SENATE COMMITTEE ON PUBLIC SAFETY

Senator Steven Bradford, Chair

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Bill No:	SB 1384	Hearing Date:	April 19, 2022	
Author:	Min			
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Urgency:	No]	Fiscal:	Yes
Consultant:	AB			

Subject: Firearms: dealer requirements

HISTORY

Source:	Brady United Against Gun Violence (National) and Brady California	
Prior Legislat	ion: AB 1064 (Muratsuchi, 2019), held in Assembly Appropriations SB 220 (Hill, 2019), died on Assembly Floor SB 464 (Hill, 2017), vetoed by the Governor AB 2459 (McCarty, 2016), failed in Assembly Privacy	
Support:	Brady United Against Gun Violence, Ventura County Chapter	
Opposition:	California Waterfowl Association; Gun Owners of California	

PURPOSE

The purpose of this bill is to strengthen security requirements for licensed firearms dealers, require firearms dealers to carry general liability insurance, and require firearms dealers and their employees to complete a training course developed by the Department of Justice.

Existing law generally prohibits the sale, lease or transfer of firearms unless the person has been issued a license by the California Department of Justice, and establishes various exceptions to this prohibition. (Penal Code \$26500 - 26625)

Existing law requires that prospective firearms dealers (licensees) satisfy the following requirements:

- Has a valid federal firearms license from the federal Bureau of Alcohol, Tobacco and Firearms (ATF).
- Has any regulatory or business license, or licenses, required by local government.
- Has a valid seller's permit issued by the State Board of Equalization
- Has a Certificate of Eligibility issued by DOJ demonstrating that the applicant is not prohibited from acquiring or possessing firearms
- Has an annual license granted by the licensing authority of any city, county, or city and county.
- Is on the DOJ's centralized list of all persons licensed to sell firearms. (Penal Code §26700(a)-(f).)

Existing law provides that a license to sell firearms is subject to forfeiture for any violation of a number of specified prohibitions and requirements, with limited exceptions. (Penal Code §26800(a).)

Existing law, effective July 1, 2022, provides that the DOJ may assess specified civil fines against a licensee for any breach of a prohibition or requirement that subjects the licensee to forfeiture of their license to sell firearms. (Penal Code §26800(b), effective July 1, 2022.)

Existing law provides that the business of a licensee shall be conducted only in the buildings designated in the license, subject to exceptions. (Penal Code §26805).

Existing law requires licensees to post various notices and warnings conspicuously within the licensed premises. (Penal Code §26835).

Existing law, except as otherwise provided, requires that any time when the licensee is not open for business, all inventory firearms must be stored in the licensed location. All firearms must be secured using one of the following methods as to each particular firearm:

- Store the firearm in a secure facility that is a part of, or that constitutes, the licensees business premises.
- Secure the firearm with a hardened steel rod or cable of at least one-eighth inch in diameter through the trigger guard of the firearm. The steel rod or cable shall be secured with a hardened steel lock that has a shackle. The lock and shackle shall be protected or shielded from the use of a bolt cutter and the rod or cable shall be anchored in a manner that prevents the removal of the firearm from the premises.
- Store the firearm in a locked fireproof safe or vault in the licensees business premises. (Penal Code §26890(a).)

Existing law provides that the licensing authority in an unincorporated area of a county or within a city may impose security requirements that are more strict or are at a higher standard than those specified. (Penal Code §26890(b).)

Existing law defines a "secure facility," for the purposes of firearms dealers, as a building that satisfies the following requirements:

- All perimeter doorways shall meet one of the following:
 - A windowless steel security door equipped with both a dead bolt and a doorknob lock.
 - A windowed metal door that is equipped with both a dead bolt and a doorknob lock. If the window has an opening of five inches or more measured in any direction, the window shall be covered with steel bars of at least one-half inch diameter or metal grating of at least nine gauge affixed to the exterior or interior of the door.
 - A metal grate that is padlocked and affixed to the licensee's premises independent of the door and doorframe.
- All windows are covered with steel bars.

