TAX RELIEF SUMMARY

Tax Relief Programs and Expenditures

Prior to the passage of Proposition 13, the Legislature enacted nine programs to provide tax relief to homeowners, senior citizens, renters and owners of business inventories. Three of these programs—Senior Citizens' Property Tax Assistance, Senior Citizen Renters' Tax Assistance and Renters' Tax Relief—provide tax relief by making *direct payments* to individuals. Tax relief from the other six programs is provided through the tax code, resulting in *revenue losses* to the state and local governments. The state incurs expenditures for these six programs because it reimburses local governments for the revenue losses they experience. The total cost of these nine programs in the current year is approximately $1.1 billion.

This amount, however, represents only a small portion of the *total* amount of tax relief provided by the state. The "cost" of the other programs (such as the tax relief attributable to Proposition 13 and income tax indexing) does not appear in the budget because it shows up in the form of revenue losses. We estimate that *total* state and local tax relief will amount to about $16 billion in 1983–84. A review of the other tax relief programs and the effect of these programs on the level of taxation in California can be found in *Perspectives and Issues* (Part Three—Revenue Issues). In addition, tax expenditure programs (for example, the special deductions, exemptions, and credits available to those subject to the state's personal income tax) will result in revenue losses of approximately $9 billion in 1983–84. For a more detailed discussion of tax expenditure programs and options for increasing legislative oversight of these programs, see *Perspectives and Issues* (Part Three—Revenue Issues).

Proposed Tax Relief Budget

As shown in Table 1, the budget proposes a total of $848.4 million for tax relief programs in 1984–85. This is a decrease of $277.0 million, or 25 percent, below estimated current year expenditures. This reduction primarily reflects:

- The proposed repeal of the Personal Property Tax Relief program, which provides subventions to local agencies for the property tax losses associated with the personal property tax exemption. Termination of this program would reduce state subventions by a net of $320.2 million in 1984–85. This is one component of the Governor's proposal for restructuring local government finance;
- An increase of $15.8 million, or 3.7%, in the Renters' Tax Relief program, reflecting increased program participation;
- An increase of $2.1 million, or 30%, in the Senior Citizens' Property Tax Deferral program, due to the extension of eligibility to owners of mobilehomes; and
- A decrease of $3.0 million, or 8.5%, in the Senior Citizen Renters' Tax Assistance program.

TAX RELIEF SUMMARY—Continued

Table 1
Tax Relief Summary
1982–83 through 1984–85
(dollars in millions)

Program	*Type*[a]	*Actual 1982–83*	*Estimated 1983–84*[b]	*Proposed 1984–85*	*Change Amount*	*Change Percent*
Senior Citizens' Property Tax Assistance	R	$11.1	$9.0	$8.1	−$0.9	−11.1%
Senior Citizens' Property Tax Deferral	R	6.1	7.2	9.3	2.1	30.1
Senior Citizen Renters' Tax Assistance	R	41.9	35.5	32.5	−3.0	−8.5
Personal Property Tax Relief[c]	R	516.5	291.7	—	−291.7	−100
Homeowners' Property Tax Relief	R	334.0	334.0	334.5	0.5	0.1
Open Space Subventions to Local Governments	I	13.4	13.0	13.2	0.2	1.5
Payments to Local Governments for Sales and Property Tax Revenue Losses	R/I	2.1	3.8	3.7	−0.1	−2.0
Renters' Tax Relief	R	422.2	431.2	447.0	15.8	3.7
Substandard Housing	I	0.1	0.1	0.1	—	—[d]
Totals[e]		$1,347.4	$1,125.4	$848.4	−$277.0	−24.6%

[a] R = tax relief; I = incentive relief.
[b] Includes $51.0 million from the Motor Vehicle License Fee Account.
[c] Chapter 323/83 transferred funding for personal property tax relief subventions to K–12 school districts from this item to the school apportionment item.
[d] The nonrounded figures for 1983–84 ($70,000) and 1984–85 ($98,000) yield an increase of 40 percent.
[e] Details may not add to totals due to rounding.

Proposed Elimination of Personal Property Tax Relief Subvention

We withhold recommendation on the proposal to eliminate the business inventory exemption subvention, pending legislative action on various other proposals to restructure local government finance.

The Personal Property Tax Relief program reimburses local governments for property tax revenue lost as a result of:

- The complete exemption of business inventories (including cotton, livestock and general aircraft) enacted by Ch 1150/79, and
- The partial exemption of motion picture films.

