savings and loan associations</li> </ul>	Consolidate all programs	2.9	0.7
<b>Corporations</b>			
<ul style="list-style-type: none"> <li>• Lender-fiduciary (including credit unions, industrial loan companies, finance lenders, escrow agents, check sellers, bill payers, proraters, personal property brokers, and issuers of trading stamps)</li> <li>• Investment/securities</li> <li>• Health care service plans</li> </ul>	Consolidate: <ul style="list-style-type: none"> <li>• All lender-fiduciary programs, except escrow agents</li> </ul>	101.9	7.3
<b>Real Estate</b>			
<ul style="list-style-type: none"> <li>• All real estate licensees including those involved in mortgage brokering</li> <li>• Subdivision development</li> </ul>	Consolidate: <ul style="list-style-type: none"> <li>• All licensees involved in mortgage brokering</li> </ul>	29.0	2.5
<b>Totals</b>		<b>335.8</b>	<b>\$25.9</b>

<sup>a</sup> Based on 1993-94 proposals in the Governor's Budget, does not reflect savings resulting from the consolidation.

<sup>b</sup> The Governor's Budget proposes to "downsize" this department to a small office, virtually eliminating the ability to regulate. We recommend enactment of legislation to terminate this program.



## DEPARTMENTAL ISSUES

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### HOUSING AND COMMUNITY DEVELOPMENT (2240)

The mission of the Department of Housing and Community Development (HCD) is to help promote and provide decent housing for all Californians. As part of this mission, the department is responsible for implementing and enforcing building standards. The department also administers a variety of housing development and rehabilitation programs—and provides policy advice and statewide guidance on housing issues.

The budget proposes expenditures of \$139.6 million by the HCD in 1993-94. This is \$53.1 million, or 28 percent, less than estimated current-year expenditures. Most of this decrease reflects reduced local assistance proposed under the California Disaster Assistance Program (-\$38.9 million), various bond funded programs (-\$15.9 million) and the Urban and Rural Predevelopment Loan Programs (-\$7.4 million), offset slightly by increased local assistance in various federal programs (+\$8.9 million).

#### **No Proposal to Absorb Current-Year Reductions**

*Our review indicates that the HCD's extraordinary indecision regarding its current-year funding reduction has interfered with the department's ability to maintain adequate staff levels in critical program areas. We recommend that the HCD explain at budget hearings how it will accommodate its unallocated reductions for the current year.*

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At the time this *Analysis* was prepared, the department still had not developed a proposal to allocate its share of the General Fund reduction required by Section 3.9 of the 1992-93 Budget Act. Our review indicates that the HCD's extraordinary indecision regarding its current-year funding reduction has interfered with the department's ability to maintain adequate staff levels in critical program areas. (Currently, one in five positions throughout the HCD is vacant, due in part to the department's failure to address its funding reduction.) The department's half-year delay in allocating its current-year funding reduction will also result in the HCD having to make deeper current-year cuts than would have been necessary had the HCD addressed its funding reduction when the budget was enacted.

The department should explain its proposals for accommodating its current-year Section 3.9 funding reductions during budget hearings.

### **Growing Backlog of Disaster Loans**

*We recommend that the HCD report at budget hearings as to when the growing backlog of CALDAP loan applications will be funded.*

The California Natural Disaster Assistance Program (CALDAP) provides low-interest loans to people whose housing is damaged or destroyed in a natural disaster. Figure 7 displays the history of CALDAP appropriations for each disaster declared by the Governor since the program was created in 1989 by Ch 4x/89 and Ch 6x/89 (SB 3x, Marks and SB 4x, Leroy Greene).

Our review indicates that there is a growing backlog of CALDAP loan applications at the HCD, some dating from the Oakland wildfires of 1991. The department estimates that it needs a total of \$15.7 million (\$8 million in the current year and \$7.7 million in the budget year) to address this backlog. Additional sums may also be needed to pay for loans associated with the recent winter storm disasters.

Despite the backlog of applications for assistance from the CALDAP program, the budget proposes *no* new local assistance funds. Accordingly, the HCD should explain at budget hearings when eligible property owners can expect to receive their CALDAP loans.

### **How Can the Legislature Reduce Future CALDAP Expenses?**

*We recommend that the Legislature enact legislation substantially modifying the CALDAP program to shift more of the burden for disaster insurance to property owners.*

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Figure 7

**California Natural Disaster Assistance Program (CALDAP)**

(Dollars in Millions)

Disaster	Date	Local Assistance Funds Appropriated	Estimate of Remaining Local Assistance Need	
<b>Funded Disasters</b>				
Loma Prieta earthquake	10/17/89	\$158.3 <sup>a</sup>	— <sup>a</sup>	
Butte County snowstorm	2/22/90		4.2 <sup>a</sup>	— <sup>a</sup>
Upland earthquake	3/9/90			— <sup>a</sup>
Painted cave fires	6/29/90			— <sup>a</sup>
Tehama fires	8/90	10.0 <sup>a</sup>	— <sup>a</sup>	
Sierra Madre earthquake	6/28/91		— <sup>a</sup>	
<b>Unfunded Disasters</b>				
Oakland wildfires	10/21/91	—	\$0.8	
Southern California storms	2/12/92	—	2.1	
Cape Mendocino earthquake	4/25/92	—	2.2	
Los Angeles fires and civil unrest	5/2/92	—	1.6	
Landers/Big Bear earthquake	6/28/92	—	6.8	
Old Gulch/Fountain fires	8/21/92	—	2.1	
San Diego rains	1/7/93	—	NA	
Winter storms—18 counties	1/19/93	—	NA	
<b>Totals</b>		<b>\$172.5</b>	<b>\$15.7<sup>b</sup></b>	

<sup>a</sup> The HCD estimates that it will have savings from the appropriations for these disasters totaling \$11.7 million. Of this amount, \$9 million reverts to the Disaster Relief Fund and \$2.7 million to the General Fund.

<sup>b</sup> Total does not add due to rounding.

Over the last few years, the CALDAP has become the HCD's most costly housing assistance program—incurring state liabilities at a rate of about \$4.5 million per month. Unlike other housing programs, however, the Legislature has little control over CALDAP expenditures through the annual budget process. This is because the program is structured as an "entitlement" program: all property owners in the state are eligible for low-interest CALDAP loans if they (1) sustain residential property damage in a disaster declared by the Governor and (2) can not fully cover the cost of these damages from insurance or loans.

Given the severity of the state's fiscal condition and the ability of property owners to purchase insurance to cover losses due to disasters, we recommend that the Legislature enact legislation—as described below—prospectively reducing the scope of the program. These changes will have the effect of limiting the state's responsibility for providing free disaster insurance to California's property owners.

