



CONTRACTORS STATE LICENSE BOARD

EXECUTIVE COMMITTEE SUMMARY REPORT

Executive Committee Summary Report

A. CALL TO ORDER, ROLL CALL, ESTABLISHMENT OF QUORUM AND CHAIR'S INTRODUCTION

Executive Committee Chair Johnny Simpson called the meeting of the Contractors State License Board (CSLB) Executive Committee to order on August 5, 2019, at 2:00 p.m. in the John C. Hall Hearing Room at CSLB Headquarters, 9821 Business Park Drive, Sacramento, California. A quorum was established.

Committee Members Present

Johnny Simpson, Chair
David De La Torre, Vice Chair
Susan Granzella, Secretary

Committee Members Excused

Marlo Richardson

Staff Present

David Fogt, Registrar
Tonya Corcoran, Chief Deputy Registrar
Kevin Durawa, Public Affairs Staff
Phyliz Jones, Executive Staff
Stacey Paul, Budget Manager
Kristy Schieldge, Legal Counsel

Public Visitors

None

B. PUBLIC COMMENT SESSION FOR ITEMS NOT ON THE AGENDA AND FUTURE AGENDA ITEM REQUESTS

There was no public comment.

C. STAFF PRESENTATION OF CSLB BUDGET OVERVIEW AND FUND CONDITION

Budget Manager Stacey Paul reported that CSLB does not receive general fund support; it is a special fund entity and receives funds from application licensing fees, renewal fees, fines, and penalties. In July 2017, fees were increased to generate an expected \$5 million more in revenue and to stabilize the fund. However, CSLB continued to expend about \$3 million more than the revenue brought in. The over



expenditure is due to unforeseen costs not accounted for when initiating the 2017 fee increase. Since 2011, there has also been a 6.6 percent decline in the license population, resulting in millions of dollars in lost revenue each year. In fiscal year 2018-19, there was a 3 percent decline in renewals, totaling about \$2 million in lost revenue. The most significant cost increase are: \$4.5 million in personnel services; \$1.5 million in external statewide operational costs; \$1.2 million in enforcement; and \$1 million in operating expenses.

Ms. Paul reported the following forecasted cost increases for fiscal year 2019-20: increased salary and benefits for all staff under personnel services; 50 percent increase in billing rates from the Attorney General's Office as of September 1, 2019; and an increase in Department of Technology costs of about \$1.1 million for IT support and security. CSLB is again in a structural budget imbalance because of both revenue loss and increase costs and is using the reserve faster than anticipated. By the beginning of fiscal year 2021-21, CSLB will have insufficient funds for ongoing operations if costs continue to increase, without cutbacks and a fee increase.

Committee Member Comment:

Committee member Susan Granzella asked what about the critical services the AG's office provides CSLB. Registrar Fogt explained that, by statute, the AG prosecutes CSLB's administrative cases. Other services include, defending CSLB in lawsuits and representation on cash deposit claims. He added that approximately 18 months ago, the AG's office determined that CSLB did not have the statutory authority to settle licensee citations; those cases then went to the AG's office, which increased citation legal action expenditures by 50 percent. Mr. Fogt clarified that with the passage of recent legislation, CSLB does now have the statutory authority to settle such cases.

D. REVIEW, DISCUSSION, AND POSSIBLE ACTION ON STRATEGIES TO REDUCE BUDGET EXPENDITURES AND INCREASE REVENUE

1. Administration

Registrar Fogt reported that division chiefs will review all purchase requests to reduce non-essential purchases and that all service contracts will be reviewed, as well.

2. Licensing and Testing

Registrar Fogt mentioned that the Legislative Committee will consider a proposal to charge a \$20 fee for a business name change on a license record. He explained that the board receives numerous such requests, which is currently a free service but that processing these requests does involve staff time. The board is also developing a new remodeling license classification, which the Licensing Committee will consider at its next meeting. This classification would increase the licensee population and generate additional revenue. He also noted that staff is preparing a cost-benefit analysis to possible outsource exam administration and that an Associate Government Program



Analyst position is frozen in the Testing division to save approximately \$110,000 per year.