In the current year, the school districts' share of business inventory reimbursement was transferred from tax relief to the school apportionment item. The state also reduced the cities' share of these reimbursements by $28.5 million. The budget estimates that total reimbursement in the current year will total $291,707,000.

The budget proposes to eliminate the personal property tax relief subvention in 1984–85, as one component of the Governor's proposal to restructure local government finance. Under current law, subventions to local government (excluding school districts) in 1984–85 would be approximately $320.2 million. This amount reflects the restoration of $28.5 million in one-time reductions in the cities' share of these reimbursements that were made in the current year.

Looking at the personal property tax relief item solely as a program to reimburse local governments for property tax revenue losses, we believe there are a number of reasons why the Legislature should consider restructuring the program. The most compelling of these reasons is that, unlike the Homeowners' and other property tax relief programs, the amount of reimbursement no longer corresponds to actual property tax revenue losses. Rather, reimbursements are based on actual revenue losses that occurred four years ago, in 1979–80. The relationship of today's revenue losses to those which occurred in 1979–80 is, at best, very tenuous.

Moreover, the level of reimbursements has fluctuated sharply in recent years. In 1981–82, reimbursements were reduced by $54 million to offset the interest earned by local agencies on the disputed 1978–79 unsecured roll tax collections. In both this year and the two succeeding years, the program did not receive an inflation adjustment. Since 1982–83, business inventory reimbursement has not been provided to certain enterprise special districts. Finally, in 1983–84 the Legislature reduced business inventory subventions to cities by $28.5 million, as a means of reducing the level of fiscal relief provided to local agencies.

The recent history of funding for the business inventory subvention indicates that the subvention has operated not as a program to reimburse local governments for lost property tax revenues, but instead as a program providing general state support for local agencies. As such, it has not performed satisfactorily, from either the state's or local governments' perspective. The subvention has not been a reliable or predictable revenue source to local government because the Legislature has adjusted the base program in some way each year since 1979–80.

From the state's perspective, the program has proved difficult to administer. A large number of the claims submitted by counties have shown inexplicable differences from the amounts the State Controller's records show the counties receiving in the prior year. This confusion is not unexpected because the payments to local agencies reflect adjustments for one-time statutory reductions and for prior year overpayments and underpayments. The confusion does, however, make it extremely difficult for both the state and local agencies to track from one year to the next the amount to be allocated to each local agency, and to estimate the amount to be allocated in coming years.

For all these reasons, we believe that the Governor's proposal to eliminate the business inventory subvention and replace it with revenues from another source has considerable merit. The proposal, however, is an integral component of the Governor's proposal for restructuring local government finance. We believe that the Legislature should defer action on this item until legislative action on the entire local government finance proposal has been completed. Pending legislative action on the broader proposal, we withhold recommendation on this item.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 9100-101(a) from the General Fund — Budget p. GG 165

Requested 1984–85	$8,100,000
Estimated 1983–84	9,000,000
Actual 1982–83	11,091,000
Requested decrease $900,000 (−10.0 percent)	$140,000
Total recommended reduction	[redacted]

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Citizens' Property Tax Assistance.*** ***Reduce Item 9100-101(a) by $[redacted] to correct for overbudgeting.*** 2127

$140,000

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Assistance program provides partial reimbursement for property taxes paid by homeowners with less than $12,000 of household income who are (1) 62 years old and over, or (2) totally disabled, regardless of age. Assistance varies inversely with income, and ranges from 96 percent of the tax for homeowners with household incomes not exceeding $3,000, to 4 percent of the tax for those with incomes between $11,500 and $12,000. The state provides senior citizens' property tax assistance only for taxes paid on the first $34,000 of property value, after taking into account the $7,000 homeowners' property tax exemption. Assistance provided in 1984–85 will be based on taxes paid in 1983–84.

Table 1

Senior Citizens' Property Tax Assistance

1978–79 through 1983–84

	Actual 1978–79	*Actual 1979–80*	*Actual 1980–81*	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*
Number of Claimants:						
Senior	280,459	226,973	178,652	142,814	111,129	92,354
Disabled	—	7,928	7,657	7,697	6,886	5,770
Total	280,459	234,901	186,309	150,511	118,086	98,124
Total Assistance (in millions)	$70.6	$24.5	$18.8	$14.5	$11.0	$9.0
Per Claimant Averages:						
Household income	$6,525	$6,575	$6,673	$6,886	$7,042	$7,143
Property taxes	$647	$262	$258	$258	$263	$270
Assistance:						
Amount	$252	$104	$101	$96	$93	$92
Percent of taxes	38.9%	39.7%	39.1%	37.2%	35.4%	34.1%

Source: Franchise Tax Board.

