



## MEMORANDUM

<b>DATE</b>	October 9, 2019
<b>TO</b>	Veterinary Medical Board
<b>FROM</b>	Jessica Sieferman Executive Officer
<b>SUBJECT</b>	<b>Agenda Item 9. Discussion and Possible Action Regarding Board Budget and Potential Fee Increases and Sections 2070 and 2071 of Article 7 of Division 20 of Title 16 of the CCR</b>

### **Background:**

In July 2017, the Board voted to conservatively raise fees for Veterinarians, Registered Veterinary Technicians (RVTs), and Veterinary Premises. As discussed in more detail in the attached memo (Attachment 1), the fee increase was needed to correct a structural imbalance that occurred due to increased personnel services, Attorney General (AG) and Office of Administrative Hearings rates, pro-rata services, legislative mandates, authorized staff positions in Fiscal Year 2014/15, and Subject Matter Expert and Hospital Inspector contracted compensation.

As stated in the July 10, 2017 Fee Audit Report memo to the Board, the 2017 third party fee audit revealed that “*in order to be structurally solvent*, the Board must generate \$5.3 million in revenue each year to fund its operational costs while maintaining a healthy reserve of 3-10 months [pursuant to Business and Professions Code (BPC) section 4905] in its Fund.” (Emphasis added.) At that time, the Board was generating \$1 million below the audit’s recommended revenue.

It is important to note the audit only recommended what was needed to maintain the status quo. This did not include any additional revenue needed to cover future resource increases, such as AG rate increases, intradepartmental increases (pro-rata), or additional staffing.

The Board was presented with two implementation options: “a one-time increase to meet existing operations costs and reserve needs, or a tiered approach where the fees are phased in over a two-year period.” Board staff recommended the latter, so licensees would be less impacted with the gradual increase rather than a one-time increase to the statutory caps. With this option, the Board needed to pursue another increase within two years. After careful deliberation, the Board agreed with the staff recommendation and pursued rulemaking in order to increase existing fees.

At the Board’s December 11, 2017 meeting, Board staff presented the need to pursue emergency rulemaking in order for the fees to take effect within six months (stating that a regular rulemaking could take up to 12 months to effectuate). The Board agreed and approved pursuing emergency rulemaking. The new fees took effect in March 2018.

**Update:****Office of Attorney General (AG) Rate Increase**

In a June 28, 2019 client notification letter distributed on July 3, 2019, the AG's office notified the Department of Consumer Affairs (DCA) of significant rate increases effective July 1, 2019 (Attachment 2). The new rates are as follows:

- Attorney services from \$170 to \$220, resulting in a 30% increase
- Paralegal services from \$120 to \$205, resulting in a 71% increase

In a subsequent letter, dated July 12, 2019, the AG's office clarified the new rate increases would take effect on September 1, 2019 (Attachment 3). Based on this increase, the DCA Budget Office analyzed the impact to each program and provided updated fund conditions and a commitment to work with each program to increase budget authority if needed. As demonstrated in the attached fund condition (Attachment 4), the Board's Operational Expenditure and Contingency Fund will be insolvent in FY 2020/21.

**Increased Enforcement Workload**

The last Board enforcement staff increase was based on increased workload through FY 2013/14. Since that time, complaints submitted to the Board have increased by 83%. The Board currently has four enforcement analysts and over 1,900 pending cases; each enforcement analyst has over 475 cases, which is unmanageable and inadequate for effective consumer protection. The only way to adequately protect the public is to increase staff to properly manage the increased workload.

While the Board can pursue Budget Change Proposals (BCPs) to increase staff, the BCP will not be successful if the Board's fund cannot support the request.

**Decrease in Anticipated Revenue**

The Board is currently collecting less revenue in several line items than previously anticipated. Most notably, the Board is no longer collecting revenue from California RVT examination fees. While the Board is saving roughly \$50,000 in annual expenditures to develop and implement the exam, the Board is generating roughly \$180,000 less annual revenue than previously projected.