**Limit CALDAP Coverage to Earthquakes.** As we discussed in last year's *Analysis of the 1992-93 Budget Bill* (please see pages III-25 through III-28), property insurance for flood, fires and most other disasters is readily available to home and rental property owners. The deductibles under these policies are reasonably low (generally in the range of hundreds of dollars in the case of homeowner's insurance). Adequately insured home and rental property owners, therefore, should be able to rebuild their properties after a natural disaster without requiring state assistance. The provision of a state assistance program actually encourages them to shift their risk to the state government.

In the case of earthquake insurance, on the other hand, insurance policies often include very large deductibles—generally in the range of \$15,000. The magnitude of this amount may preclude some property owners from rebuilding without state assistance. As the state has an interest in helping to reestablish communities after a disaster, the CALDAP program could help fill this gap in property insurance needs.

**Increase CALDAP Loan Interest Rates.** Consistent with the general policy that disaster insurance is primarily a private property owner's responsibility, we recommend that the Legislature increase the program's existing three-percent "simple" (non-compounding) interest rate to cover a greater share of the state's interest and administration costs. We recommend, however, that the state continue to offer CALDAP loans on a long-term deferred-payment basis. This will enable property owners to defer all interest and principal payments on the loan for 20 years—or until they sell their property.

In summary, given the state's acute fiscal condition and the ability of property owners to insure themselves against property damage, we recommend that the Legislature (1) limit CALDAP coverage to \$15,000 of earthquake damage and (2) increase the interest rate to cover a greater share of the state's cost. These changes should reduce costs to the General Fund by many millions of dollars annually.

## **Housing Element Law Needs Fundamental Reform**

*We recommend that the Legislature enact legislation substantially revising current housing element law, because it not fulfilling its stated objectives. We further recommend (1) maintaining the optional status of Ch 1143/80 in the budget year and (2) suspending for one year the statutory calendar for local governments to update their housing elements.*

Housing elements in city and county general plans play a critical role in state housing policy. In these documents, every community in the

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state assesses the conditions of its housing stock and outlines a five-year plan for housing improvement and development. Local governments have been required to have housing elements since 1967 and they are required to update them every five years.

In Ch 1143/80 (AB 2853, Roos), the Legislature significantly broadened the requirements of local housing elements to further the statewide goal of expanding housing opportunities for residents of all income groups. Specifically, the Legislature developed an integrated procedure whereby every community is assigned numeric housing construction goals, commonly referred to as a community's "fair share".

Since 1984, the Legislature has appropriated money to reimburse local governments and council of governments for their state-mandated planning costs associated with Chapter 1143 under Item 8885 of the annual Budget Bill. As part of the current year's budget solution, however, compliance with Chapter 1143 was made optional. The Budget Bill proposes to continue the optional status of this mandate in 1993-94.

**Recommendation.** Despite the critical need for housing planning and development in California, our review indicates that the Legislature should *not* fund Chapter 1143. This is because the housing element law has failed to meet its stated objectives and because it needs *fundamental* reform. Specifically, nearly a quarter century after the Legislature first required local governments to include housing elements in their general plans, the HCD indicates that only 21 percent of communities have a housing element that complies with state law. Moreover, most communities actually meet only a very small fraction of their low-income housing "fair-share" goals.

In place of continuing this dysfunctional housing element system—which costs state and local governments in the range of \$30 million every five years—the Legislature should redesign housing element law to better serve state goals. Our review indicates that a more effective housing element program would contain four key aspects: (1) an allocation of fair share on a community-by-community basis, (2) a requirement that communities fully evaluate the impact of their zoning, building regulatory, growth management, and fee policies on the attainment of their fair share goals, (3) a method of measuring local government performance in meeting its fair share goals, and (4) a system of statewide incentives and sanctions to promote local government accountability.

Accordingly, we recommend that the Legislature maintain the optional status of Chapter 1143 in the budget year, because the mandate is part of a housing element system which needs fundamental reform. We recommend that the Legislature reexamine housing element law

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and enact legislation to modify it to incorporate the four components discussed above. Finally, in order to provide sufficient time for the Legislature to revise housing element law, we recommend that the Legislature enact legislation suspending for one year the statutory calendar for cities and counties to update their housing elements.

## **Mobilehome Fee Increase**

*The HCD's budget includes a substantial fee increase to support a variety of mobilehome programs. The department should explain its rationale and timeline for increasing these fees at budget hearings.*

Contrary to the Governor's assertions that the budget does not include fee increases, the budget proposed for the HCD presumes fee increases totaling \$1.9 million. Specifically, the budget proposes to increase fees on mobilehomes owners, dealers, salespersons and manufacturers to support a variety of mobilehome programs funded through the Mobilehome-Manufactured Home Revolving Fund.

Virtually no information was provided pertaining to the proposed fee increase. In fact, the budget document and supporting materials do not even *identify* a fee increase—but simply show the fund's revenues and expenditures suddenly increasing by 25 percent in the budget year.

Our review indicates that the idea of raising mobilehome fees may have merit. We understand, for example, that (1) there are substantial workload backlogs in some of the mobilehome programs, (2) fees charged by HCD for mobilehome registration and titling are lower than comparable fees charged by the Department of Motor Vehicle and private title companies, and (3) some fees have not been increased in over a decade. We have, however, two serious concerns regarding the fee increase proposal.

First, by failing to identify the fee increase in the budget documents and provide basic information on the fee proposal, the administration makes it exceedingly difficult for the Legislature to oversee operations in the mobilehome programs.

Second, the department's timeline for increasing the fees appears overly optimistic. The budget anticipates that the new fees will be in place by July 1, 1993. To do so, however, the department will need to develop program regulations and a fee schedule pursuant to the California Administrative Procedures Act—a process which usually takes six months or longer. If the new fees are not in place by the start of the fiscal year, the department will have insufficient fee revenues to support the proposed staff level.

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Accordingly, we recommend that the department explain at budget hearings (1) which mobilehome fees will be increased, (2) which services to mobilehome owners will improve, and (3) the status of the department's efforts to adopt regulations and a fee schedule.

## **Shrinking Administrative Reserve**

*The HCD is spending its bond program reserves at a rapid rate. As the HCD exhausts these administrative reserves, costs to administer the bond programs fall to the General Fund. We recommend that HCD provide the Legislature its long overdue plan to reduce bond program administrative expenses.*

After passage of the California Earthquake Safety and Housing Rehabilitation Bond Act of 1988 (Proposition 77), the HCD proposed to pay for the administration of the new housing programs from bond proceeds, rather than the General Fund. To that end, the department placed about 10 percent of monies from this bond measure (and the Housing and Homeless Bond Acts of 1988 and 1990) into a series of program-specific administrative reserves. The use of bond proceeds for this purpose is permissible under current law.

