

**Bureau of Electronic and Appliance Repair,
Home Furnishings and Thermal Insulation**

Initial Statement of Reasons

Subject Matter of Proposed Regulation: Fees

Sections Affected: Amend Section 2760 of Article 6 of Division 27 of Title 16 of the California Code of Regulation

Specific Purpose of the Proposed Changes

The Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation (Bureau) proposes to amend Section 2760 of Article 6 of Division 27 of Title 16 of the California Code of Regulations. The purpose for amending the regulation is to allow the Bureau to raise fees to address structural imbalances in the Bureau’s budget. This proposed regulatory action is anticipated to go into effect on January 1, 2017.

Business and Professions Code section 9814 generally authorizes the Bureau to amend rules and regulations pertaining to the administration of Chapter 3.5 of Division 3 of the Business and Professions Code (commencing with Section 11340).

Business and Professions Code section 9873 establishes the statutory maximum fee for application, annual renewal, and other fees for the Bureau’s electronic and appliance service industry and service contract industry applicants and registrants.

Business and Professions Code section 9873 establishes the criteria to determine the delinquency fee for registrations that are not renewed prior to their expiration.

Assembly Bill (AB) 1175 (Ridley-Thomas, Chapter 187, Statutes of 2015) amends section 9873 of the Business and Professions Code to increase the statutory fee ceilings for all registration types. The maximum fees increased by approximately 25 percent as follows:

| Registration Type | Previous Maximum Fee | Current Maximum Fee |
|---|-----------------------------|----------------------------|
| Electronic Service Dealer - E | \$165 | \$205 |
| Appliance Service Dealer - A | \$165 | \$205 |
| Combination Electronic and Appliance Service Dealer - C | \$325 | \$405 |
| Service Contract Seller - S | \$75 | \$95 |
| Service Contract Administrator - SA | \$75 | \$95 |

Currently, section 2760 of the California Code of Regulation provides that the fees for registrations be set to the ceiling, as established prior to AB 1175. The fees for all registration types have remained the same since 1998. In this proposed rulemaking, the Bureau seeks to amend section 2760 to increase registration fees by an average of 19 percent. Depending on the type of registration, the proposed increase will equate to an

additional \$20 to \$50 annually. More specifically, the Bureau proposes to increase the registration fees as follows:

| Registration Type | Current Fee | Proposed Fee | Amount of Increase |
|--|-------------|--------------|--------------------|
| Electronic Service Dealer - E | \$165 | \$190 | \$25 (15.15%) |
| Appliance Service Dealer - A | \$165 | \$190 | \$25 (15.15%) |
| Combination Types E and A Service Dealer - C | \$325 | \$375 | \$50 (15.38%) |
| Service Contract Seller - S | \$75 | \$95 | \$20 (26.67%) |
| Service Contract Administrator - SA | \$75 | \$95 | \$20 (26.67%) |

The proposed fee increase intends to address the Bureau’s structural imbalance and protect the Electronic and Appliance Repair Fund (Fund) from becoming insolvent as projected in Fiscal Year (FY) 2017/18. Specifically, at the conclusion of FY 2017/18, the Fund is expected to have a deficit of 1.2 months in reserve, and a deficit of -1.6 at the conclusion of FY 2018-19. Correcting the Bureau’s structural imbalance will be unattainable without a fee increase.

Impact to Renewal Fees

Typically, the annual renewal fees correspond to the initial registration fee; however, the Combination Service Dealer (C) renewal fee is currently \$25 less than the initial registration fee. With this proposal, the Bureau intends to make the renewal fees consistent by making the renewal fees for all registration types the same as the initial registration fees.

| Registration Type | Current Renewal Fee | Proposed Renewal Fee | Amount of Increase |
|--|---------------------|----------------------|--------------------|
| Electronic Service Dealer - E | \$165 | \$190 | \$25 (15.15%) |
| Appliance Service Dealer - A | \$165 | \$190 | \$25 (15.15%) |
| Combination Types E and A Service Dealer - C | \$300 | \$375 | \$75 (25.00%) |
| Service Contract Seller - S | \$75 | \$95 | \$20 (26.67%) |
| Service Contract Administrator - SA | \$75 | \$95 | \$20 (26.67%) |

Impact to Delinquency Fees

Pursuant to section 2760 and in response to the implementation of the proposed fee increase, the delinquency fees imposed on those that fail to renew their registration prior to expiration will also increase. Upon expiration, a delinquency fee will be assessed at the rate of 50 percent of the renewal fee. Depending on the registration type, the increase to the delinquency fee equates to \$10 to \$37.50, as follows:

| Registration Type | Current Delinquency Fee | Proposed Delinquency Fee | Amount of Increase |
|--|-------------------------|--------------------------|--------------------|
| Electronic Service Dealer - E | \$82.50 | \$95 | \$12.50 (15.15%) |
| Appliance Service Dealer - A | \$82.50 | \$95 | \$12.50 (15.15%) |
| Combination Types E and A Service Dealer - C | \$150.00 | \$187.50 | \$37.50 (25.00%) |
| Service Contract Seller - S | \$37.50 | \$47.50 | \$10 (26.67%) |
| Service Contract Administrator - SA | \$37.50 | \$47.50 | \$10 (26.67%) |

