

**Supplemental Report Language**

For purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

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**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE**

Item 9100-101 (a) from the  
General Fund

Budget p. GG 162

Requested 1987-88 .....	\$4,166,000
Estimated 1986-87 .....	5,161,000
Actual 1985-86 .....	6,377,000
Requested decrease \$995,000 (-19.3 percent)	
Total recommended reduction .....	None

**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

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1. Supplemental Report Language. Recommend that the Legislature adopt supplemental report language requiring the Franchise Tax Board to prepare and submit to the Legislature, by December 1, 1987, an analysis of the participation trends for this program and the characteristics of program beneficiaries.

**GENERAL PROGRAM STATEMENT**

The Senior Citizens' Property Tax Assistance (SCPTA) 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 this 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 1987-88 will be based on taxes paid in 1986-87.

**OVERVIEW OF THE BUDGET REQUEST**

The Governor's Budget proposes an appropriation of \$4,166,000 for this program in 1987-88, or \$995,000 less than estimated current year expenditures. The budget assumes that participation in the program will drop from 57,520 in the current year to 47,284 in the budget year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend that the Legislature adopt supplemental report language requiring the Franchise Tax Board to prepare and submit to the Legislature, by December 1, 1987, an analysis of the participation trends for this program and the characteristics of program beneficiaries.*

**SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued**

The proposed expenditure reflects an estimate prepared by the Franchise Tax Board (FTB), based on an analysis of the change in program expenditure levels since 1981-82. According to FTB's estimate, program expenditures will decline by approximately 19 percent in both the current and budget year. This estimate appears to be consistent with historical trends in program expenditures. Specifically, the SCPTA has experienced increasing declines in both program participation and program expenditures since the passage of Proposition 13. Table 1 summarizes trends in program participation from 1983-84 through 1986-87.

**Table 1**  
**Senior Citizens' Property Tax Assistance**  
**1983-84 through 1986-87<sup>a</sup>**

	<i>Actual</i> 1983-84	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Estimated</i> 1986-87
<b>Number of Claimants:</b>				
Senior.....	92,940	79,323	66,203	53,652
Disabled .....	5,956	5,369	4,535	3,868
Total.....	98,896	84,691	70,738	57,520
Total Assistance (in thousands) .....	\$9,067	\$7,839	\$6,377	\$5,161
<b>Per Claimant Averages:</b>				
Household income .....	\$7,143	\$7,113	\$7,210	\$7,311
Property taxes.....	\$270	\$273	\$277	\$283
<b>Assistance:</b>				
Amount .....	\$91.69	\$92.55	\$90.15	\$89.73
Percent of taxes .....	34.0%	33.9%	32.6%	31.7%

<sup>a</sup> Source: Franchise Tax Board. Detail may not add to totals due to rounding.

According to the Franchise Tax Board, the decline in program expenditures is primarily attributable to two factors:

- The pool of eligible participants declines each year due to the effects of inflation. In other words, rising income levels result in an increasing number of individuals exceeding the program's fixed maximum allowable income of \$12,000. This income cap has been in effect since 1976.
- The average value of assistance provided by the program has declined steadily, both overall and as a proportion of property taxes, since the passage of Proposition 13. This is primarily due to the fact that as participants' income levels rise, the program provides a lower benefit. The decline is also attributable in part to lower benefit levels brought about by the sharp decline in property tax liabilities caused by Proposition 13. The lower benefit levels make the program less attractive to potentially eligible individuals.

Although these factors would explain a decline in program expenditures, they do not fully explain why program expenditures decline by an increasing amount each year. Unfortunately, there is a general lack of reliable data concerning program participation and benefit levels. As a result, the FTB must project budget year expenditures based on total expenditures in past years, without taking into account possible shifts in the recipient population or level of benefits. In the absence of the data required for a more detailed analysis, we have no basis to disagree with the FTB's projection of 1987-88 expenditures. Since the estimate accurately reflects general trends in program expenditure levels, we recommend approval.

Given the continuing decline in participation by senior citizens in this program, the Legislature may wish to evaluate whether changes in the program to increase participation are justified or whether continued support for the program is necessary. In order to facilitate this review, we recommend that the Legislature adopt the following supplemental report language:

“Senior Citizens’ Property Tax Assistance Program.