Reason for change:
New Data.

Table 1 shows the number of approved claimants and the total assistance these claimants received in the years 1978–79 through 1983–84. The table also presents data on the average income, the average property taxes, and the average assistance received by all claimants. The 1983–84 data is based on actual claims filed with the Franchise Tax Board (FTB) through December 31, 1983. The FTB estimates that 98 percent of all claims are filed by December 31 each year. Based on FTB's data, we estimate that 98,124 claimants will receive a total of $9 million in assistance during the current year.

ANALYSIS AND RECOMMENDATIONS

$180,000

We recommend that this item be reduced by [redacted] to correct for overbudgeting.

The budget proposes $8.1 million from the General Fund for support of the Senior Citizens' Property Tax Assistance program in 1984–85. This is a decrease of $900,000, or 10 percent, from estimated current-year expenditures.

The 1983 Budget Act appropriated $9.6 million for this program. This amount was 13 percent less than what was proposed in the 1983–84 budget, and was based on our projection that there would be a 10 percent decline in program participation and a 3 percent reduction in the average level of assistance.

The most recent FTB data, however, indicate that program participation has declined even more than we anticipated. We now estimate that current-year expenditures will be $9 million, which is $600,000 less than was appropriated, and 22 percent less than was originally proposed, in the 1983–84 Budget Bill.

$180,000

Our analysis indicates that the budget request overstates the probable cost of this program in 1984–85 by ~~$410,000.~~ The budget request is based on the assumption that 88,000 claims will be filed in the budget year, and that the average level of assistance will be $90. This would indicate the need for an appropriation of $7,920,000, rather than the $8,100,000 requested in the budget. ~~In addition, the budget does not account for the fact that roughly 3 percent of claims typically are rejected. Taking this into account, we believe the request overstates the likely level of expenditures by a total of [redacted]~~. Accordingly, we recommend that this item be reduced by [redacted] $180,000

SENIOR CITIZENS' PROPERTY TAX DEFERRAL PROGRAM

Item 9100-101(b) from the General Fund — Budget p. 165

Requested 1984–85	$9,300,000
Estimated 1983–84	7,150,000
Actual 1982–83	6,093,000
Requested increase $2,150,000 (+30.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Postponement program allows eligible homeowners to defer payment of all or a portion of the property taxes on their residences. The state pays local governments the deferred taxes on behalf of senior citizens. It also puts a lien on the property to assure that the taxes are paid when the property is transferred. Thus, under the program, the state essentially provides a loan to the eligible property

SENIOR CITIZENS' PROPERTY TAX DEFERRAL PROGRAM—Continued

owners, which is to be repaid when the property is sold. Interest is charged on amounts deferred at a rate tied to the yield on investments made by the Pooled Money Investment Account.

To be eligible for the program, persons must be 62 years of age or older, own and occupy the property, have an equity in the home of at least 20 percent of full value, and meet specified income limits. The income limits are $34,000 for claimants who filed for the first time during or prior to 1983, and $24,000 for those who file in 1984 or thereafter.

The program is administered by the State Controller's office. This Budget Bill item appropriates funds to the Controller, who pays local governments on behalf of the participating senior citizens.

Assembly Bill 800 (Ch 1051/83) allows mobilehome owners whose homes are located on rental or leased property to defer taxes under this program, and established the $34,000 and $24,000 income limits. Prior to the enactment of AB 800, a single income limit applied to all claimants and this limit was adjusted annually for inflation. The Controller's office estimates the single income limit for the budget year would have been approximately $35,800 if AB 800 had not been enacted.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $9,300,000 for the Senior Citizens' Property Tax Deferral Program 1984–85, which is an increase of 30 percent over estimated current-year expenditures.

Participation and expenditures for this program have been increasing steadily since 1979–80, at approximately 15 percent per year. The Controller projects a higher-than-average 30 percent increase in participation in 1984–85 because mobilehome owners with residences on rented or leased property will be eligible for the first time. According to the Controller's office, mobilehome owners are expected to submit 6,400 new claims, seeking a total of $1.8 million in deferrals during 1984–85. This accounts for 83 percent of the projected increase in claims and expenditures for this program in the budget year.