Problem Being Addressed

The fund balance provides specific information on the Bureau’s current fund as well as projections for future years. There are several factors that have contributed to the Fund’s imbalance such as the costs the Bureau incurs to deliver its services. In addition, the fees for the majority of registrations have remained unchanged while the Consumer Price Index has increased over the years. The rate of inflation is calculated at 30.75 percent since 2002 and 58.00 percent since 1994 (See: The Bureau of Labor Statistics’ Consumer Price Index Detailed Report Data for December 2015 - Table 24).

A review of the Bureau’s Fund condition report demonstrates that the overall revenue for the Bureau has increased by 33 percent, yet expenditures have increased by 55 percent, since FY 2002/03.

Anticipated benefits from this regulatory action:

The proposed fee increase ensures registration revenues match expenditures, thereby protecting the Bureau’s Fund from insolvency. This proposal is designed to enable the Bureau to maintain its registration and oversight operations while also ensuring significant surpluses are not created. In addition, the proposal minimizes the economic impact of a fee increase by raising the fee by an average of 19 percent rather than to the statutory ceiling.

Factual Basis/Rationale

Currently, section 2760 of the California Code of Regulation provides that the fees for the majority of the registrations be set to the ceiling, as established prior to AB 1175. The registration fees were last increased in regulation in 1998. The demonstrated increase in costs is a fraction of the amount of inflation on the United States Dollar’s 30.75 percent increase since 2002 and 58.00 percent increase since 1994.

Based on trends of revenues remaining stable while costs have increased over several fiscal years, the Bureau sought legislation to increase its statutory fee ceilings. AB 1175 raised statutory fee ceilings for all registration types subject to the provisions of section 9873 of the Business and Professions Code by approximately 25 percent. Based on fund projections, this increased authority is anticipated to enable the Bureau to remain fiscally stable through FY 2024/25.

Underlying Data

Consumer Price Index - Table 24

Analysis of Fund Condition with Current Fees

Analysis of Fund Condition with Proposed Fees, Effective January 2017

Business Impact

This regulation will not have a significant adverse economic impact on businesses. This initial determination is based on the fact that the registration fees will be increased by \$20 to \$50 annually, depending on the type of registration. An additional \$10 to \$37.50 delinquent fee may be assessed only when a registrant fails to renew their registration prior to expiration. The business impact is expected to be minimal as the registration fees for Electronic and Appliance Service Dealers and Service Contractors have not been increased since 1998. In addition, based upon the absence of testimony or comment to the Bureau during Advisory Council discussions about this regulation proposal, the Bureau anticipates a minimal impact on businesses.

Economic Impact Assessment

This regulatory proposal will have the following effects:

- It will not create or eliminate jobs within the State of California because the registration fee increase equates to \$20 to \$50 annually which is anticipated to have a minimal impact on businesses. The Bureau does not anticipate the fee increase will have any impact on current business practices or registration trends that would necessitate the creation or elimination of jobs.
- It will not create new business or eliminate existing businesses within the State of California because the registration fee increase equates to \$20 to \$50 annually which is anticipated to have a minimal impact on businesses. The Bureau does not anticipate the fee increase will have any impact on current business practices or registration trends that would cause the creation or elimination of businesses.
- It will not affect the expansion of businesses currently doing business within the State of California because the registration fee increase equates to \$20 to \$50 annually which is anticipated to have a minimal impact on businesses. The Bureau does not anticipate the fee increase will impact the expansion of businesses.
- This regulatory proposal may benefit the health and welfare of California residents because this proposal is designed to enable the Bureau to maintain its registration and oversight operations while also ensuring significant surpluses are not created.
- This regulatory proposal does not affect worker safety because this proposal is specific to fee increases and it is not anticipated to impact current business practices or registration trends affecting worker safety.
- This regulatory proposal does not affect the state's environment because it is specific to an increase in fees and is not anticipated to impact current business practices that may affect the state's environment.

Specific Technologies or Equipment

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

Consideration of Alternatives

There is no reasonable alternative that would either be 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 repeal of the regulation.

The only alternative to this proposal is to keep fees at current levels. However, this would create a significant deficit for the Bureau and would prevent it from fulfilling its consumer protection mandate as the Bureau would no longer be able to perform many of the services mandated by the law. Therefore, this is not a viable option.