CONTRACTORS STATE LICENSE BOARD
DEPARTMENT OF CONSUMER AFFAIRS

INITIAL STATEMENT OF REASONS (AMENDED)

Hearing Date: February 11, 2010

Subject Matter of Proposed Regulations: Fees

Section Affected: Title 16, California Code of Regulations (CCR), Section 811

Specific Purpose of each adoption, amendment, or repeal

This regulatory action amends Section 811 of Article 1.5 of Division 8 of Title 16 of the CCR. Specifically, this regulatory action:

Article 1.5. Fees

Amend Section 811. The existing language of Section 811 sets the amount of the fees that the Contractors State License Board (CSLB) charges to process applications, issue and renew licenses, registrations, and certifications, and schedule and reschedule examinations.

The proposed regulatory action would increase the amount of those fees up to their statutory maximums as of July 1, 2011. This action is needed to ensure that CSLB has sufficient operating revenue to fund the operation of its licensing and regulatory programs as required by statute.

Factual Basis/Rationale

§ 811. Fees.

Business and Professions (B&P) Code Section 7008 authorizes CSLB to adopt rules and regulations, in accordance with the Administrative Procedures Act, that are reasonably necessary to carry out the provisions of Division 3, Chapter 9 of the B&P Code (the Contractors' State License Law). Further, B&P Code Section 7137 specifies that CSLB may charge licensing fees and requires CSLB to set the level of those fees by regulation not to exceed specified levels.

Revenue generated by licensing fees (along with civil penalties and interest) is deposited into the Contractors' License Fund (CLF) for support of CSLB. Licensing fees have not been increased since 1993 (excepting delinquent renewal fees, which were increased to 50 percent of the renewal fees from no more than $25 per Chapter 982/1999). The revenue generated by the current level of licensing fees as specified in Section 811 is no longer sufficient to support the operation of its licensing and regulatory programs. Projections by CSLB indicate that a sustained imbalance between revenues and expenditures will result in CLF becoming insolvent in FY 2011/12. As a result, CSLB is proposing to raise its licensing fees in order to ensure

that sufficient revenue is available to continue its licensing and regulatory operations.

This proposal would amend the existing regulation by increasing the following licensing fees charged by CSLB, starting on July 1, 2011:

Fee	**Current Amount**	**Proposed Amount**	**Proposed Increase**
Application for Original Contractor's License	$250.00	$300.00	**$50.00**
Application to Add a Supplemental Classification or to Replace the Responsible Managing Officer or Employee on an Existing License	$50.00	$75.00	**$25.00**
Rescheduling an Examination	$50.00	$60.00	**$10.00**
Initial License Fee	$150.00	$180.00	**$30.00**
Renewal - Contractor's License (Biennial)	$300.00	$360.00	**$60.00**
Renewal - 4-Year Inactive License	$150.00	$180.00	**$30.00**
Reactivate Contractor's License	$300.00	$360.00	**$60.00**
Home Improvement Salesperson (HIS) Registration Fee	$50.00	$75.00	**$25.00**
Asbestos Certification Fee	$50.00	$75.00	**$25.00**
Hazardous Substance Removal Certificate	$50.00	$75.00	**$25.00**
Delinquent Renewal - Contactor's License /1	$150.00	$180.00	**$30.00**
Delinquent Renewal - 4-Year Inactive License /1	$75.00	$90.00	**$15.00**
Delinquent Renewal - HIS Registration /1	$25.00	$37.50	**$12.50**

/1 Delinquent renewal fees are not included in the proposed regulation because B&P Code Section 7137 (f) sets the delinquency fee as a percentage of the applicable renewal fee:
"The delinquency fee is an amount equal to 50 percent of the renewal fee, if the license is renewed after its expiration."