The actual rate at which mobilehome owners participate in this program will depend on how many have incomes below the new $24,000 limit and how many choose to submit forms. The Controller has assumed there are 65,000 eligible mobilehome owners in California, and that nearly 10 percent will participate in the program. Our analysis indicates, however, that this estimate is highly uncertain. In our analysis of Item 0840, we recommend that the Legislature adopt supplemental report language requesting the Controller to closely monitor the extent of mobilehome owner participation in this program.

Until such time as better information regarding the participation of mobilehome owners becomes available, we believe it is reasonable to appropriate funds for this program on the basis of the Controller's estimates. Therefore, we recommend approval of the $9.3 million appropriation requested for the Senior Citizens' Property Tax Deferral program.

Reimbursement of County Costs to Administer This Program

We recommend approval.

Under SB 90 (Ch 1406/72), local governments can submit claims for reimbursement of costs incurred in administering state-mandated programs such as the Senior Citizens' Property Tax Deferral Program. The Governor's Budget, in Item 9680, requests $182,000 for reimbursement of county costs in administering this program, a 5 percent increase over current-year expenditures. Our analysis indicates that the request is reasonable, and we recommend that it be approved.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 9100-101 (c) from the General Fund — Budget p. GG 166

Requested 1984–85	$32,500,000
Estimated 1983–84	35,500,000
Actual 1982–83	41,945,000
Requested decrease $3,000,000 (−8.5 percent)	
Total recommended reduction	370,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. ***Senior Citizens Renters' Tax Assistance. Reduce Item 9100-101-001 (c) by $370,000 to correct for overbudgeting.***	2129

GENERAL PROGRAM STATEMENT

This program provides tax relief to renters who are 62 years old and over, and to totally disabled persons regardless of age, if their total household income is less than $12,000. Assistance varies inversely with income, and assumes that all renters pay the equivalent of $250 in property taxes. Actual assistance ranges from $240 (96 percent of $250) for persons with less than $3,000 of total household income, to $10 (4 percent of $250) for persons with income between $11,500 and $12,000. This assistance is in addition to the personal income tax credit provided to all renters under Item 9100-101-001 (g).

ANALYSIS AND RECOMMENDATIONS

We recommend that Item 9100-101-001 (c) be reduced by $370,000 to correct for overbudgeting.

The budget proposes an appropriation of $32.5 million from the General Fund for the Senior Citizen Renters' Tax Assistance program in 1984–85. This is a reduction of $3 million, or 8 percent, from current-year expenditures.

Our analysis indicates that the rate of decline in program expenditures projected in the budget (8 percent) is reasonable. Program expenditures depend on the number of claims filed and level of assistance per claim. The budget projects that 238,000 claims for assistance will be filed in the budget year, for assistance averaging $135. This represents an 8 percent decline from the number of claims filed in 1983–84, and a 2 percent reduction in the average level of assistance. These projections correspond with recent experience in the program.

Table 1 shows the number of approved claimants and the total assistance they received in the years 1980–81 through 1983–84. It also presents data on the average income, the average property taxes, and the average assistance received, for all claimants. The data shown for 1983–84 are based on

SENIOR CITIZEN RENTERS' TAX ASSISTANCE—Continued

the actual number of claims filed with the Franchise Tax Board (FTB) through December 31, 1983. The FTB estimates that the number of claims filed by December 31 represents 98 percent of all claims that will be filed in any given fiscal year. Using the FTB's data, we estimate that 260,394 claimants will receive a total of $36 million in assistance in 1983–84. This represents a decrease of 22,207 participants (−8 percent) and $4.6 million (−13 percent) from the 1982–83 levels.