In 1990, concerned by the rapid rate at which the HCD was spending these administrative reserves, the Legislature directed the HCD to review the staffing levels of the bond programs—and to develop a plan with a timetable for reducing bond program administrative expenses. The department agreed to conduct this review and to submit this plan along with its 1992-93 budget request—more than one year ago.

Since that time, the department has completed a major workload study, but *still* has not submitted the required plan for reducing administrative expenses. The department now indicates that this plan will be available sometime after the HCD completes a zero-based-budget exercise in the spring.

Our review indicates that the department (1) will have spent nearly \$20 million of the funds approved by the voters to build low-income housing on program administration by the end of the current year and (2) has already depleted the administrative reserves of two small housing bond programs.

The HCD informs us that the loans provided under bond programs will require substantial monitoring activities for at least the next 40 years. It is imperative, therefore, that HCD spend the remaining administrative reserves as prudently as possible in order to forestall the date when program administrative expenses become General Fund liabilities. Accordingly, we recommend that the department submit its

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long overdue plan and timetable for reducing expenses to the Legislature before budget hearings. This plan should identify actions which the department will take to administer the programs within the resources available in the bond reserves, for as long as possible.

## DEPARTMENT OF INSURANCE (2290)

Insurance is the only interstate business that is regulated entirely by the states, rather than by the federal government. In California, the Department of Insurance (DOI) is responsible for regulating insurance companies, brokers, and agents in order to protect businesses and consumers who purchase insurance. Currently, there are about 1,500 insurers and 260,000 brokers and agents operating in the state, generating total premiums of about \$62 billion per year.

The budget proposes total expenditures of \$93 million from the Insurance Fund to support the DOI in 1993-94. This is \$64.8 million, or 41 percent, less than estimated current-year expenditures. This major reduction is attributable to the termination of the earthquake insurance program (-\$68.2 million) and an unallocated reduction (-\$7.7 million) in 1992-93. The reduction is offset, in part, by augmentations for improving the regulation of insurance companies and brokers (\$3.4 million). In addition, the budget proposes to continue in 1993-94 current-year expenditures of about \$14.4 million proposed to fight auto and worker compensation fraud under programs established in 1992-93.

### Slow Progress for Implementation of Proposition 103

*Ongoing legal challenges to Proposition 103 continue to stall its implementation.*

Adopted by the voters in November 1988, Proposition 103 required that property/casualty insurance rates be "rolled back" to their November 1987 levels and reduced by 20 percent, under certain conditions. The initiative required the Insurance Commissioner to develop regulations and implement the rate rollbacks. It also required the DOI to review and approve all changes in property/casualty insurance rates before they go into effect (referred to as "prior approval" of rates).

The budget proposes about \$26 million from the Insurance Fund for the continued implementation of Proposition 103 in 1993-94.

*Legal Challenges Stall Implementation.* As pointed out in last year's *Analysis*, implementation of Proposition 103 through 1990 was limited

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to a lengthy process of developing rate rollback and prior approval regulations, as well as review and approval of a limited number of rate changes. In early 1991, the Insurance Commissioner suspended action on all pending applications for rate increases, repealed the existing regulations, and issued new, emergency regulations. After numerous legal delays, the emergency regulations went into effect in the fall of 1991. The DOI held administrative hearings for rate rollbacks and resumed the review of rate change applications using these emergency regulations. In late 1991, the Commissioner ordered rate rollbacks equivalent to about \$2.5 billion in property/casualty premiums, but the affected insurers appealed the order in superior court.

*Litigation and Out-of-Court Settlements in 1992.* During 1992, the DOI litigated the rate-rollback cases and reached out-of-court settlements with insurers for total rebates of about \$290 million (including interest) in insurance premiums. In addition, all court proceedings were completed by the end of 1992, and a judicial decision is expected by March 1993 regarding the first major rate-rollback case. The decision in this case will affect not only the other rollback cases awaiting trial, but also the fate of the new regulations and standards for rollbacks and prior approvals. The emergency regulations have now expired, and the department has delayed its request for approval of similar, permanent regulations, pending a court decision in the rollback test case. The review of applications for rate increases has been suspended by the DOI until the court decides on the rate-rollback test case. Applications for other rate changes, however, are not affected by the court decision.

*Continued Litigation and Rate Reviews Anticipated in 1993.* Regardless of the decision in the "rate-rollback" test case, the losing party is expected to appeal, delaying settlement of this issue. According to the DOI, this case is expected to be appealed—possibly all the way to the U.S. Supreme Court. Thus, final decision on the rollback issue could be substantially delayed. With respect to the rate review process, the DOI must have regulations in effect by July 1, 1993, to resume the review of applications for rate increases. This is because, under legislation enacted in 1992, rate-change applications filed after July 1, 1993, will generally be deemed approved, if no action is taken by the DOI on the application within 180 days of the date it is filed. Thus, the DOI must have regulations in effect by July 1, 1993, if it is to implement the "prior approval" requirement of Proposition 103.



## **Earthquake Insurance Program Terminated**

*Repealed as of January 1, 1993, this program will be closed down by June 30, 1993, and those who paid surcharges will receive prorated refunds.*

**Background.** Chapter 1165, Statutes of 1990 (SB 2902, Hill), established a basic, mandatory earthquake insurance program covering structural damage of up to \$15,000 for owner-occupied dwellings. The coverage was paid through an annual surcharge, ranging from \$12 to \$60, on homeowner insurance policies. The amount of the surcharge was determined by the DOI, but billed and collected by insurers providing homeowner policies. The surcharges were deposited in the California Residential Earthquake Recovery Fund, managed by the DOI, for payment of claims and administrative costs. Expenditures from the fund were limited to its assets. Therefore, if claims and other expenditures exceeded those assets, they were to be prorated.

Because of a variety of concerns with the program, the Legislature enacted and the Governor signed Ch 1251/92 (AB 2049, Isenberg), which repealed the program, effective January 1, 1993. The act requires that, after payment of all eligible claims, and administrative and termination costs, the remaining amount in the Earthquake Recovery Fund must be refunded, on a pro rata basis, to those who paid the surcharge.

**Program Will Be Terminated by June 30, 1993.** The DOI is currently in the process of implementing Chapter 1251 and plans to complete the process by June 30, 1993.

As of the end of January 1993, the DOI projected that about \$100 million will probably be left over for refunds to those who paid the surcharge. This is the amount remaining after paying all claims (projected \$67 million) and paying all administrative and termination costs (projected \$68 million). The DOI plans to begin sending out refunds this spring and complete the process by the end of June 1993.