- Heating, ventilating, air-conditioning, and service openings are secured with steel bars, metal grating, or an alarm system.
- Any metal grates have spaces no larger than six inches wide measured in any direction.
- Any metal screens have spaces no larger than three inches wide measured in any direction.
- All steel bars shall be no further than six inches apart (Penal Code §17110)

Existing law provides that a licensee shall require any agent or employee who handles, sells or delivers firearms to obtain and provide to the licensee a certificate of eligibility from the DOJ verifying that the agent or employee is not prohibited from acquiring or possessing firearms. (Penal Code §26915).

This bill, commencing January 1, 2024, requires a licensee to ensure that its business premises are monitored by a digital video surveillance system that meets the following requirements:

- The system shall clearly record images and audio of the area under surveillance
- Each camera shall be permanently mounted in a fixed location. Cameras shall be placed in locations that allow the camera to clearly record activity occurring in specified areas and reasonably produce recordings that allow for the clear and identification of any person.
- The areas recorded shall include, without limitation, interior and exterior views of all entries or exits to the premises, all areas where firearms are displayed, and all points of sale, sufficient to identify the parties involved in the transaction.
- The system shall continuously record 24 hours per day at a frame rate no less than 15 frames per second
- The media or device on which recordings are stored shall be secured in a manner to protect the recording from tampering or theft.
- Recordings shall be maintained for a minimum of 3 years.
- Recorded images shall clearly and accurately display the date and time synchronized with the United States Department of Commerce National Institute Standards and Technology official time.
- The system shall be equipped with a failure notification system that provides notification to the licensee of any interruption or failure of the system or storage device.

This bill specifies that a licensee shall not allow access, or otherwise release recordings, except as follows:

- A licensee shall allow access to an agent of the DOJ or a licensing authority conducting an inspection of the licensee's premises to ensure compliance with this bill.
- A licensee shall allow access pursuant to a search warrant or other court order.
- A licensee may allow access to a peace officer conducting a criminal investigation.

This bill requires that a licensee must post a sign in a conspicuous place at each entrance to the premises stating, "These premises are under video surveillance. Your image and conversations may be recorded."

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This bill requires a licensee, on an annual basis, to provide certification to the DOJ that its video surveillance system is in proper working order.

This bill, commencing January 1, 2024, requires that a licensee ensure that its business premises are monitored by a burglary alarm system that meets the following requirements:

- The alarm system shall be installed, maintained, and monitored by a licensed alarm company.
- The alarm must be monitored 24 hours a day and include a notification to law enforcement of any activation other than an accidental activation.
- The alarm system shall include the capability for the monitoring entity to remotely identify the exact location and type of activation and the ability to remotely arm, disarm, or reprogram the system, and shall notify the monitoring entity of any disruption to system power.
- The alarm system shall include motion sensors that cover 100% of the interior of the licensed premises
- The alarm system shall include contact sensors on all exterior doors, windows, and other points of entry.
- The alarm system shall include shock or breakage sensors on all exterior windows.
- The alarm system shall include a backup power source, as specified.
- The alarm system shall include a keypad used to arm and disarm the system, as specified.

This bill requires a licensee to ensure that the alarm system is activated at all times when nobody is on the premises.

This bill requires each licensee to maintain records of the installation and maintenance of the alarm system and alarm activity and shall make those records available upon request to the DOJ for inspection.

This bill, commencing January 1, 2024, requires a licensee to ensure that its business premises have physical security measures that meet the following requirements:

- All exterior doors are equipped with a commercial grade nonresidential door lock
- All exterior doors are equipped with a keyless entry system operated by assigned key cards that identify the user.
- The keyless entry system shall include a backup power source, as specified.

This bill provides that a licensee shall ensure that the exterior doors are secured and locked at all times when nobody is on the premises.

This bill directs the DOJ to adopt regulations relating to the place of building security bollards outside a licensed premises.

This bill, commencing July 1, 2023, requires that a licensee carry a general liability insurance policy providing at least one million dollars of coverage per incident.

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This bill, commencing July 1, 2024, requires every licensee, and every employee thereof who handles or processes the sale, loan, or transfer of firearms or ammunition in the course of their duties, to complete a training and certification, as specified, on an annual basis.

This bill requires that every licensee maintain records of certification for all employees on the business premises and shall make these records available to any agent of the DOJ or a licensing authority conducting an investigation of the licensee's premises.