Table 1
Senior Citizen Renters' Tax Assistance
1980–81 through 1983–84

	1980–81 Actual	*1981–82 Actual*	*1982–83 Actual*	*1983–84 Estimated*
Number of Claimants:				
Senior	217,889	214,705	201,099	187,639
Disabled	75,361	83,001	81,502	72,755
Totals	293,250	297,706	282,601	260,394
Total Assistance (in millions)	$49.0	$46.5	$41.6	$36
Per Claimant Averages:				
Household income	$5,211	$5,595	$5,848	$6,241
Assistance	$167	$156	$147	$138

Source: Franchise Tax Board

For the budget year, our analysis indicates that the budget request overstates the probable cost of this program by $370,000. The budget request is based on the assumption that 238,000 claims will be filed, and that the average assistance payment will be $135. Using these figures, we find that a total appropriation of $32,130,000 is needed, rather than the $32,500,000 requested in the budget. Therefore, we recommend that this item be reduced by $370,000.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 9100-101 (d) from the General Fund — Budget p. GG 166

Requested 1984–85	$334,500,000
Estimated 1983–84	334,000,000
Actual 1982–83	333,955,000
Requested increase $500,000 (+0.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Constitution grants a $7,000 property tax exemption on the full value of an owner-occupied dwelling, and requires the state to reimburse local governments for the resulting tax loss. This item provides the funds for these constitutionally required reimbursements.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $334.5 million for Homeowners' Property Tax Relief in 1984–85. This is an increase of $500,000, or 0.1 percent, above estimated current-year expenditures.

The State Controller's office, which receives and pays the counties' reimbursement claims, indicates that counties have filed $333.7 million worth of claims in the current year. Given the possibility of audit adjustments or supplemental claims, the estimate in the budget of $334.0 million for the current year appears reasonable.

Table 1 shows the cost and level of participation in the program since 1980–81. The table indicates that about 4,303,000 claimants will receive a property tax reduction averaging $79 in the current year.

Table 1

Homeowners' Property Tax Relief

	Actual 1980–81	*Actual 1981–82*	*Actual 1982–83*	*Estimated 1983–84*	*Projected 1984–85*
Claimants (thousands)	4,182	4,241	4,282	4,303	4,327
Percent change from prior year	—	1.4%	0.9%	0.4%	0.5%
Tax reimbursement (millions)	$333.7	$334.1	$334.0	$334.0	$334.5
Percent change from prior year	—	0.1%	—	—	0.1%
Average tax benefit	$80	$79	$79	$79	$79
Exempt Assessed Valuation (billions)	$28.6	$29.1	$29.4	$29.6	$29.7
Property Tax Rate [a]	1.157%	1.144%	1.131%	1.130%	1.125%

[a] Including debt service

Because the homeowners' exemption is fixed at $7,000 of assessed value, the state's cost for the program depends only upon the number of participants and local property tax rates. The budget projects that expenditures will increase by 0.1 percent. This assumes a 0.5 percent increase in the number of participants and a decrease in the average tax rate from 1.13 percent to 1.125 percent. Based on past trends, these projections seem reasonable. Accordingly, we recommend approval of the request as budgeted.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS

Item 9100-101 (e) from the
General Fund Budget p. GG 166

Requested 1984–85	$13,200,000
Estimated 1983–84	13,000,000
Actual 1982–83	13,475,000
Requested increase $200,000 (+1.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Existing law requires the state to provide replacement revenue to cities and counties to compensate them for reduced property tax revenues on open-space and agricultural land. The Secretary of the Resources Agency, through the Department of Conservation, administers the subvention program.

Under the California Land Conservation Act of 1965 (the Williamson Act), cities and counties may enter into contracts with landowners to restrict the use of property to open-space and agricultural use. In return for the restriction, the land is assessed at less-than-market value, thereby lowering the landowner's costs for holding the property as open space. The land is valued at either a percentage of post-Proposition 13 unrestricted value (with the percentage dependent upon the type of land and its location) or on the basis of current capitalized income, which reflects its income-producing value rather than its market value.

State compensation to cities and counties is based on the type of land under contract, rather than on the actual property tax loss. Compensation ranges from $8.00 per acre for certain urban prime land to $0.40 per acre for nonprime land. The state does not provide compensation if a contract is "nonrenewed" or canceled.

Under current law, each contract runs for 10 years, and is automatically renewed each year unless either the landowner or local government files for "nonrenewal." Once a contract is nonrenewed, taxes on the property gradually return to the level of taxes on comparable nonrestricted property, as the term of restriction draws nearer to expiration.

As an alternative to nonrenewal, the landowner may petition the local government to cancel the contract. If cancellation is granted, the landowner must pay a substantial cancellation fee to the state. This fee is generally 12.5 percent of the open space valuation. The landowner must also pay an additional charge to the local government to enable it to partially recapture the tax benefits enjoyed by the landowner during the term of the contract. The cancellation fee may be waived only with the concurrence of both the Resources Secretary and the local government. The additional charge may be reduced or waived at the local government's discretion.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $13,200,000 for open-space payments to local governments in the budget year. This is $200,000, or 1.5 percent, more than estimated current-year expenditures.