## **Expenditures for Intervenor Compensation Overbudgeted**

*We recommend that the \$1,394,000 proposed for intervenor compensation be reduced by \$794,000 to correct for overbudgeting. (Reduce Item 2290-001-217 by \$794,000.)*

The budget requests \$1,394,000 from the Insurance Fund for intervenor compensation during 1993-94. Proposition 103 requires the Insurance Commissioner to pay reasonable advocacy and witness fees, as well as expenses to any person who demonstrates that he or she (1)

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represents consumers' interests and (2) makes a substantial contribution to the adoption of any order, regulation, or decision by the Commissioner or by a court. These costs, along with other Proposition 103-related administrative costs, are assessed to property/casualty insurers doing business in the state.

The \$1.4 million requested by the department is the proposed cost of intervenor compensation, based on a projected number of administrative and judicial hearings. The DOI projection assumes that legal challenges of rate rollbacks (discussed earlier) will be resolved in 1992-93. With resolution of these legal challenges, the DOI assumes a significant increase in the number of prior approval hearings (where intervenors normally participate) and, therefore, increased intervenor compensation costs in 1993-94.

Our analysis of this request indicates that it is based on projections and assumptions that are overly optimistic. Specifically, while there may be a judicial decision by March 1993 in a major rate-rollback case, this decision is expected to be appealed, potentially all the way to the U.S. Supreme Court. This appeal would push the expected increase in hearings at which intervenors would participate beyond 1993-94.

Given these probable delays in hearings and opportunities for intervenor participation, we believe that it would be more accurate to fund 1993-94 intervenor costs on a basis of actual intervenor costs in recent years. On this basis, we believe it is reasonable to expect that intervenor costs in 1993-94 will more likely be about \$600,000, instead of the \$1,394,000 requested.

Therefore, we recommend that the difference—\$794,000—be deleted to correct for overbudgeting.

### **Contracting for Actuarial Services Is Not Cost-Effective**

*We recommend deletion of \$267,000 proposed for contracted actuarial services to review examinations, because the proposal does not meet the intended need and is not cost-effective. (Reduce Item 2290-001-217 by \$267,000.)*

The budget requests \$267,000 to purchase services of a consulting property/casualty actuary during 1993-94. The request is based on the need to reduce the existing backlog in actuarial workload for reviewing the reserves of insurers undergoing financial examinations by the DOI. The actuarial review is required to complete these examinations.

**Background.** In 1991-92, the DOI requested and received two associate casualty actuary positions for a two-year period in order to

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reduce the mounting backlog in actuarial workload on these examinations. The workload justified the need for two positions. The department, however, never filled these positions because, according to the DOI, property/casualty actuaries command much higher salaries than the maximum annual salary of \$74,000 authorized for these positions. Subsequently, the DOI deleted these positions (and \$148,000) in the current year as part of an unallocated \$7.7 million reduction imposed by the 1992 Budget Act. The budget proposes to replace these positions with \$267,000 in contracted services to handle the actuarial workload associated with the examinations.

*Proposal Does Not Meet Need and Is Not Cost-Effective.* Our analysis indicates two basic problems with this proposal. First, the \$267,000 proposed would purchase the services of only one consulting actuary (at the projected rate of \$150 per hour) for 1993-94. The workload information submitted with the request, however, indicates that two full-time actuaries are needed to eliminate the current backlog and meet anticipated, ongoing actuarial workload associated with these financial examinations.

Second, contracting for these services (at the cost of \$267,000 for the equivalent of one actuary for one year) is not a cost-effective way to handle this workload. These services can be handled by in-house staff at much less expense.

For these reasons, we recommend that the \$267,000 requested for contracted actuarial services be deleted.

In lieu of this request, the department should propose to add the appropriate level of state positions to meet this workload. The DOI should also work with the Department of Personnel Administration to address any shortcomings in the salary ranges for these actuarial positions. Such a proposal would probably merit legislative approval.

### **Proposed Contracts Not Justified**

*We recommend deletion of a combined total of \$210,000 proposed for two external contracts, because they are not justified. (Reduce Item 2290-001-217 by \$210,000.)*

The budget proposes to fund the following contracts under external contracted services in 1993-94:

*Information on Health Care Proposals (\$110,000).* According to the DOI, this contractor is to provide "...health care expertise and advice to the Insurance Commissioner on aspects of health care benefits and expenditures which are not necessarily under the jurisdiction of the

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DOI, but are critical for development and promotion of a basic health insurance program for all Californians."

The DOI has an internal policy and research staff available to the Insurance Commissioner to research insurance-related matters, including health insurance. The budget proposes to continue this research staff on a permanent basis, beginning in 1993-94, by converting these limited-term positions to permanent positions. This staff can provide the information needed by the Commissioner more cost-effectively than a private consultant.

*Washington, D.C. Representation (\$100,000).* According to information provided by the DOI in support of this request, the proposed role of the contractor is to (1) keep the Commissioner and the department informed on federal proposals and regulations involving insurance and (2) coordinate congressional requests for information from the DOI, including appearances before congressional committees.

Our analysis indicates that these services can be provided by the existing staff of the department's policy and research office. Monitoring federal proposals might require occasional trips to Washington, D.C., by one of the research positions, or subscription to one of the many congressional reporting services available on insurance-related issues. Even with these potential additional costs, using in-house staff would be more cost-effective than using a private consultant. For these reasons, we believe that this proposed contract is not justified.

### **Proposed Contract for Legal Services Overbudgeted**

*We recommend that the \$1,100,000 proposed for Proposition 103-related legal services be reduced by \$350,000 to correct for overbudgeting. (Reduce Item 2290-001-217 by \$350,000.)*

The budget proposes to spend \$1.1 million from the Insurance Fund in 1993-94 on external legal services for representing the DOI in Proposition 103-related legal actions. This is the same amount as the amount estimated to be spent for this purpose in 1992-93.

Our analysis of information provided by the DOI in support of this request indicates that the amount requested is overbudgeted. Specifically, a memo dated December 23, 1992, from the DOI legal staff to the Attorney General's office projects the expenditure in 1993-94 for external legal services to be \$750,000, instead of the \$1.1 million budgeted. The memo attributes the reduced amount needed in 1993-94 to a more active role expected to be played in the budget year by the DOI in-house legal staff in preparation of Proposition 103-related cases

for judicial proceedings. Thus, the anticipated cost for outside legal help would be reduced by \$350,000.

For this reason, we recommend that the \$1.1 million proposed for external legal services be reduced by \$350,000 to correct for overbudgeting.