**Requested Action:**

Please review the attachments and consider the proposed fee increase, raising all fees to their statutory caps, in order to bring the Board's operational needs and Fund into balance and satisfy statutory requirements.

**Attachments:**

1. July 10, 2017 Memo Regarding Fee Audit
2. June 28, 2019 AG Letter
3. July 12, 2019 AG Letter
4. Fund Condition
5. Proposed Fee Increases in CCR, Sections 2070 and 2071
6. Fund Condition w/ Proposed Fee Increases



- Legislative mandates to increase veterinary premises inspections to 20% of premises per year and to enact the Veterinary Assistant Controlled Substances Permit (VACSP) program
- Increase in authorized staff positions from 12.8 in FY 2013/2014 to 23.8 in FY 2014/2015 and ongoing for the enforcement, premises inspection and VACSP programs
- Increase in Subject Matter Expert and Hospital Inspector contracted compensation

In order to begin addressing the Board's structural imbalance and potential for a fee increase, staff contracted with a vendor, Capitol Accounting Partners (CAP) to conduct a comprehensive fee audit that includes a costs analysis of the Board's Administrative, Licensing, Premises and Enforcement programs. Enclosed is the CAP audit report findings.

*Proposed Fee Increase* – As captured in the audit report, 46% of the Board's revenue comes from initial application, licensing, and examination fees. Approximately 52% is generated by renewal fees, and 3% of miscellaneous transactions such as delinquency fees, duplicate license fees, and address fine fees.

The audit report concludes that in order to be structurally solvent, the Board must generate \$5.3 million in revenue each year to fund its operational costs while maintaining a healthy reserve of 3-10 months in its Fund. Currently, the Board's fees generate approximately \$4.3 million in revenue, thereby leaving a shortfall of approximately \$1 million below the CAP audit's recommended revenue.

The fee proposal attached focuses on the fees that generate 97% of the Board's revenue; miscellaneous transactions fees are largely already at their statutory maximum. There are a couple of implementation options to consider; a one-time increase to meet existing operational costs and reserve needs, or a tiered approach where the fees are phased in over a two-year cycle. The latter option will lessen the initial impact on applicants and licensees.

A breakdown of the percentage of increase to effected licensing population fees (e.g. initial application, licensing, examination, and renewal fees) is as follows:

- 20% veterinarians
- 14% RVTs
- 75% Hospital Premises (Ratio of overall operational costs versus revenue)

It is important to note that staff's proposed fee regulations appear to be more conservative in some situations than that recommended in the audit report due to staff's recommendation to not only focus on workload as assigned to each fee, but also factor in the total workload volume of each fee. In other words, renewal fees will always generate a larger percentage of revenue due to the exponentially larger number of renewal applications received versus initial eligibility applications. Additionally, the audit did not identify where the recommended fee would exceed the statutory cap.

### **Requested Action**

Review attached reports and consider the proposed fee increase in order to bring the Board's operational needs and Fund into balance and satisfy statutory requirements.

### **Attachments**

- Audit Report Findings/Recommendations
- Fee and Revenue Charts



STATE OF CALIFORNIA

OFFICE OF THE ATTORNEY GENERAL

SEAN E. McCLUSKIE

CHIEF DEPUTY TO THE ATTORNEY GENERAL

June 28, 2019

Attorney General Legal Services Clients:

Pursuant to Government Code Section 11044, the Attorney General is authorized to set a billing rate sufficient to recover the costs incurred in providing legal services. This existing rate structure has not changed since it was initially implemented effective July 1, 2009.

Over the span of 10 years, the Attorney General's costs in providing legal services have significantly increased primarily due to annual increases in personal services, operating expenses, and statewide prorata. Recent analyses, in collaboration with the Department of Finance, have concluded that an increase in the billing rates is necessary in order for the Attorney General to continue providing critical legal services to client agencies.