The Franchise Tax Board shall prepare and submit to the Legislature, by December 1, 1987, an analysis of the trends in participation for this program and the characteristics of program beneficiaries. This report shall also identify the estimated population of persons eligible for this program, and the reasons for their low level of participation.”

**SENIOR CITIZENS’ PROPERTY TAX DEFERRAL**

Item 9100-101 (b) from the  
General Fund

Budget p. GG162

Requested 1987-88 .....	\$7,000,000
Estimated 1986-87.....	7,000,000
Actual 1985-86 .....	4,651,000
Requested increase—None	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The Senior Citizens’ Property Tax Deferral (SCPTD) program allows eligible homeowners to postpone payment of all or a portion of the property taxes on their residences, with the state paying local governments on their behalf. The state also puts a lien on the property to assure that the taxes are paid when the property is transferred. The state essentially provides a loan to the eligible property owner, 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. This Budget Bill item appropriates funds to the Controller, who administers the program and pays local governments on behalf of the participating senior citizens.

**OVERVIEW OF THE BUDGET REQUEST**

For the budget year, the Department of Finance proposes that \$7 million be appropriated for the Senior Citizens’ Property Tax Deferral program. The proposed appropriation is based on the assumption that program expenditures will not increase over the \$7 million projected to be the current year cost of the program.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

Table 1 summarizes past trends in SCPTD program participation and program expenditures. Two sets of factors have influenced the program’s growth in recent years. First, eligibility for the program has been expanded to include mobilehome occupants (in 1984-85) and the blind and dis-

**SENIOR CITIZENS' PROPERTY TAX DEFERRAL—Continued**

abled (in 1985–86). This program expansion has been offset somewhat by two other changes in the program. Specifically, in 1983–84 the interest rate on deferred payments increased from 7 percent to 10 percent, and in 1984–85 the maximum allowable income for the program was reduced from \$36,000 to \$24,000. These changes appear to have limited eligibility for the program, and reduced its attractiveness to otherwise eligible persons. Table 1 summarizes program activity in recent years, and indicates that participation and program costs for the current year are similar to prior years.

**Table 1**  
**Property Tax Deferral Certificate Activity**  
**1983–84 through 1986–87<sup>a</sup>**

	1983–84	1984–85	1985–86	1986–87 <sup>b</sup>
Applications approved.....	9,773	9,979	10,256	10,026
Number of deferrals.....	8,972	9,141	8,966	9,007
Total approved deferral (in thousands) .....	\$5,987	\$6,517	\$6,500 <sup>c</sup>	\$6,710
Average deferral .....	\$667	\$713	\$725	\$745

<sup>a</sup> Source: State Controller.

<sup>b</sup> Legislative Analyst's Office estimate.

<sup>c</sup> Does not equal 1985–86 program cost due to change in accounting practices.

In the absence of further legislative or administrative changes in the program, we expect the SCPTD program to continue its sluggish growth pattern in the budget year. On this basis, we recommend approval of the \$7 million appropriation proposed for 1987–88.

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## SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 9100-101 (c) from the  
General Fund

Budget p. GG 163

Requested 1987–88 .....	\$19,602,000
Estimated 1986–87.....	24,583,000
Actual 1985–86 .....	28,876,000
Requested decrease \$4,981,000 (–20.3 percent)	
Total recommended reduction .....	None

### SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis  
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1. Supplemental Report Language. Recommend that the Legislature adopt supplemental report language requiring the Franchise Tax Board to prepare and submit to the Legislature, by December 1, 1987, an analysis of the trends in participation for this program and the characteristics of program beneficiaries.

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### GENERAL PROGRAM STATEMENT

The Senior Citizen Renters' Tax Assistance (SCRТА) 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 tax relief provided to all renters as a personal income tax credit under Item 9100-101 (f).

### OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget proposes an appropriation of \$19,602,000 from the General Fund for the SCRТА in the budget year, which is \$4,981,000 (20 percent) less than the administration's estimate of current year expenditures. This budget assumes that participation in the program will drop from 211,975 persons in the current year to 178,562 persons in the budget year.