## **DEPARTMENT OF SAVINGS AND LOAN (2340)**

The Department of Savings and Loan is responsible for protecting the savings and investments of the public by licensing and regulating state-chartered savings and loan associations. It is supported by the Savings Association Special Regulatory Fund. Revenues to the fund are derived from annual assessments of the individual associations.

The budget proposes total expenditures of \$691,000 in 1993-94. This is \$2.3 million, or about 77 percent, less than estimated current-year expenditures. The proposed budget reflects the administration's decision to reduce the regulatory and administrative functions of this entity by "downsizing" it from a department to an office status and reducing authorized staff from 38 positions in the current year to three positions in 1993-94.

### **State-Chartered Savings and Loan Program**

The Governor's Budget proposal to downsize the department's budget is the result of drastic changes in recent years in the savings and loan industry. In response to the thrift failures in the 1980s, the federal government passed legislation in 1989—the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)—which had the impact of significantly reducing the number of state-chartered savings and loans, for various reasons:

- *Elimination of Competitive Advantage for State Charters.* FIRREA eliminated the competitive advantages (such as more flexible capital requirements and investment authority) that California-chartered associations enjoyed over their federally chartered counterparts. These advantages were the primary incentives for associations to maintain a California charter.
  - *Increased Federal Regulations.* FIRREA also subjected the state-chartered associations to more stringent federal regulations and examinations to monitor their compliance with those regulations in order to obtain and maintain federal deposit insurance. The increased cost of these federal examinations—which are neces-
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sary to maintain deposit insurance—makes the option of a state charter (with its associated additional costs) less attractive.

- **Increased Costs for Bailout Surcharge.** In recent years, many savings and loan associations have been converting to state- or federally chartered banks in order to avoid the substantial surcharge imposed by federal regulators on savings and loan associations for the “bailout” of insolvent associations.
- **More Stringent Capital Requirements.** Many state-chartered associations were not able to meet the more stringent capital requirements imposed by FIRREA and went out of business, or were closed by federal or state regulators.

For the above reasons, the number of state-chartered associations declined from 130 in 1989-90 to 27 at the end of 1992. The decline in assessment revenues (which are determined on basis of an association’s asset size) that support state regulatory activities has been even more significant, as a proportionally greater number of the large associations ceased to be state-chartered. As a result, the current assessment roll consists of primarily small associations that pay only the minimum assessment of \$20,000 per year.

### **State Program Should Be Terminated**

*We recommend enactment of legislation by July 1, 1993—to be effective January 1, 1994—terminating the state-chartered savings and loan associations program.*

Our analysis of the developments discussed above indicates that there is neither a need nor an overriding benefit for continuation of the state-charter program. For the associations, a state charter is no longer a significant benefit because FIRREA removed most economic advantages of being licensed by the state, and it is not necessary for important operational aspects, such as maintaining deposit insurance. Furthermore, there is no need and no benefit to the state to continue a regulatory program that has been, for all practical purposes, supplanted by the federal government. This has occurred because, under FIRREA, federal regulators (the Office of Thrift Supervision and the Federal Deposit Insurance Corporation) examine regularly all savings and loan associations—including those which are state-chartered—for compliance with all applicable federal laws and regulations. These examinations make the state’s examination virtually duplicative of, and secondary in importance to, federal examinations.

For these reasons, we recommend termination of the state-chartered savings and loan associations program. Existing state-chartered

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associations could convert to another charter authorized to operate in the state—such as federally chartered savings and loan associations, state-chartered thrifts, or state- or federally chartered banks. According to regulators, these conversions can usually be completed within three to four months.

Consequently, we recommend enactment of legislation to terminate the state-chartered savings and loan program. We urge the Legislature to enact this legislation by July 1, 1993, with termination effective January 1, 1994. This would give the associations six months to convert from state-chartered businesses. Six months is also a reasonable amount of time—given the concurrent conversion process—to expect the reduced state staffing level envisioned by the budget to continue monitoring the remaining associations.

### **Implementation and Effects of Reductions Should Be Explained**

*If the Legislature decides to continue the state-charter program, the department should inform the Legislature on how the proposed reductions will be implemented and how this proposal will affect the state's ability to (1) protect consumers' savings/investments and (2) regulate state-chartered associations.*

Our analysis indicates that termination of the state-chartered savings and loan program is the appropriate course to follow. If, however, the Legislature does not eliminate state charters, then it will have to deal with the regulation of state-licensed savings and loan associations, as specified in current law, with a proposed office of three people.

If the state is to continue the state-charter program, there should be sufficient staff and funding available to properly regulate savings and loan associations, and to protect consumers' savings/investments. The Administration has not provided any information to assure the Legislature that the proposed reductions will sustain these objectives. For example, the proposed budget does not provide specifics as to how the reductions in regulatory staff and expenditures of the department will be implemented. Specifically, there is no information regarding the type, level, or responsibility for each of the three positions. Furthermore, the budget does not identify what changes in the department's regulatory functions will be needed as a result of the reduced staffing level, or how the reduced effort may affect both the level of risk for consumers and the potential liability to the state.

The department needs to explain to the Legislature how it can effectively regulate the remaining state-chartered associations (27

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associations, with assets totaling more than \$18 billion) with the resources proposed in the budget.

## **TRADE AND COMMERCE AGENCY (2920)**

The Trade and Commerce Agency was created by Chapter 1364, Statutes of 1992 (SB 1909, Vuich). Effective January 1, 1993, the act consolidated the existing programs and resources of the Department of Commerce, the World Trade Commission and the Overseas Trade Offices (from the Governor's Office) to improve coordination, effectiveness and efficiency of these programs. The agency is designated as the primary state economic development entity for promoting the establishment, retention and expansion of business, employment and international trade in California. It also promotes tourism and foreign investment in the state.

The budget proposes expenditures of \$47.4 million from various funds for the Trade and Commerce Agency in 1993-94. This is \$6.8 million, or about 17 percent, more than the estimated current-year expenditures. However, General Fund expenditures are proposed to increase by \$12.4 million, or 52 percent, in 1993-94. Thus, the General Fund is proposed to support nearly 77 percent of the agency's 1993-94 budget, compared to about 59 percent of the current-year budget.

### **Information Needed on Plan for Strategic Technology Program**

*Prior to legislative action on this item, the agency should provide detailed information to the Legislature regarding the objectives, components, implementation, and anticipated benefits of the \$8.2 million General Fund request for the Strategic Technology Program.*

The budget includes \$8.2 million from the General Fund for a Strategic Technology Program. According to information from the agency, this new program is proposed to (1) support the development and commercialization of new technologies to create jobs, (2) respond to industry changes (such as conversions in the aerospace and defense industries) in order to alleviate the economic problems resulting from these changes, (3) assist businesses—especially small and medium-size companies—affected by changes in the aerospace and defense industries, and (4) provide state matching funds for federal programs established to mitigate the negative economic impact of industry conversions.

