

# STATE OF CALIFORNIA



## MEMO

**To:** FISCAL COMMITTEE  
ANTHONY A. BATARSE, JR., CHAIR  
VICTORIA RUSNAK, MEMBER

**Date:** January 26, 2015

**From:** WILLIAM BRENNAN

**Subject:** DISCUSSION OF AN APPROPRIATE RESERVE BALANCE FOR THE BOARD TO MAINTAIN

At the December 2014 meeting of the Board, some members asked for information on whether there is a law or regulation pertaining to the amount of money that departments can maintain in reserve.

Staff researched this question by checking all applicable code sections, state administrative manuals, and regulations. Staff found that no state standard exists. Staff then contacted the Department of Motor Vehicles (“DMV”) Budget staff for additional information and were informed that there is no rule or law pertaining to the amount of funds that departments may keep in reserve. DMV informed staff that the amount of funding kept in reserve is dependent on the fluctuation of the revenue stream for each fund. In the Board’s case, its revenue streams are inconsistent which prevents reliance on a consistent revenue flow for operating expenses and personnel.

The Board invoices manufacturers and distributors, in arrears, for vehicle sales which generally equates to half of its annual revenue. If vehicle sales were to dramatically drop, as they did in 2008, Board staff may not have the time necessary to request a fee increase via the rulemaking process before it seriously depletes its reserves. In addition, as was the case in the Board’s 2013 fee increase request, approval is not guaranteed. Inadequate funding would dramatically affect the Board’s ability to provide services.

Consistent with this, the Board has historically strived to maintain a reasonable balance equal to one year of operating expenses. By doing so, the reserve would provide an adequate funding source during a time of and economic downturn and allow for time to orderly proceed through the regulatory process in the event additional fees were required.

At the present time, it appears that industry growth and new sales projections will provide a moderate reserve balance increase that will allow the Board to continue its efforts to replenish its reserve balance to a one year plateau.

By carefully monitoring its reserve balance, the Board is always capable of reducing annual fees, such as it did in the early 2000's, when it determined that the balance was excessive. At this time, staff recommends no action be taken.

If you have any questions, please contact me at (916) 324-6197.

cc: Glenn Stevens, President

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