Our analysis indicates that this appropriation is justified, for two reasons:

(1) AB 2074 (Ch 1045/81) will not reduce reimbursements to local government as much as was earlier anticipated (see following discussion), (2) there has been an increase in the number of urban prime acres, for which local governments receive the maximum $8 reimbursement, reflecting the expansion of cities during the current year. This trend will continue in the budget year. Therefore, we recommend approval of the budget request.

Fiscal Impact of the Cancellation Window Is Less than Anticipated.

AB 2074 (Ch 1095/81) provided a one-time "window" for cancellations of existing open-space contracts. From January 1 to May 30, 1982, landowners were authorized to petition local government for cancellation, subject to specified conditions and the payment of fees.

Information from the Department of Conservation reveals that 311 cancellation requests, covering 99,000 acres, were filed with local governments pursuant to AB 2074. The most-recent data available from the Department of Conservation (October 1983) indicates that hearings have been conducted on 60,000 acres, or the equivalent of about 60 percent of the total acreage to be reviewed. Of these, approximately 49 percent, or 29,500 acres, have been approved for cancellation, and as a result, local governments will lose $31,000 in state open space payments. If this same approval rate is applied to the acres yet to be reviewed, approximately 39,000 acres, the state will save an additional $20,000 open space payments annually.

In our *Analysis of the 1983–84 Budget Bill,* we estimated that the potential savings from reduced reimbursements following the enactment of AB 2074 (Ch 1095/81) would be $163,000. This estimate was based on data from the Department of Conservation which overestimated the number of prime acres that were awaiting review for cancellation. The October 1983 data provided by the department indicates that 86 percent of the acres awaiting cancellation are nonprime acres, for which local governments are reimbursed at 40 cents an acre, rather than at the prime acre rates of $1 to $8 an acre. Based on the more-recent data, we now estimate that reimbursements to local governments will be reduced in total by only $51,000.

PAYMENTS TO LOCAL GOVERNMENT FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 9100-101 (f) from the General Fund — Budget p. GG 167

Requested 1984–85	$3,700,000
Estimated 1983–84	3,776,000
Actual 1982–83	2,073,000
Requested decrease −$76,000 (−2.0 percent)	
Total recommended reduction	62,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Welfare Exemption. Reduce Item 9100-101-001 (f) to correct for overbudgeting.*	2135

PAYMENTS TO LOCAL GOVERNMENT FOR SALES AND PROPERTY TAX REVENUE LOSS—Continued

GENERAL PROGRAM STATEMENT

Chapter 1406, Statutes of 1972, requires the state to reimburse local governments for the net loss resulting from sales and property tax exemptions enacted since 1972. Unlike state mandated costs, Article XIIIB of the Constitution does *not* require reimbursement of these revenue losses.

The budget identifies 18 statutory sales and property tax exemptions that require annual appropriations to reimburse local agencies. Twelve of these items are for *actual* property tax losses. County auditors file an annual claim for reimbursement under those statutes. The other six items reimburse local agencies for *estimated* sales tax revenue losses. Because records of exempt sales are not maintained, reimbursement for revenue losses due to these exemptions is determined by a formula. When a new sales tax exemption is first enacted, the Board of Equalization estimates the amount of revenue lost during the first year. This amount is apportioned by the state Controller to cities and counties, based on a formula. In subsequent years, the initial amount is adjusted to reflect estimated growth in statewide taxable sales.

All 18 statutes are funded from this single item, which permits the Controller to cover deficits in reimbursements for some statutes with surplus funds appropriated for other statutes.

Table 1

Sales and Property Tax Loss Reimbursements (in thousands)