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According to the administration, the new program is proposed to expand the scope and the mission of the current Competitive Technology Program which, for the past four years, provided grants to help with commercialization of new technologies. The concept of the program appears to be similar to the idea advocated by the Governor's Council on California Competitiveness and the Assembly Democratic Economic Prosperity Team (ADEPT).

The limited, general information provided with this proposal indicates that the program is expected to stimulate economic recovery of the state and especially to assist businesses affected by dislocations in the aerospace and defense industries. At the time this analysis was prepared, however, detailed information was not available by which to evaluate this proposal. Specifically, no information, other than broad generalities, was available regarding the objectives and components of the program and the methods (such as loans, grants, loan guarantees) to be used for implementing the program. More specific information is also needed on how the \$8.2 million and the proposed nine positions would be allocated and used, as well as how the existing Competitive Technology Program will be merged into the new program. Finally, information regarding the specific benefits the agency anticipates from each element of the program should be provided in order for the Legislature to evaluate the economic effects anticipated by this expenditure of state resources.

For these reasons, the subcommittees should not act on this proposal until this essential information is provided by the agency. When this information is submitted, we will review it and, as appropriate, make comments and recommendations to the Legislature.

### **External Contracts Need to Be Clarified and Justified**

*Prior to legislative action on this item, the agency should provide information clarifying and justifying components of the \$8.8 million proposed for external consultant and professional services.*

The budget proposes to spend \$8.8 million (\$8.6 million from the General Fund and \$235,000 from various special funds) on external consultant and professional services in 1993-94. This is about the same as the amount estimated to be spent for this purpose in 1992-93. These services include (1) business and tourism promotion (\$6.5 million), (2) trade office directors who are contract, rather than state, employees (\$0.5 million), (3) assistance to small business (\$1.4 million), and (4) miscellaneous other services (\$0.4 million). The information submitted to substantiate these expenditures is a one-page list of 35 proposed

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contractual services with associated costs. According to agency staff, this is the extent of the justification for these requests.

Lacking any other justification, we would normally recommend that the Legislature delete the requested funds from the budget. Given the current economic situation, however, some of these activities—if conducted in a meaningful and cost-effective way—could be of value. To date, the agency has not made a case for spending the requested funds. Consequently, the agency should develop information on each proposal that describes the specific work to be accomplished, the reason for undertaking the activity, the expected benefit, the anticipated costs, and the manner by which the agency will determine the results/benefits of the expenditure. The agency should also include justification and benefits for using external contracted services, instead of in-house staff, to provide the services.

We therefore recommend that the Legislature not act on this request until the agency clarifies and justifies an expenditure of \$8.8 million for the proposed services. When this information is available, we will review it and, as appropriate, make comments and recommendations to the Legislature.

### **Appropriation for Small Business Loan Program Should Be in Enabling Legislation**

*We recommend deletion of the \$2 million General Fund appropriation proposed for expansion and restructuring of the Small Business Loan Guarantee Program because (1) the funding should be in the legislation required to authorize expansion and (2) the Legislature should review the proposal in its entirety. (Reduce Item 2920-001-001 by \$580,000 and Item 2920-011-001 by \$1,420,000.)*

The budget proposes to appropriate \$2 million from the General Fund to provide for expansion and restructuring of the California Small Business Loan Guarantee Program.

**Program Background.** In operation since 1968, this program guarantees loans made by commercial lenders to small businesses which otherwise would be unable to obtain loans in the conventional market. Small businesses use the guarantees (generally up to 90 percent of the loan, to a maximum of \$350,000) to reduce the lender's risk and thus make it easier to qualify for the loan. The loans are guaranteed through the Small Business Expansion Fund, which is supported solely by the General Fund.

The program also provides management assistance and helps small business obtain surety bonds so they can compete for public works projects. Although overseen by the state, the program is operated through eight nonprofit regional development corporations which arrange and service the loans, provide technical and management assistance to borrowers, and do most of the related administrative work. They also control their share of the guarantee funds with their administrative costs funded from interest earnings on their share of the guarantee fund.

Under current law, regional corporations are authorized to leverage their share of the guarantee funds to a maximum of 4 to 1 (that is, four dollars of a loan can be guaranteed for each one dollar in the guarantee fund). In practice, however, the program has not reached that ratio, because leveraging makes these loans more risky. Therefore, banks are reluctant to make these loans, unless there are sufficient funds to guarantee them on a dollar for dollar (1 to 1) basis.

***Proposed Increase in Funding.*** The budget proposes allocations of the \$2 million General Fund augmentation as follows:

- \$1 million for the Loan Guarantee Fund to increase the total amount of loans that can be guaranteed (the fund currently has assets of \$31 million).
- \$420,000 to the regional corporations for hiring additional analytical and marketing staff.
- \$580,000 to the agency's Small Business Program to hire nine additional staff to service loans made by the corporations.

Our analysis indicates that the proposed increase in funding should be included in the legislation required for the proposed restructuring of the program and not in the proposed budget. This is consistent with general legislative practice of including funding in the necessary enabling legislation.

***Proposed Policy Changes in the Program.*** The proposal also indicates that the restructuring of the program will include the following key statutory changes:

- Specifying that—in addition to the assets in the guarantee fund—the loan guarantees would be backed by the "full faith and credit of the General Fund," instead of only by the amount in the guarantee fund, as provided under current law. The administration contends that, with the backing of the General Fund, leverage could be increased over a period of eight years to 10 to 1.
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- Returning total control of funds in the guarantee fund—currently allocated among the eight regional corporations—to the state to provide centralized control of the entire guarantee fund.

Although these changes are to be proposed in separate legislation, they raise major policy and fiscal implications that warrant discussion in this analysis. In particular, the intended use of the "full faith and credit of the General Fund" to back the loan guarantees to small business raises major policy and fiscal concerns, such as:

- **Constitutionality.** It appears that this proposal would violate Article XVI, Section 1, of the California Constitution, which prohibits the Legislature from creating total state debts or liabilities of more than \$300,000 without first having a vote of the people. Based on discussions with Legislative Counsel staff in reviewing a similar proposal last year, we were advised that legislation which pledges "full faith and credit of the General Fund" creates a debt or liability for the state.
- **Higher Leverage Would Increase General Fund Liability.** Increasing the leverage ratio greatly expands the General Fund liability in event of higher defaults. Currently, the state's liability for the guarantees is limited to the assets in the Small Business Expansion Fund (about \$31 million). In addition, under the restructured program, regional corporations would be responsible only for marketing loans, but not for servicing and guaranteeing them. Under this scheme, the corporations would be more inclined to make higher-leveraged, riskier loans than they would make under the current program. Thus, there would be greater risk to the General Fund.