This bill requires that the DOJ, by no later than January 1, 2024, shall develop and implement a course of training for licensees and their employees, and specifies the topics that must be included in that training.

This bill specifies that the training shall be available in an online format and include an examination with no fewer than 20 questions derived from the course materials. A participant that answers at least 70 percent of the exam questions correctly will receive a printable certificate of completion valid for one year.

This bill provides that, in addition to the online training course, the DOJ shall prepare – and regularly review and update – supplemental written materials to be made available to all course participants and shall include, without limitation, all of the following:

- A behavioral profile of persons who may be involved in drug trafficking or straw purchasing, including several characteristics specified in the bill.
- How to ascertain whether a prospective firearm purchaser is lawfully purchasing a firearm, including by asking questions of that person.
- How to report a suspected fraudulent firearm purchase to the ATF and the DOJ.

This bill specifies that none of its provisions preclude any local authority from requiring a more stringent requiring regarding video surveillance, the maintenance of liability insurance, or training.

COMMENTS

1. Need for This Bill

According to the author:

"Gun ownership is on the rise in the United States. According to a <u>Pew research</u> <u>Center survey</u>, four-in-10 U.S. adults say they live in a household with a gun, including 30% who say they personally own one. With increased gun purchases, the need for comprehensive education about firearm safety grows.

To ensure gun owners are educated about the dangers of firearm usage, this bill requires the California Department of Justice to develop and make available to each licensed firearms dealer, a training course in the conduct of ammunition and firearm transfers [...]. The training course shall include an examination with not less than 20 questions derived from the course materials and intended to confirm that a course participant has learned the information covered by the course. To receive certification of completion of the course, a participant must answer at least 70 percent of the

examination questions correctly. Not less frequently than annually, the Attorney General shall review the training course materials, and revise them as necessary.

Every new and current employee and other personnel engaged in the retail sale of ammunition, firearms, rifles, and shotguns shall annually complete the training outlined above, and must complete a certification with the DOJ. No employee or agent of any retail dealer shall participate in the sale or disposition of firearms, rifles, or shotguns unless such person has first received the training required by this section. Retail dealers shall keep a record of the completion of this training which may be requested by DOJ at any time. The DOJ shall promulgate regulations setting forth minimum requirements for the maintenance of records of such training. [...]

Additionally, every dealer shall carry insurance coverage against liability for damage to property and for injury to or death of any person related to the sale, delivery, lease, or transfer of ammunitions, a firearm, rifle, or shotgun in amounts appropriate to its level of sales, but no less than one million dollars for each incident of damage, injury, or death."

2. Firearms Dealer Licensing and Security Requirements

Federal law requires firearms dealers to obtain a license (also known as a "federal firearms license," or "FFL") through the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). An FFL is necessary but not sufficient for obtaining a firearms dealer license in California. Additional requirements include any business license required by local government, a seller's permit issued by the California Department of Tax and Fee Administration, a seller's license issued by the local licensing authority of a local government, a certificate of eligibility (background check) issued by the DOJ, and being recorded on the DOJ's centralized list of firearms dealers.¹ Existing state law also requires that all firearms in the inventory of a licensee be kept at the dealer's licensed location, subject to very limited exceptions.² Additionally, anytime a dealer is not open for business, they must secure all firearms either in a "secured facility," as defined, with a steel rod, lock and shackle, as defined, or in a locked fireproof safe or vault in the licensee's business premises.³ Local governments have the authority to further regulate firearms dealers, provided local regulations are not preempted by state law.

One such local government that has opted for further regulation is the City of San Jose, which, in 2021, approved a measure requiring video and audio recordings of all retail firearms sales. The city's mayor, Sam Liccardo, proposed the measure after a gunman killed nine workers at a regional rail hub just three weeks prior.⁴ Among other provisions, the ordinance establishes detailed specifications for the required audio and video recording system as well as an alarm system, mandates annual inventory checks, and requires licensed gun sellers to train their

¹ Penal Code §26700

² Penal Code §26885

³ Penal Code §26890

⁴ "Transit worker opens fire at California rail yard killing 9 and self." *NBC News.* 27 May 2021.

https://www.nbcnews.com/news/us-news/active-shooter-near-northern-california-rail-yard-authorities-sayn1268623

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employees to question potential purchasers about possible "straw purchases" (discussed below).⁵ This bill is modeled largely after several of these provisions.