Effective July 1, 2019, the Attorney General will increase its billing rates accordingly: \$220 per hour for attorney services, \$205 per hour for paralegal services, and \$195 per hour for auditor and research analyst services. Departments receiving legal services from the Department of Justice (DOJ) under a Memorandum of Understanding (MOU) are also subject to these new rates.

Pursuant to the Budget Act of 2019, Section 5.0, "the Department of Finance may adjust any item of appropriation to reimburse the Department of Justice for legal services provided to client agencies". The Department of Finance will work with state agencies to determine the need to adjust Fiscal Year 2019-20 budgets to address the increased Attorney General legal billing rates.

If you have any questions, please contact Chris Ryan, Chief of the Division of Operations, at (916) 210-7008.

Sincerely,

A handwritten signature in blue ink that reads "Sean E. McCluskie".

SEAN E. McCLUSKIE

Chief Deputy to the Attorney General



STATE OF CALIFORNIA  
OFFICE OF THE ATTORNEY GENERAL  
SEAN E. McCLUSKIE  
CHIEF DEPUTY TO THE ATTORNEY GENERAL

July 12, 2019

Attorney General Legal Services Clients:

This letter is intended to provide clarification on the client notification letter distributed on July 3, 2019 pertaining to the implementation of the new Attorney General legal services billing rates.

The Budget Act of 2019 established Control Section 5.00 to address the impact of the updated legal service rates on client agencies' appropriations. The new control section requires the Department of Justice to provide a written report outlining specific information about the rates to the Joint Legislative Budget Committee, and further requires the Department of Finance to notify the Joint Legislative Budget Committee prior to adjusting client agency appropriations based on the new rates.

The Department of Justice will submit the report to the Joint Legislative Budget Committee as required by the end of July 2019. It is estimated that the 30-day notification process will conclude by the end of August 2019, and that the new legal billing rates will become effective on September 1, 2019. The current billing rates will remain in effect for July and August 2019. Departments will receive further instruction from the Department of Finance in the coming weeks.

If you have any questions, please contact Chris Ryan, Chief of the Division of Operations, at (916) 210-7008.

Sincerely,

A handwritten signature in blue ink that reads "Sean E. McCluskie".

SEAN E. McCLUSKIE  
Chief Deputy to the Attorney General

# 0777 - Veterinary Medical Board Analysis of Fund Condition

Prepared 9.30.2019

(Dollars in Thousands)

2019-2020 Revenue includes  
current/updated projections

## 2019-2020 Budget Act

### BEGINNING BALANCE

Prior Year Adjustment

Adjusted Beginning Balance

### REVENUES AND TRANSFERS

Revenues:

4121200 Delinquent fees

4127400 Renewal fees

4129200 Other regulatory fees

4129400 Other regulatory licenses and permits

4143500 Miscellaneous services to the public

4163000 Income from surplus money investments

4171400 Escheat of unclaimed checks and warrants

Totals, Revenues

Totals, Revenues and Transfers

Totals, Resources

### EXPENDITURES

Disbursements:

1111 Department of Consumer Affairs Program Expenditures (State Operations)

**Attorney General Rate Increase**

8880 Financial Information System of California (State Operations)

9892 Supplemental Pension Payments (State Operations)

9990 Statewide General Administrative Expenditures (Pro Rata) (State Operations)

Total Disbursements

### FUND BALANCE

Reserve for economic uncertainties

### Months in Reserve

	PY 2017-18	PY 2018-19	Budget Act CY 2019-20	BY 2020-21	BY+1 2021-22
BEGINNING BALANCE	\$ 1,822	\$ 745	\$ 469	\$ 57	\$ (626)
Prior Year Adjustment	\$ -	\$ -			
Adjusted Beginning Balance	\$ 1,822	\$ 745	\$ 469	\$ 57	\$ (626)
REVENUES AND TRANSFERS					
Revenues:					
4121200 Delinquent fees	\$ 16	\$ 30	\$ 22	\$ 22	\$ 22
4127400 Renewal fees	\$ 2,830	\$ 3,781	\$ 4,110	\$ 4,110	\$ 4,110
4129200 Other regulatory fees	\$ 86	\$ 156	\$ 64	\$ 64	\$ 64
4129400 Other regulatory licenses and permits	\$ 1,448	\$ 1,205	\$ 1,162	\$ 1,162	\$ 1,162
4143500 Miscellaneous services to the public	\$ -	\$ 1	\$ -	\$ -	\$ -
4163000 Income from surplus money investments	\$ 13	\$ 38	\$ 10	\$ -	\$ -
4171400 Escheat of unclaimed checks and warrants	\$ -	\$ 4	\$ 4	\$ 4	\$ 4
Totals, Revenues	\$ 4,393	\$ 5,215	\$ 5,372	\$ 5,362	\$ 5,362
Totals, Revenues and Transfers	\$ 4,393	\$ 5,215	\$ 5,372	\$ 5,362	\$ 5,362
Totals, Resources	\$ 6,215	\$ 5,960	\$ 5,841	\$ 5,419	\$ 4,736
EXPENDITURES					
Disbursements:					
1111 Department of Consumer Affairs Program Expenditures (State Operations)	\$ 5,108	\$ 5,137	\$ 5,237	\$ 5,394	\$ 5,556
<b>Attorney General Rate Increase</b>	\$ -	\$ -	\$ 192	\$ 254	\$ 254
8880 Financial Information System of California (State Operations)	\$ 6	\$ -	\$ -	\$ -	\$ -
9892 Supplemental Pension Payments (State Operations)	\$ -	\$ 37	\$ 80	\$ 80	\$ 80
9990 Statewide General Administrative Expenditures (Pro Rata) (State Operations)	\$ 356	\$ 317	\$ 275	\$ 317	\$ 317
Total Disbursements	\$ 5,470	\$ 5,491	\$ 5,784	\$ 6,045	\$ 6,207
FUND BALANCE					
Reserve for economic uncertainties	\$ 745	\$ 469	\$ 57	\$ -626	\$ -1,471
Months in Reserve	1.6	1.0	0.1	-1.2	-2.8

**TITLE 16. PROFESSIONAL AND VOCATIONAL REGULATIONS**  
**Division 20. Veterinary Medical Board**

**Proposed Language**

Changes to the existing regulation are shown in single underline for new text and ~~single~~ ~~strikeout~~ for deleted text.

Amend Sections 2070, 2071, and 2071.1 of Article 7 of Division 20 of Title 16 of the California Code of Regulations to read as follows:

**§ 2070. Registration and Renewal Fees for Veterinarians.**

Pursuant to the provisions of Section 4905 of the code, the following fees are fixed by the board:

- (a) The application eligibility review fee for all examinations shall be ~~\$150.00~~ \$350.00.
- (b) The fee for the California state board examination shall be ~~\$235.00~~ \$350.00.
- (c) The fee for the veterinary law examination shall be \$100.00.
- (d) The initial license fee for licenses issued for one year or more from the date on which they will expire shall be ~~\$350.00~~ \$500.00.
- (e) The biennial renewal fee shall be ~~\$350.00~~ \$500.00.
- (f) The fee for a temporary license shall be ~~\$175.00~~ \$250.00.
- (g) The university license application fee shall be \$350.00.
- (h) The initial license fee for a university license shall be \$500.00.
- (i) The biennial renewal fee for a university license shall be \$500.00.
- (~~h~~) The initial fee for registration of a veterinary premises shall be \$400.00.
- (~~k~~) The annual renewal fee for registration of a veterinary premises shall be \$400.00.
- (i) The fee for the Board's Diversion Program shall be \$2,000 per participant.
- (j) The delinquency fee shall be ~~\$35.00~~ \$50.00.

Note: Authority cited: Section 4808, Business and Professions Code. Reference: Section 4905, Business and Professions Code.