3. Public Affairs

Registrar Fogt reported that Public Affairs will focus its outreach on licensees so they can understand the value of being licensed and compliant. To address travel expenses enforcement staff may conduct some outreach events.

4. Enforcement

Registrar Fogt reported that he met with Linda Schneider, the statewide supervisor for the AG's Licensing Division, on expenditure and budgeting. He commented that CSLB's focus should center on accusations that provide for discipline to suspend or revoke a license, since that is the most important action for consumer protection. Unfortunately, there are more than 900 pending legal actions with the AG, and approximately 50 percent of these are citations. Addressing an appealed citation costs approximately \$10,000. He also said that staff plan to issue more letters of admonishment to increase compliance and prevent licensees from committing more serious offenses. Appeals of letters of admonishment are handled internally, so there are no additional costs to CSLB. He also explained that as of January 2019, CSLB has the authority to conduct informal settlement conferences to attempt to resolve citations before they are referred to the AG. Staff will review civil penalties and assessments, as administrative law judges are reducing civil penalties below what the board prefers.

Mr. Fogt also said that the board may want to consider raising the civil penalty for licensee workers' compensation violations, which is currently \$5,000; however, for unlicensed violations it is \$15,000. He also said that staff will recommend that the Enforcement Committee cap the annual expenditure for the AG at the current AG budget line item of \$6 million. Mr. Fogt also reported that on September 1, 2019, the hourly rate for a deputy attorney general will increase by 30 percent and for a paralegal by 80 percent, which could increase costs for legal actions to about \$9 million in the next fiscal year. In order to address budget concerns, he said that filling some enforcement staff vacancies may be delayed. He noted that historically the board has maintained 30 to 40 staff vacancies, but recently had reduced that to fewer than 20 vacancies. Lastly, he said that the board may consider directing some of the less egregious cases to small claims court rather than forward them to field investigation when settlement attempts are unsuccessful through the intake and mediation program.

E. REVIEW, DISCUSSION, AND POSSIBLE ACTION TO INITIATE A RULEMAKING OR PURSUE LEGISLATION TO INCREASE CSLB LICENSE AND RENEWAL FEES

Budget Manager Stacey Paul presented the proposed fee increases. She explained that a 14 percent increase, achieved through regulation, is the statutory maximum cap



and would generate \$8 million in additional revenue and that a 20 percent fee increase, which would require legislation, would generate an additional \$13 million in revenue and would only be sufficient to last three years. A 20-25 percent increase, achieved through legislation, would generate \$16 million in increased revenue and if implemented in January 2021 CSLB would be solvent with a stable reserve for upcoming years.

Committee Member Comment:

Committee member Susan Granzella asked if the increases include all the fees the board can change. Ms. Paul replied that the increases apply to all fees for applications, licensing, and renewals.

MOTION: To direct staff to develop a legislative proposal to set the fees as specified on page 23 of the board packet materials, under the column titled 20-25%, which projects annual revenue of \$16 million and to seek an author to carry the legislative proposal. In addition, direct staff to develop a regulatory proposal to present to the board to increase fees to the statutory maximum to address the board's structural budget imbalance while the legislative proposal is pending. David De La Torre moved; Susan Granzella seconded. The motion carried unanimously, 3–0.

YEA: Johnny Simpson, David De La Torre, Susan Granzella.

NAY: None

ABSENT: Marlo Richardson

F. ADJOURNMENT

MOTION: To adjourn the August 5, 2019 Executive Committee meeting. Susan Granzella moved; David De La Torre seconded. The motion carried unanimously, 3–0.

YEA: Johnny Simpson, David De La Torre, Susan Granzella.

NAY: None

ABSENT: Marlo Richardson

The Executive Committee meeting adjourned at approximately 2:27 p.m.