### ANALYSIS AND RECOMMENDATIONS

*We recommend that the Legislature adopt supplemental report language requiring the Franchise Tax Board to prepare and submit to the Legislature, by December 1, 1987, an analysis of the trends in participation for this program and the characteristics of program beneficiaries.*

The proposed appropriation is based on an analysis of trends in program expenditure levels since 1981-82. According to this analysis, program expenditures will decline by 15 percent in the current year, and by 20 percent in the budget year, consistent with historical trends in program expenditures. Specifically, the SCRТА has shown marked declines in both program participation and total expenditure levels since the passage of Proposition 13. Table 1 summarizes trends in program participation from 1983-84 through 1986-87.

**Table 1**  
**Senior Citizen Renters' Tax Assistance**  
**1983-84 through 1986-87<sup>a</sup>**

	<i>Actual</i> 1983-84	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Estimated</i> 1986-87 <sup>b</sup>
Number of Claimants:				
Senior .....	188,317	177,592	164,269	149,426
Disabled .....	73,723	70,513	65,423	62,549
Totals .....	262,040	248,104	229,691	211,975
Total Assistance (in thousands) .....	\$36,325	\$33,237	\$28,876	\$24,583
Per Claimant Averages:				
Household income .....	\$6,052	\$6,152	\$6,338	\$6,545
Assistance .....	\$139	\$134	\$126	\$116

<sup>a</sup> Source: Franchise Tax Board. Detail may not add to totals due to rounding.

<sup>b</sup> Legislative Analyst's Office estimates.

According to the FTB, the decline in program expenditures is generally attributable to the effects of rising income levels among potentially eligible individuals. The program has had an income ceiling of \$12,000 since

**SENIOR CITIZEN RENTERS' TAX ASSISTANCE—Continued**

1978. Each year, more people become ineligible for the program as their incomes rise above \$12,000 due to cost-of-living adjustments and other factors. In addition, because assistance varies inversely with income, the average benefit level offered by the program has declined over time. The lower level of assistance directly reduces program costs, and also contributes to the decline in participation by making the program less attractive to otherwise eligible individuals.

While these factors help to explain the general decline in program expenditures, there is no available information to explain why program expenditures decline by an *increasing* amount each year. In the absence of such information, however, we have no reason to disagree with the FTB's estimate of program expenditures. Since the FTB's estimate accurately reflects past trends in overall program expenditures, we recommend approval.

Given the continuing decline in participation by senior citizens in this program, the Legislature may wish to evaluate whether changes in the program to increase participation are justified, or whether continued support for the program is necessary. In order to facilitate this review, we recommend that the Legislature adopt the following supplemental report language:

“Senior Citizen Renters’ Tax Assistance Program.

The Franchise Tax Board shall prepare and submit to the Legislature, by December 1, 1987, an analysis of the trends in participation for this program and the characteristics of program beneficiaries. This report shall also identify the estimated population of persons eligible for this program, and the reasons for their low level of participation.”

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**HOMEOWNERS' PROPERTY TAX RELIEF**

Item 9100-101 (d) from the  
General Fund

Budget p. GG 163

Requested 1987-88 .....	\$343,273,000
Estimated 1986-87 .....	338,200,000
Actual 1985-86 .....	333,829,000
Requested increase \$5,073,000 (+1.5 percent)	
Total recommended reduction .....	None

**GENERAL PROGRAM STATEMENT**

The State 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. The state also reimburses local agencies for property tax revenue losses which result from homeowners' exemptions granted on supplemental property tax assessments. This item provides the funds for these constitutionally required reimbursements.

## OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget proposes expenditures of \$343.3 million for Homeowners' Property Tax Relief in 1987-88. This is an increase of \$5.1 million, or 1.5 percent, above the \$338.2 million current year estimate of expenditures contained in the budget.