3. Gun Store Thefts and Straw Purchases

Thefts from licensed gun retailers have been a persistent problem in California. In 2015, according to data compiled by the ATF and California DOJ, more than 400 guns were reported stolen from gun stores. The following year, the Sacramento area alone saw five gun store thefts in a period of less than three months, during which more than 200 guns were stolen.⁶ Many of these thefts involved the perpetrators ramming vehicles through storefronts, bypassing any security measures. Between 2012 and 2019, 1,937 guns were reported stolen from federally licensed gun dealers in California, the 7th highest rate of theft for any state during that period.⁷ However, the rate of gun store thefts seems to have tapered slightly in recent years since peaking in 2016 (690), with 208 reported thefts in 2021.⁸

Another practice contributing to the illicit gun market is "straw purchasing," the illegal purchase of a firearm by one person for another. Data compiled by Giffords Law Center to Prevent Gun Violence illustrates the problem:

"Data from a national survey of firearm licensees suggests that there are more than 30,000 attempted straw purchases each year. A representative survey found that more than two-thirds of dealers experienced at least one attempted straw purchase in the year preceding the survey. Researchers have also found that gun dealers are willing to make gun sales under conditions that suggest straw purchases. In one investigation, one in five gun sellers were willing to sell guns to people explicitly asking to buy firearms on behalf of someone else."⁹

Existing California law makes it illegal for any corporation, person or dealer to sell, loan or transfer a firearm to anyone they know or have cause to believe is not the actual purchaser or the person actually being loaned the firearm, if they know that the firearm is to be subsequently sold or transferred in violation of various requirements.¹⁰ Existing law also prohibits a person from acquiring a firearm with the intention of selling, loaning, or transferring it in violation of the requirement that private sales or transfers be conducted through a licensed dealer.¹¹ However, proving these crimes in court can be a challenge, as prosecutors must show evidence connecting the straw purchaser and person for whom they are purchasing the gun. For instance, a straw purchaser could claim that the gun was stolen from their house, or was sold to someone else who then sold it to the intended recipient. By imposing stricter security and training requirements on

https://sanjose.legistar.com/View.ashx?M=F&ID=9453396&GUID=DAA92C76-BA8C-498B-8E07-2ECECC8E2279 ⁶ "Gun Stores in Northern California Getting Hit Harder by Thieves." *NBC Bay Area*. 1 November 2016. https://www.nbcbayarea.com/news/local/gun-stores-in-northern-california-getting-hit-harder-by-

⁵ "Ordinance Regulating the Sale, Lease and Transfer of Firearms and Firearms and Ammunition in San Jose at Retail." Municipal Code of San Jose Ch. 6.90.

thieves/2010754/#ixzz4aandO02M; that year (2016) the ATF reported 690 thefts from licensed dealers ⁷ "Gun theft in the United States: A state-by-state analysis." *The Center for American Progress*. 4 March 2020. https://www.americanprogress.org/article/gun-theft-united-states-state-analysis/

 ⁸ "Federal Firearms Licensee Theft/Loss Report." Bureau of Alcohol, Tobacco, Firearms and Explosives. January 1, 2021 – December 31, 2021. <u>https://www.atf.gov/resource-center/federal-firearms-licensee-theftloss-report-2021</u>

¹⁰ Penal Code §27515.

¹¹ Penal Code §27520(b).

California gun dealers and their employees, this bill ostensibly seeks to curb gun store theft and straw purchasing, and buttress related enforcement efforts.