**§ 2071. Application, Registration and Renewal Fees for Registered Veterinary Technicians.**

Pursuant to the provisions of Section 4842.5 of the code, the following fees are fixed by the board:

- (a) The application eligibility review fee shall be ~~\$150.00~~ \$350.00.
- (b) The fee for the registered California veterinary technician examination shall be \$200.00.
- (c) The initial registration fee for registrations issued for one year or more from the date on which it will expire shall be ~~\$160.00~~ \$350.00.
- (d) The biennial renewal fee shall be ~~\$160.00~~ \$350.00.
- (e) The delinquency fee shall be ~~\$35.00~~ \$50.00.

Note: Authority cited: Section 4808, Business and Professions Code. Reference: Section 4842.5, Business and Professions Code.



# 0777 - Veterinary Medical Board

## Analysis of Fund Condition

Prepared 9.30.2019

(Dollars in Thousands)

2019-2020 Revenue includes  
current/updated projections

2019-2020 Budget Act		PY 2017-18	PY 2018-19	Budget Act CY 2019-20	BY 2020-21	BY+1 2021-22
<b>BEGINNING BALANCE</b>		\$ 1,822	\$ 745	\$ 469	\$ 57	\$ 1,270
Prior Year Adjustment		\$ -	\$ -			
Adjusted Beginning Balance		\$ 1,822	\$ 745	\$ 469	\$ 57	\$ 1,270
<b>REVENUES AND TRANSFERS</b>						
Revenues:						
4121200	Delinquent fees	\$ 16	\$ 30	\$ 22	\$ 22	\$ 22
	Delinquent fees increase				\$ 9	\$ 9
4127400	Renewal fees	\$ 2,830	\$ 3,781	\$ 4,110	\$ 4,110	\$ 4,110
	Renewal fees increase				\$ 1,615	\$ 1,615
4129200	Other regulatory fees	\$ 86	\$ 156	\$ 64	\$ 64	\$ 64
4129400	Other regulatory licenses and permits	\$ 1,448	\$ 1,205	\$ 1,162	\$ 1,162	\$ 1,162
	Other regulatory licenses and permits fees increase				\$ 253	\$ 253
4143500	Miscellaneous services to the public	\$ -	\$ 1	\$ -	\$ -	\$ -
4163000	Income from surplus money investments	\$ 13	\$ 38	\$ 10	\$ 19	\$ 35
4171400	Escheat of unclaimed checks and warrants	\$ -	\$ 4	\$ 4	\$ 4	\$ 4
Totals, Revenues		\$ 4,393	\$ 5,215	\$ 5,372	\$ 7,258	\$ 7,274
Totals, Revenues and Transfers		\$ 4,393	\$ 5,215	\$ 5,372	\$ 7,258	\$ 7,274
Totals, Resources		\$ 6,215	\$ 5,960	\$ 5,841	\$ 7,315	\$ 8,544
<b>EXPENDITURES</b>						
Disbursements:						
1111	Department of Consumer Affairs Program Expenditures (State Operations)	\$ 5,108	\$ 5,137	\$ 5,237	\$ 5,394	\$ 5,556
	Attorney General Rate Increase	\$ -	\$ -	\$ 192	\$ 254	\$ 254
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9892	Supplemental Pension Payments (State Operations)	\$ -	\$ 37	\$ 80	\$ 80	\$ 80
9990	Statewide General Administrative Expenditures (Pro Rata) (State Operations)	\$ 356	\$ 317	\$ 275	\$ 317	\$ 317
Total Disbursements		\$ 5,470	\$ 5,491	\$ 5,784	\$ 6,045	\$ 6,207
<b>FUND BALANCE</b>						
Reserve for economic uncertainties		\$ 745	\$ 469	\$ 57	\$ 1,270	\$ 2,337
<b>Months in Reserve</b>		1.6	1.0	0.1	2.5	4.4