As discussed above, the proposed restructuring of this program would have potentially major fiscal and policy implications for the state. For this reason, the \$2 million additional funding proposed in the budget for this program should, instead, be part of the proposed legislation to restructure the program. This would allow the Legislature to consider the additional funding for the program together with the potential fiscal and policy impacts of the proposed restructuring.

For these reasons, we recommend deletion of the proposed \$2 million General Fund appropriation for expanding the program.

## **No Justification Provided for Reclassified and New Positions**

*We recommend deletion of \$796,000 requested from the General Fund to pay the net cost of reclassifying existing and creating new positions for the new Trade and Commerce Agency because: (1) the proposed*

*reclassifications and the new positions have not been justified and (2) the enabling legislation requires that the agency be funded from existing resources of the entities merged into the agency. (Reduce Item 2920-001-001 by \$796,000.)*

The budget proposes to increase expenditures for personal services by \$796,000 from the General Fund to provide for the cost of establishing two new positions and reclassifying 13 existing positions to manage and administer the new agency. In addition, the budget proposes to transfer \$360,000 and five positions currently funded in the Business Transportation and Housing Agency to the Trade and Commerce Agency.

Our analysis of this request identifies two concerns. First, there is no information on the proposed responsibilities and workload for the upgraded and new positions to justify them. Second, Chapter 1364—the legislation which established the Trade and Commerce Agency—specified that “The agency shall be funded from existing resources of other state agencies and departments.” To accomplish this, the act authorized the Governor to direct the transfer of personnel from other agencies and departments to operate the agency.

For these reasons, we recommend deletion of the \$796,000 requested by the agency from the General Fund to pay the net full-year cost of the upgraded and new positions.

## **DEPARTMENT OF FOOD AND AGRICULTURE (8570)**

The Department of Food and Agriculture (DFA) promotes and protects the state’s agriculture industry, develops California’s agricultural policies, and assures true weights and measures in commerce. The department also supervises the county agricultural commissioners and county sealers of weights and measures.

The budget requests \$184.4 million from the general fund, various other state funds, federal funds, and reimbursements for support of the DFA and for local assistance in 1993-94. This is an increase of \$5.0 million, or 2.8 percent, above estimated current year expenditures. The budget total includes General Fund appropriations for support and local assistance totaling \$53.7 million, which is an increase of \$600,000, or 1.1 percent, more than estimated current-year General Fund expenditures.

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## **Responsibility for the Agricultural Export Program Should Be with the Trade and Commerce Agency**

*We recommend elimination of the Agricultural Export Program under the department of Food and Agriculture because this activity should be subsumed by the new Trade and Commerce Agency. (Savings of \$605,000 to the General Fund under Item 8570-001-001 and \$15,000 from the California Agricultural Export Promotion Account under Item 8570-001-124.)*

The budget proposes \$605,000 from the General Fund (Item 8570-001-001) and \$15,000 from the California Agricultural Export Promotion Account (Item 8570-001-124) for the Agricultural Export Program. This program was established to provide grants for participants to create, expand, and maintain foreign markets for California agricultural products. Participants must be entities actively engaged in marketing agricultural commodities, and can include private companies, nonprofit agricultural marketing organizations, and state and federal marketing order boards or commissions. Grants are awarded on the basis of proposals submitted each year to an advisory board that makes recommendations to the Director of Food and Agriculture. Current law limits awarding these grants to projects that will expand or maintain agricultural markets abroad. The Director may give special consideration to proposals from participants who are new to the market or who are promoting new products in the market. Participants are required to match each grant award with an equivalent value of "contributions" that may include money, personal materials, facilities, services, or supplies. Grants have not been provided under this program in recent years because of the lack of funds.

*Trade and Commerce Agency Has Foreign Marketing Responsibilities.* The new Trade and Commerce Agency is comprised of the previous functions of the Overseas Offices, the California World Trade Commission, and the Department of Commerce. The agency's functions include the International Trade and Investment Program. This program has a proposed budget of \$5.2 million and 31.7 personnel-years, and will serve as the lead in developing and overseeing international trade policy and marketing the state's foreign trade, export, and investment functions—including agriculture products. The agency also assists in representing the interest of California-based companies in foreign market transactions through trade delegations, missions, marts, seminars, and other promotional tools. Finally, the agency provides technical and financial assistance to small- and medium-sized businesses engaged in export transactions.

In view of the duplicative efforts of the new agency and the DFA regarding the promotion of agricultural exports, we recommend the Legislature eliminate the Agricultural Export Program under the DFA, and have the Trade and Commerce Agency responsible for all such marketing efforts. Elimination of the Agriculture Export Program under the DFA will result in a \$605,000 General Fund savings and a \$15,000 savings to the Agricultural Export Promotion Account.

### **Governor Proposes to Privatize District Agricultural Associations**

*The Administration is in the process of developing a plan for legislative review concerning the Governor's proposal to privatize the various District Agricultural Associations.*

Currently, there are 54 District Agricultural Associations for which the state provides administrative oversight for budgeting and maintenance review. Revenues available to support the associations and local fairs totals about \$34 million, consisting of approximately \$19 million from the Fair and Exposition Fund and \$15 million from the Satellite Wagering Account.

The Governor has proposed the potential privatization of the 54 District Agricultural Associations. According to budget documents, the Director of Food and Agriculture is to study this issue and report to the Legislature and Governor by March 1, 1993. When the study is available, we will provide the Legislature recommendations and comments, as appropriate.

## **PUBLIC UTILITIES COMMISSION (8660)**

The Public Utilities Commission (PUC) is responsible for regulation of privately owned "public utilities," such as gas, electric, telephone, trucking, bus, and railroad corporations.

The primary objective of the PUC is to ensure adequate facilities and services for the public at equitable and reasonable rates, consistent with a fair return to the utility on its investment. Through its various regulatory decisions, the commission also promotes energy and resource conservation.

The budget proposes for the PUC total expenditures of \$80.8 million from various state special funds (\$78.1 million), federal funds (\$0.1

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million) and reimbursements (\$2.6 million) in 1993-94. This is about \$0.3 million, or 0.3 percent, more than estimated current-year expenditures.