4. Effect of this Bill

a. Video Surveillance Requirement

Existing state law imposes no requirements on licensed gun dealers regarding the maintenance of an audio and video surveillance system, though most licensees do operate at least a video surveillance system as a matter of standard practice in the industry. This bill requires licensees to maintain an audio and video recording system that must continuously record specified areas of a licensee's business premises 24 hours a day at a rate of at least 15 frames per second and must "reasonably produce recordings that allow for the clear identification of any person." The bill also requires the recordings from tampering or theft. In addition, the bill prohibits access to the recordings except that a licensee must provide access to the DOJ or a local licensing authority for the limited purpose of ensuring compliance with this bill and to any person permitted to access the recordings pursuant to a search warrant or other court order.

b. Alarm and Physical Security Requirement

Existing law requires that the business of a licensee shall only be conducted in the buildings designated in the license, with limited exceptions.¹² As mentioned above, existing law also mandates that when a licensee is not open for business, all firearms must be stored on the licensee's business premises, secured according to a manner prescribed in Penal Code §26890.¹³ This bill imposes several additional physical security requirements that would generally apply regardless of whether the licensee is open for business. Specifically, the bill requires the use of a burglary alarm system that meets eight distinct operability criteria, including that the system be installed, maintained and monitored by a licensed alarm company 24 hours per day, that it include motion sensors covering 100% of the interior of the licensed premises, and that it be connected to a backup power source capable of providing 72 hours of power, among others. In addition to the alarm system requirement, this bill mandates the use of a commercial grade door lock and keyless entry system operated by individually assigned key cards, the latter of which must also be connected to a backup power source.

c. Insurance Requirement

Existing state law imposes no requirements on licensed gun dealers regarding the maintenance of general liability insurance at their licensed business premises. Existing state law does however, require gun show organizers to ensure that liability insurance is in effect for the duration of the show in an amount of not less than \$1 million.¹⁴ In addition, 34 local jurisdictions in California have required gun dealers to carry liability insurance, typically with a minimum coverage of \$1 million. This bill would impose this

¹² Penal Code §26805

¹³ Under this section, during non-business hours, firearms must be stored 1) in a 'secured facility,' as defined in §17110, 2) with a steel rod or cable, as specified, or 3) in a fireproof safe or vault.

¹⁴ Penal Code §27200(b)(2).

requirement statewide, mandating that every state licensee carry a general liability insurance policy of at least \$1 million of coverage per incident. Although federal law, the Protection of Lawful Commerce in Arms Act, shields firearms manufacturers and dealers from liability when crimes have been committed with their products, they can still be held liable for a range of torts, contract violations and criminal misconduct for which they are directly responsible.¹⁵

d. Training Requirement

Existing law imposes no training requirements on licensed gun dealers in California. This bill requires all licensees and their employees to annually complete an online training, examination and certification program developed by the DOJ. The training must cover a host of topics, including state and federal laws applicable to gun dealers, how to recognize straw purchasing and other illegal activity, how to prevent theft or burglary of firearms, and how to teach consumers about firearm safety, among other issues. Additionally, the bill requires licensees to maintain records of employee certification and make those records available to the DOJ upon request.

5. Burdens on Business

To California's credit, we are one of only a handful of states that currently requires gun stores to impose physical security measures, and available evidence demonstrates that states with physical security requirements, on average, have had lower annual rates of gun theft than those without.¹⁶ However, a recent investigation by The New Yorker concluded that many licensed gun sellers "are mom-and-pop shops that feel squeezed by low profit margins and rising competition from online retailers; their owners see security mandates as another blow to the bottom line."¹⁷ In total, this bill obligates licensed gun dealers to comply with five distinct requirements, three of which involve security measures that must meet very specific criteria. Except for the insurance requirement, with which dealers must comply by July 1, 2023, all of these requirements demand compliance by January 1, 2024, one year from the effective date of the bill. Though few would disagree with the critical importance of high security at gun shops, the intensive and detailed nature of the requirements in this bill may represent a challenge for licensees, both economically and logistically. The Author may wish to consider amendments staggering the bill's requirements over a longer period in order to ease the potential burden of compliance.

6. Duties of the DOJ

This bill generally vests the DOJ with the responsibility to oversee compliance with its provisions. Specifically, under this bill, the DOJ is responsible for the following:

- Conducting inspections of a licensee's video surveillance system, as required.
- Receiving and reviewing annual certifications from licensees that their video surveillance systems are in proper working order.
- Receiving and reviewing installation and maintenance records for licensees' alarm systems, as required.

¹⁵ 15 U.S.C. §§7901-7903.