## ANALYSIS AND RECOMMENDATIONS

### *We recommend approval.*

Table 1 displays information on the costs and level of participation in the homeowners' tax relief program for the years 1983-84 through 1986-87. The estimate shown for the current year is based on data from the Board of Equalization and the Controller's Office. According to this information, an estimated 4,378,000 claimants will participate in 1986-87, suggesting a 1.4 percent increase in participation over the number of participants in 1985-86. Since 1982-83, the number of claims filed has increased at an average annual rate of 1.0 percent. The increased participation rates for 1985-86 and 1986-87 are due in part to improved conditions for homeownership. In recent years, reduced mortgage interest rates and increased personal income have combined to make homeownership more affordable. Given the high volume of new construction and housing resale activity experienced during 1986, it is anticipated that the increased rate of growth in program participation will continue, or increase, in the budget year.

**Table 1**  
**Homeowners' Property Tax Relief**  
**1983-84 through 1986-87**

	<i>Actual</i> 1983-84 <sup>a</sup>	<i>Actual</i> 1984-85 <sup>a</sup>	<i>Actual</i> 1985-86 <sup>a</sup>	<i>Estimated</i> 1986-87 <sup>b</sup>
Claimants (in thousands) .....	4,256	4,262	4,319	4,378
Percent change from prior year .....	1.0%	0.1%	1.3%	1.4%
Tax reimbursement (in millions) .....	\$334.0	\$331.9	\$333.8	\$338.2
Percent change from prior year .....	—	-0.6%	0.6%	1.3%
Average tax benefit .....	\$78.48	\$77.91	\$77.29	\$77.25
Percent change from prior year .....	-1.0%	-0.7%	-0.8%	-0.1%
Property tax rate <sup>c</sup> .....	1.126%	1.113%	1.096%	1.086%
Percent change from prior year .....	-0.4%	-1.2%	-1.5%	-0.9%

<sup>a</sup> Source: State Controller's Office, Department of Finance.

<sup>b</sup> Legislative Analyst's Office estimates.

<sup>c</sup> Including debt service.

Program expenditures are not projected to rise as fast as participation, however, because the average *value* of the exemption has been falling since the enactment of Proposition 13. In the current year, the average claim fell from \$77.29 to \$77.25, a drop of one-tenth of 1 percent. This is because property tax rates have been gradually declining, reflecting lower tax rates for debt service payments on local general obligation bonds. Thus, although estimated participation increased by 1.4 percent in the current year, program expenditures increased by an estimated 1.3 percent, to \$338.2 million.

For 1987-88, the budget proposes an appropriation of \$343.3 million, which represents an increase of \$5.1 million over the estimated current year expenditures. This estimate assumes, in effect, that expenditures will rise in direct proportion to the projected growth in the number of claim-

**HOMEOWNERS' PROPERTY TAX RELIEF—Continued**

ants—1.5 percent. Our analysis indicates that this estimate is subject to a greater-than-normal level of uncertainty. This is because we anticipate counties will increase their request for reimbursement of supplemental property tax revenue losses attributable to the homeowners' exemption in 1987. Such requests have been made only to a limited extent in the last two years, but given the recent high volume of residential real estate transactions, it is likely that the level of supplemental property tax revenues is higher than in previous years. In the absence of this factor, we would anticipate a lower level of program expenditures in 1987–88 than estimated by the department. In order to allow for unanticipated reimbursement claims, we recommend that the appropriation be approved as budgeted.

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**OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS**

Item 9100-101 (e) from the  
General Fund

Budget p. GG 163

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Requested 1987–88 .....	\$14,200,000
Estimated 1986–87 .....	14,200,000
Actual 1985–86 .....	13,822,000
Requested increase—None	
Total recommended augmentation .....	150,000

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**SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS**

*Analysis  
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1. *Open-Space Payments. Recommend augmentation of \$150,000 to offset the underbudgeting of open-space payments to local governments. (Increase Item 9100-101 (e) by \$150,000.)* 1401

**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 (DOC), administers the subvention program.

Under the California Land Conservation Act of 1965 (commonly known as the Williamson Act), cities and counties may enter into contracts with landowners to restrict the use of property to open-space and agricultural purposes. 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 or agricultural land. For purposes of this act, "agricultural use" is defined to mean use of land for the purpose of producing an agricultural commodity for commercial purposes.