	Actual 1982–83	*Estimated 1983–84*	*Proposed 1984–85*
Property Tax Exemptions			
1. Ch 16/73 (blind veterans)	$7	$7	$7
2. Ch 961/77 (surviving spouse of disabled veterans)	89	86	85
3. Ch 1273/78 (expanded disabled veterans' program)	952	985	1,000
4. Ch 1276/78 (increased disabled veterans' benefit)	737	669	650
5. Ch 172/80 (veterans' late claims)	4	5	5
6. Ch 1165/73 (wildlife habitat contracts)	24	27	27
7. Ch 886/78 (church parking lots)	3	3	3
8. Ch 588/79 (student bookstores)	18	22	24
9. Ch 928/79 (business records)	5	5	5
10. Ch 18/80 (documented vessels)	5	120	118
11. Ch. 610/80 (certificated aircraft)	11	70	55
12. Ch 1141/81 (needs of hospitals)	—	56	83
Subtotal, Property Tax Exemptions	$1,855	$2,055	$2,062
Sales Tax Exemption			
1. Ch 765/79 (nonprofit libraries)	$3	$3	$3
2. Ch 1048/79 (boardinghome meals for seniors)	12	18	20
3. Ch 878/77 & Ch 222/80 (medical alert tags)	3	3	4
4. Ch 645/80 (meals for elderly)	14	22	25
5. Ch 1077/80 (gasohol)	—[a]	255	—[b]
6. Ch 1246/80 (factory-built housing)	186	286	320
7. Ch 1348/80 (bottled water)	—[a]	1,134	1,266
Subtotal, Sales Tax Exemptions	$218	$1,721	$1,638
Totals	$2,073	$3,776	$3,700

[a] Reflects one-time reduction to offset prior-year overpayments.
[b] Reimbursement repealed by Ch 1321/83 (SB 1030).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $3,700,000 to reimburse local agencies for sales and property tax revenue losses in 1984–85. This is a decrease of $76,000, or 2.0 percent, below estimated current-year expenditures. The change is attributable primarily to two factors: (1) elimination of reimbursement for revenue losses due to the sales tax exemption for gasohol, enacted by Ch 1321/83 (SB 1030), and (2) adjustments for a projected increase in taxable sales.

Table 1 identifies the specific statutes, and the reimbursement levels for each subvention, for the period 1982–83 through 1984–85.

ANALYSIS AND RECOMMENDATIONS

We have reviewed the information submitted by the State Controller's Office regarding the projected costs of paying claims for these items in 1984–85. With one exception, the amounts requested appear to be reasonable.

Increased Reimbursement for New Welfare Exemption Not Justified

We recommend a reduction of $62,000 in the amount budgeted to reimburse local agencies for revenue losses attributable to Ch 1141/81, to correct for overbudgeting.

Chapter 1141, Statutes of 1981 (AB 152), extended the property tax welfare exemption to any nonprofit organization, otherwise qualified, which uses its property exclusively to meet the needs of tax-exempt hospitals. To date, only one local agency—San Mateo County—has submitted a claim for reimbursement of a property tax revenue loss under this program. San Mateo County's claim totals $42,000, which includes $21,000 for 1982–83 revenue losses and $21,000 for 1983–84 revenue losses. These reimbursements will be funded during the current year from savings in expenditures under other reimbursement programs funded in this item.

The budget proposes General Fund expenditures of $83,000 for this item in 1984–85, which is $62,000 more than San Mateo County's annual revenue loss. Since no other counties have submitted claims to date, it is not likely that the amount needed in the budget year will exceed the amount of San Mateo County's claim. Accordingly, we recommend that the appropriation in Item 9100-101-001 (f) for reimbursement pursuant to Ch 1141/81 be reduced by $62,000.

RENTERS' TAX RELIEF

Item 9100-101 (g) from the General Fund — Budget p. GG 167

Requested 1984–85	$447,000,000
Estimated 1983–84	431,244,000
Actual 1982–83	422,170,000
Requested increase $15,756,000 (+3.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief program provides a fixed payment to persons who are residents of the state and who rent dwellings in California as their principal places of residence on March 1. No age or income limitations apply to renters claiming relief under this program. The credit is $60 for single renters, $137 for married couples, heads of households, and surviving spouses, $69 for married persons filing separately, and $99 for heads of households with joint custody of their children.

The program is administered through the Personal Income Tax program as a refundable credit. That is, the credit is applied first to any income taxes due, with the balance (if any) paid directly to the renter. Persons with no income tax liability must file a return to receive the tax relief payment.