¹⁶ Freskos, Brian. "Why Thieves Target Gun Stores." *The New Yorker.* 8 February 2019. <u>https://www.newyorker.com/news/news-desk/why-thieves-target-gun-stores</u>

- Adopting regulations relating to the placement of building security bollards outside a licensed premises.
- Conducting inspections of a licensee's training records, as required.
- Developing and implementing a training, examination and certification program for licensees and their employees regarding firearm sales and related topics.
- Preparing, disseminating and updating supplemental written materials for the training course.

Given the considerable scope of these responsibilities, the bill's compliance timeline may present significant implementation challenges for the DOJ. Staggering this timeline, as suggested above, may alleviate some of these challenges.

In addition, many of the topics required to be included in the licensee training program are arguably outside the DOJ's expertise, including how to recognize indicators that an individual intends to use a firearm for unlawful purposes or self-harm, and how to teach consumers about firearm safety, particularly with regard to firearm handling and storage. The Author may wish to either narrow the scope of the required topics in consultation with the DOJ or authorize DOJ to contract with another entity to develop the training program.

It is also worth noting that the bill requires DOJ to adopt regulations regarding the placement of security bollards outside a licensed premises, but does not expressly require licensees to install such bollards, rendering that requirement somewhat vague. The Author may wish to clarify this issue by separately requiring licensees to install security bollards.

7. Author's Amendments to be Taken in Committee

The Author intends to amend the bill in committee per the following:

- Clarifying that the required audio and video recording system shall only record audio inside the licensee's premises.
- Requiring the licensee shall make a good faith effort not to capture or record activity occurring beyond the business property.
- Adding additional parameters on the use of and access to recordings, including that a licensee may allow access to recordings in response to an insurance claim or part of a civil discovery process.
- Requiring that the training mandated by the bill include how to properly operate a video or audio surveillance system and ensure that the system and related recording are secure.

8. Argument in Support

According to the bill's sponsor, Brady Campaign to Prevent Gun Violence:

Access to guns is a critical driver of chronic violence. A comprehensive approach to reducing gun violence must therefore include a focus on the upstream source of crime guns that are infiltrating communities. SB 1384 will do just this by requiring firearm dealers and their employees to complete training annually and requiring dealers to have a digital video surveillance system, carry a policy of general liability insurance, and enhance their security systems.

Gun dealers play the critical role of gatekeepers, including using the Brady Background Check System to confirm the eligibility of potential gun purchasers, and their conduct has a direct bearing on whether guns are diverted to illegal markets through straw sales or theft, or are made available to individuals who would harm themselves or others. [...] Despite these substantial risks and the fact that gun dealers can play a critical role in preventing violence in our communities, they are not sufficiently regulated. The ATF considers dealers to be "the first line in maintaining the security and lawful transfer of firearms" but it merely issues guidance on safe business practices that dealers can adopt *on a voluntary basis* and it provides **almost no oversight** of those business practices.8 For example, there are no federal laws or regulations that require gun dealers to adhere to safe business practices or train their employees on recognizing signs of illegal activity. Nor are there federal requirements concerning security standards, video or audio recording of sales and premises, or liability insurance.

California has worked to fill some of these gaps, but state gun dealer standards and oversight must be further strengthened to create an environment where dealers have the tools they need to prevent gun trafficking and understand that they have a responsibility to engage in responsible business practices. [...] This legislation is critical to curbing dangerous sales, preventing guns from being diverted into the criminal market and reducing the likelihood of straw purchases, theft, burglary, and loss of inventory. This bill strengthens gun dealer standards and oversight in California to ensure that gun dealers have the tools they need to prevent gun trafficking and understand that they have an obligation to engage in responsible business practices.

9. Argument in Opposition

According to the California Waterfowl Association:

Our concerns, on behalf of our members, is that these additional onerous restrictions will do very little to add additional safety and security to legal, licensed FFL businesses in the State, but will exact significant costs and challenges that will likely result in some FFLs going out of business or leaving the State.

Firearms ownership in California is legal, and the members of our organization rely on the ability to purchase firearms, ammunition, and other associated supplies to engage in hunting activities in California. In fact, the State has an active program (R3) designed to encourage more California citizens to engage in and pursue these recreational activities. Taxes from the sales of firearms and ammunition, license fees, and other assorted fees and charges provide a significant source of revenue to the California Department of Fish and Wildlife for wildlife habitat and other conservation purposes.