State compensation to cities and counties is based on the type of land under contract, rather than on the actual property tax loss. There are four classifications into which property under contract is categorized, and each provides a different rate of reimbursement. The reimbursement categories are as follows:

- “\$8 Per Acre Urban Prime”—for land that is either (a) within an incorporated city with a population of 25,000 or more, or (b) within three miles of a city with such a population.
- “\$5 Per Acre Urban Prime”—for land that is either (a) within an incorporated city with a population between 15,000 and 25,000, or (b) within three miles of a city in this population range.
- “\$1 Per Acre Other Prime”—for all other prime agricultural land.
- “40 cents Per Acre Nonprime”—for nonprime land.

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”. The state does not provide compensation if a contract is “nonrenewed” or canceled. Once a contract is nonrenewed, taxes on the property gradually return, over a 10-year period, to the level at which comparable unrestricted property is taxed.

As an alternative to nonrenewal, the landowner may petition the local government to cancel the contract. If cancellation is granted, the landowner must (1) pay a substantial cancellation fee to the state, generally about 13 percent of the open-space valuation, and (2) pay a specified charge to the local government to enable it to recapture a portion of the tax benefits enjoyed by the landowner during the term of the contract.

#### OVERVIEW OF THE BUDGET REQUEST

The Governor’s Budget proposes an appropriation of \$14.2 million for open-space payments to local governments in the budget year, which represents no increase over estimated current year expenditures for the program. This reflects the DOC’s assumption that there will be no change in program expenditures in 1987–88.

#### ANALYSIS AND RECOMMENDATIONS

*We recommend an augmentation of \$150,000 to offset the underbudgeting of 1987–88 program costs. (Augment Item 9100-101 (e) by \$150,000.)*

Table 1 details the cost and number of acres under Williamson Act contracts from 1982–83 through 1986–87. The data shown for 1986–87 represent the DOC’s estimate, based on information from individual cities and counties. According to these data, program expenditures have steadily increased since 1983–84. On the basis of historical trends, DOC estimates that expenditures will rise to \$14.2 million in the current year, representing a 1 percent increase over 1984–85. The DOC estimate for the budget year however, assumes that this steady historical growth will *level off completely*.

Table 1  
Acres Under Williamson Act Contracts and  
Open-Space Payments to Local Governments  
1983–84 through 1986–87<sup>a</sup>

Land Category	Actual 1983–84	Actual 1984–85	Actual 1985–86	Estimated 1986–87
\$8 Urban Prime.....	553,906	615,141	623,229	659,616
\$5 Urban Prime.....	94,898	110,146	94,776	93,695
\$1 Other Prime.....	4,546,980	4,521,283	4,622,224	4,428,417
\$0.40 Nonprime.....	10,185,253	9,952,283	9,985,273	10,149,904
Total				
Acres .....	15,381,037	15,198,853	15,325,502	15,331,632
Expenditures .....	\$13,526,819	\$13,974,054	\$14,076,045	\$14,233,782

<sup>a</sup> Source: Department of Conservation

**OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS—Continued**

Our analysis indicates that the DOC's no-growth assumption is questionable. As shown in Table 1, although the total number of acres under contract declined by 0.32 percent between 1983-84 and 1986-87, program expenditures rose by 5 percent during the same period. This is because there has been a shift in land to the \$8 Urban Prime category, due to population growth in cities. When a city's population rises above 25,000, land previously classified as \$1 Other Prime or \$5 Urban Prime is reclassified to the \$8 Urban Prime category. Thus, if a city with fixed boundaries experiences population growth sufficient to raise its population above 25,000, then the land within a three-mile radius of the city will be reclassified into the higher reimbursement category. Similarly, when a city annexes property such that additional Williamson Act land is brought within the three-mile radius, then that land, formerly classified at the 40-cent or \$1 reimbursement rate, may also be reclassified. Assuming that similar growth in the Urban Prime category continues, we project program expenditures to be \$14,350,000 in 1987-88, or \$150,000 more than is requested for that year. Because the amount proposed in the budget will not be adequate to fully fund the level of subventions specified in current law, and because it has been the policy of the Legislature in the past to fully fund this program, we recommend an augmentation of \$150,000.

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**RENTERS' TAX RELIEF**

Item 9100-101 (f) from the General Fund

Budget p. GG 163

Requested 1987-88 .....	\$475,000,000
Estimated 1986-87 .....	466,000,000
Actual 1985-86 .....	452,570,000
Requested increase \$9,000,000 (+1.9 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. Table 1 summarizes program participation for income years 1984 through 1987.