Table 1
Renters' Tax Relief Program[a]
Number of Renters' Credit Claimants, by Income Year
(in millions)

	Actual 1981	*Estimated 1982*	*Estimated 1983*	*Estimated 1984*
Single	2.31	2.32	2.34	2.47
Joint	1.39	1.38	1.39	1.41
Other[b]	0.82	0.69	0.73	0.77
Total	4.52	4.39	4.46	4.65
Percent change from prior year	4.4%	−2.8%	1.5%	4.3%

[a] Source: Department of Finance.
[b] Includes head of household, surviving spouse, and married filing separately.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 shows the number of claimants since the 1981 income year. The FTB attributes the decrease in the number of claimants for 1982 to a new program it initiated to check the legitimacy of renters' credit claims and dissuade ineligible taxpayers from claiming the renters' credit. In January 1983, the FTB began conducting desk audits of all renters' credit claims, and began sending letters to operators of tax-exempt rental housing, requesting them to notify their tenants that they are ineligible for the renters' credit.

The Department of Finance estimates that this new program was responsible for $30 million in savings in 1982–83, and that it will generate approximately the same level of savings in the current and budget year. For this reason, the budget estimates that current-year expenditures will be $33 million dollars less than what was projected one year ago.

The budget proposes an appropriation of $447 million for Renters' Tax Relief in 1984–85. This is an increase of $15.8 million, or 3.7 percent, over estimated current-year expenditures. Our analysis indicates that the proposed level of funding is justified, and we recommend that it be approved.

SUBSTANDARD HOUSING

Item 9100-101(h) from the General Fund — Budget p. GG 167

Requested 1984–85	$98,000
Estimated 1983–84	70,000
Actual 1982–83	36,000
Requested increase 28,000 (+40 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Substandard Housing program provides funds to local agencies for the support of housing code enforcement and rehabilitation activities.

Assembly Bill 475 (Ch 238/74) disallows certain income tax deductions for rental housing that has been found to be in violation of state or local housing codes. Assembly Bill 3515 (Ch 1286/78) provides that the additional tax revenues generated by Ch 238/74 are to be transferred from the General Fund to the Local Agency Code Enforcement and Rehabilitation Fund (LACERF). These funds are distributed by the State Controller to the cities and counties in which the properties found to be in violation of the state or local housing codes are located. Local agencies use these funds for code enforcement activities, housing rehabilitation, and related activities.

Generally, two fiscal years elapse between the time when housing code violations are reported and when the additional tax revenues generated by these violations are distributed to local governments. Table 1 presents information on program activity between 1980–81 and 1982–83.

Table 1
Substandard Housing Program Activity
1980–81 through 1982–83

	1980–81	*1981–82*	*1982–83*	*Percent Increase*
Number of noncompliance notices received	244	386	470	22%
Number of local agencies submitting notices	10	16	16	0
Revenue collected	$81,479	$110,440	$138,000	25

Source: Franchise Tax Board.

SUBSTANDARD HOUSING—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes that $98,000 be transferred from the General Fund to the LACERF in 1984–85 under the Substandard Housing program. This amount represents the actual revenues generated through the disallowance of deductions during the 1982–83 fiscal year, minus FTB's projected costs ($40,000) for administering this program. The request is justified, and accordingly, we recommend approval.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 9620 from the General Fund — Budget p. GG 177

Requested 1984–85	$35,000,000
Estimated 1983–84	70,000,000
Actual 1982–83	56,100,000
Requested decrease $35,000,000 (−50 percent)	
Total recommended decrease	34,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. ***Borrowing Plan. Reduce Item 9620-001-001 by $34,000,000.*** Recommend reduction because it is in the state's financial interest to meet General Fund short-term cash needs primarily through external borrowing (which can be financed through the continuing appropriation authority provided under Section 17293 of the Government Code), rather than through internal borrowing. (Net General Fund gain: $55 million.)	2141
2. External borrowing authority. Recommend adoption of legislation to permanently authorize short-term borrowing authority.	2142

GENERAL PROGRAM STATEMENT

Whenever cumulative cash disbursements exceed cumulative incoming revenues, the General Fund must borrow monies to cover these disbursements. This borrowing, which is done on a short-term basis, often requires the payment of interest. Two sources of funds are available to the state's General Fund to meet its short term cash needs.

Internal borrowing sources. These include the Pooled Money Investment Account (PMIA), the Reserve for Economic Uncertainties, and Special Fund accounts. The PMIA is made up of all temporary surplus cash in the General Fund, other state funds, and the Local Agency Investment Fund. The funds are invested in a range of instruments, such as time deposits, government securities, and banker's acceptances. The interest earnings are distributed to the various funds, based on the percentage that each fund comprises of the total pool. When the state borrows from the account, it must pay interest at a rate equal to the average rate being earned by the PMIA.