## **Energy-Related Responsibilities of the PUC Uncertain**

*Information has not been provided regarding (1) the administration's plan to eliminate the California Energy Commission and transfer its energy-related responsibilities to other state entities, including the Public Utilities Commission and (2) the legislative request for information about duplicative efforts of the two commissions.*

**Administration's Reorganization Plan.** The Governor's Budget Summary for 1993-94 indicates that the administration will consider eliminating the Energy Commission and transferring its functions to other state agencies, including the PUC. The proposed 1993-94 budget for the PUC does not propose any reorganization, or change in the commission's responsibilities. Furthermore, there are no indications in the proposed Energy Commission budget of terminating that entity. It is our understanding that the administration was still in the process of formulating a reorganization plan.

**Legislative Request in 1992.** In the Supplemental Report of the 1992 Budget Act, the Legislature directed the PUC and the Energy Commission to submit to certain legislative committees—within 90 days of adoption of the 1992-93 budget—an analysis of the areas of duplicative regulatory functions between the two entities and (2) a detailed listing, by priority, of the various regulatory and promotional programs conducted by each commission. At the time this analysis was prepared, the two commissions had not submitted the requested information to the Legislature.

Consequently, at the time this analysis was written, the administration had not developed a reorganization plan for the responsibilities of the Public Utilities Commission and the California Energy Commission, and the two commissions had not responded to the Legislature's request concerning duplicative efforts.





# LIST OF FINDINGS AND RECOMMENDATIONS

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## Crosscutting Issues

### *Restructuring Consumer-Related Boards and Bureaus*

1. **Eliminate All Separate Boards and Bureaus as Independent Entities.** We recommend the enactment of legislation to eliminate separate boards, bureaus, and programs as independent entities, and to consolidate them under the Director of the Department of Consumer Affairs. 12
2. **The State Should No Longer Engage in Several Regulatory Functions.** We recommend the enactment of legislation to remove the state's regulatory role over several consumer-related business activities for special fund savings of \$33 million. 14
3. **Regulatory Programs Should Demonstrate Effectiveness.** To ensure the effectiveness of the state's regulatory process, we recommend that boards and bureaus be prepared to provide information that demonstrates their effectiveness at budget hearings or at joint hearings involving the policy committees and the appropriate budget subcommittees. 16

### *State Financial Regulatory Programs*

4. **Consolidate State Regulation of Financial Services.** We recommend enactment of legislation to consolidate the Departments of State Banking and Savings and Loan along with certain financial programs under the Departments of Corporations and Real Estate into a new Department of Financial Services. 21

**Housing and Community Development**

5. **Current-Year Reductions.** We recommend that the HCD explain at budget hearings how it will accommodate its unallocated reductions for the current year. 23
6. **Backlog of Disaster Loans.** We recommend that the HCD explain at budget hearings when the department will fund its growing backlog of CALDAP loans. 24
7. **Future CALDAP Expenses.** We recommend that the Legislature enact legislation substantially modifying the CALDAP program to shift more of the burden for disaster insurance to property owners. 24
8. **Housing Element Law.** We recommend that the Legislature enact legislation substantially revising current housing element law, because it not fulfilling its stated objectives. We further recommend (1) maintaining the optional status of Ch 1143/80 in the budget year and (2) suspending for one year the statutory calendar for local governments to update their housing elements. 26
9. **Mobilehome Fee Increase.** The HCD's budget includes a fee increase to support a variety of mobilehome programs. The department should explain its rationale and timeline for increasing these fees at budget hearings. 28
10. **Shrinking Administrative Reserve.** The HCD is spending its bond program reserves at a rapid rate. As the HCD exhausts these administrative reserves, costs to administer the bond programs fall to the General Fund. We recommend that HCD provide the Legislature its long overdue plan to reduce bond program administrative expenses. 29

**Department of Insurance**

11. **Slow Implementation for Proposition 103.** The ongoing legal challenges to Proposition 103 continue to stall full implementation. 30
12. **Earthquake Insurance Program Terminated.** This program, repealed as of January 1, 1993, will likely be 32

- closed down by June 30, 1993, and those who paid surcharges will receive prorated refunds.
13. **Intervenor Compensation Overbudgeted. Reduce Item 2290-001-217 by \$794,000. Recommend reduction to correct for overbudgeting.** 32
  14. **Contract for Actuarial Services Not Cost-Effective. Reduce Item 2290-001-217 by \$267,000. Recommend reduction because proposal does not address need and is not cost-effective.** 33
  15. **Contracts for Health Care Proposals and Washington, D.C., Representation Not Justified. Reduce Item 2290-001-217 by combined total amount of \$210,000. Recommend reduction because contracts are not justified.** 34
  16. **Contract for Outside Legal Services Overbudgeted. Reduce Item 2290-001-217 by \$350,000. Recommend reduction because proposed contract is overbudgeted.** 35

### **Department of Savings and Loan**

17. **Terminate State-Charter Program. Recommend enactment of legislation terminating the state-chartered savings and loan associations program.** 37
18. **Implementation and Effects of Reductions Should be Explained. If the Legislature decides to continue the state-charter program, the department should inform the Legislature on how the proposed reductions will be implemented.** 38

### **Trade and Commerce Agency**

19. **Information Needed on Strategic Technology Program. Prior to legislative action on this request, the agency should provide the Legislature more information regarding objectives, implementation, and potential benefits of programs.** 39
20. **External Contracts Need Clarification and Justification. Agency needs to clarify and justify external contracted services prior to legislative action on this request.** 40

21. **Request for Small Business Loan Program Should Be Part of Enabling Legislation.** Reduce Item 2920-001-001 by \$580,000 and Item 2920-011-001 by \$1,420,000. Recommend deletion because funding should be in separate legislation required to authorize proposed program changes. 41
22. **No Justification for Reclassified and New Positions.** Reduce Item 2920-001-001 by \$796,000. Recommend deletion of funding request for reclassified and new positions because they have not been justified. 43

### **Department of Food and Agriculture**

23. **Responsibility for the Agricultural Export Program Should Be with the Trade and Commerce Agency.** We recommend elimination of the Agricultural Export Program under the Department of Food and Agriculture because this activity should be subsumed by the new Trade and Commerce Agency (savings of \$605,000 from the General Fund [Item 8570-001-001] and \$15,000 from the California Agricultural Export Promotion Account [Item 8570-001-124]). 45
24. **No Information on Governor's Plan to Privatize District Agricultural Associations.** The administration has not developed a plan for legislative review concerning the Governor's proposal to privatize the various district agricultural associations. When the study is available, we will provide the Legislature with recommendations and comments as appropriate. 46

### **Public Utilities Commission**

25. **Energy-Related Responsibilities of the PUC Are Uncertain.** Information has not been provided regarding (a) the administration's plan for elimination of the California Energy Commission and transfer of energy-related responsibilities to other state entities and (b) the legislative request for information about duplicative efforts by the Public Utilities Commission and the Energy Commission. 47