The July 1, 2011, implementation date for the licensing fee increases was chosen in order to insure that CSLB will have sufficient revenue to maintain CLF's solvency for the maximum period of time before CSLB is required to seek a statutory fee increase. It should be noted that CSLB has an outstanding loan to the General Fund of $10 million, which was authorized in the 2008 Budget Bill (Chapter 268/2008). Language in the 2008 Budget Bill specifically states that repayment of the loan shall be made so that programs supported by CLF are not impacted through reduction in services or increased fees. If this loan is not paid back during the first six months of calendar year 2011, CSLB projects that CLF will be unable to support the full amount of the projected FY 2011/12 budget and CSLB would not be able to implement any fee increases. Therefore, this proposal assumes that the loan will be paid back in full with accrued interest no later than July 1, 2011.

Underlying Data
Attachment 1 details CLF analysis of fund condition through FY 2012/13. Based on revenue and expenditure projections, CSLB anticipates that its fund reserve will be completely depleted in FY 2011/12. The analysis of fund condition assumes that all revenue projections are realized and that the budgets in fiscal years 2009/10 and later are completely expended. Further, it assumes that revenue will be relatively static going forward, while the CSLB budget is anticipated to increase two percent each fiscal year starting in FY 2011/12 to account for increases in costs beyond the control of CSLB. The fund condition also includes potential budget reductions as proposed by the administration.

Attachment 2 details the amounts of the proposed fee increases by fee type. As noted above, this proposal increases all licensing fees to their statutory maximum. The reason for this level of increase is to ensure that CLF stays solvent for the maximum amount of time before an additional fee increase is needed (which would require action by the Legislature).

Attachment 3 is the CLF analysis of fund condition containing the proposed revenue increases. Using the same assumptions as in Attachment 1, CSLB projects that the proposed fee increases will maintain the CLF's solvency through FY 2015/16.

Business Impact
This regulation will not have a significant adverse economic impact on businesses including the ability of California businesses to compete with businesses in other states.

The cost increase to a licensed contractor renewing his or her license would be $60 every two years (from $300 to $360), an increase of 20 percent over current fee levels; an applicant for an original license who passes the exam (if required) on the first attempt would pay an additional $80 (from $400 to $480 for the application fee and initial license fee), an increase of 20 percent over current fee levels.

Specific Technologies or Equipment
This regulation does not mandate the use of specific technologies or equipment.

Consideration of Alternatives
No reasonable alternative to the regulation would be either more effective in carrying out the purpose for which the action is proposed or would be as effective and less burdensome to affected private persons than the proposed regulation.

Set forth below are the alternatives which were considered and the reasons each alternative was rejected:

Alternative 1: Reduce spending. Expenditures are projected to be greater than revenue by approximately $5.6 million in FY 2009/10, by approximately $9.2 million in FY 2010/11, and by nearly $11 million in FY 2011/12. As noted above, with one

exception, none of CSLB licensing fees have been increased since 1993. By contrast, expenditures have increased on average two percent per fiscal year between FY 2002/03 and FY 2009/10 and are projected to increase at a rate of two percent per fiscal year starting in FY 2011/12. These budget increases have been the result of both discretionary (restoring lost positions and funding) and nondiscretionary expenditure increases (statewide and Department of Consumer Affairs pro rata charges, state Attorney General hourly rate increases, etc.). CSLB cannot reduce the expenditures that support its licensing and enforcement programs because these reductions would negatively impact its ability to process applications in a timely manner, to license qualified applicants, and to provide consumer protection through its enforcement activities.

Alternative 2: Raise fees incrementally. Increasing all licensing fees by one-half of their statutory maximum starting on July 1, 2011, and then increasing them again, to the statutory maximum on July 1, 2013, would leave CLF insolvent by the first month of FY 2015/16 (given revenue and expenditure assumptions). CSLB would need to seek legislation to increase the current licensing fee ceilings at least one fiscal year earlier than would otherwise be required in order to avert significantly reducing expenditures (with resulting decreases to essential operations such as application processing and enforcement activities) so that spending does not exceed available resources.

Alternative 3: Increase fees beginning January 1, 2012. This alternative was considered to account for possible delay in repayment of the $10 million General Fund loan. As noted above, language authorizing the loan in the 2008 Budget Bill requires repayment of the loan so as not to impact any of the CLF's supported programs through increased fees. If the fee increase is delayed until January 1, 2012, CLF would become insolvent by the end of FY 2015/16.