**Table 1**  
**Renters' Tax Relief Program**  
**Number of Renters' Credit Claimants**  
**By Income Year<sup>a</sup>**  
**1984 through 1987**  
**(in millions)**

	<i>Actual</i> 1984	<i>Actual</i> 1985	<i>Estimated</i> 1986	<i>Estimated</i> 1987 <sup>b</sup>
Single .....	2.23	2.37	2.44	2.47
Joint .....	1.53	1.50	1.55	1.59
Other <sup>c</sup> .....	0.87	0.81	0.84	0.84
Totals .....	4.62	4.69	4.83	4.91
Percent change from prior year.....	4.8%	1.5%	3.0%	1.7%

<sup>a</sup> Source: Franchise Tax Board. Detail may not add to totals due to rounding.

<sup>b</sup> Legislative Analyst's Office estimate.

<sup>c</sup> Includes Head of Household, Surviving Spouse, Joint Head of Household, Nonresident and Married Filing Separately.

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.

#### **OVERVIEW OF THE BUDGET REQUEST**

The Governor's Budget proposes expenditures of \$475 million for the Renters' Tax Relief program in 1987-88. This is an increase of 2 percent over estimated current year expenditures. The Department of Finance (DOF) estimates that 4.8 million and 4.9 million renters will participate in the program in the current and budget years, respectively.

#### **ANALYSIS AND RECOMMENDATIONS**

##### *We recommend approval.*

As displayed in the budget document, DOF estimates that program expenditures will be \$466 million (a 3 percent increase over prior year levels) in 1986-87, and \$475 million (a 2 percent increase) in 1987-88.

According to DOF, the current estimates assume that the number of claims processed will grow by 1.5 percent in the budget year, while the average benefit level will grow by approximately 0.5 percent. Changes in the average benefit level reflect changes in the relative number of single, joint and other claimants from one year to the next. The estimates appear reasonable and we recommend that the item be approved.

**SUBSTANDARD HOUSING**

Item 9100-101 (g) from the  
General Fund

Budget p. GG 163

Requested 1987-88 .....	\$126,000
Estimated 1986-87.....	120,000
Actual 1985-86 .....	102,000
Requested increase \$6,000 (+5.0 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 from 1983-84 through 1985-86.

**Table 1**  
**Substandard Housing Program Activity**  
**1983-84 through 1985-86**

	1983-84	1984-85	1985-86	Percent Change
Number of noncompliance notices received .....	685	747	965	29.2%
Number of local agencies submitting notices.....	13	16	10	-37.5
Revenue collected .....	\$142,186	\$160,531	\$146,339	-8.8

Source: Franchise Tax Board and Department of Finance.

**OVERVIEW OF THE BUDGET REQUEST**

The Governor's Budget requests a total of \$126,000 for 1987-88, an increase of 5 percent over the current year.

**ANALYSIS AND RECOMMENDATIONS**

*We recommend approval.*

The budget proposes that \$126,000 be transferred from the General Fund to the LACERF in 1987-88 under the Substandard Housing Program. This amount represents the actual revenues generated through the disallowance of deductions during the 1985-86 fiscal year, minus the Franchise Tax Board's projected costs (\$20,000) for administering the program. The request is justified, and we recommend approval.

The amount of funds collected for the budget year (\$146,339), less state administrative costs, would be returned to the cities and counties in which the properties responsible for the collections are located. This amount, however, does not reflect the Governor's proposal to use the LACERF fund, instead of the General Fund, as the source of local mandated cost reimbursements to be paid to local agencies for their costs of administering the program.

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## LOCAL GOVERNMENT FINANCING—REVERSION

Item 9210-495 to the General  
Fund

Budget p. GG 164

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### ANALYSIS AND RECOMMENDATIONS

#### Reversion of Local Disaster Assistance Funding May Be Premature

*We recommend approval of the proposed local government financing reversion item with an amendment to ensure that sufficient funds are available in the account in the budget year to meet anticipated local disaster assistance needs pursuant to Ch 16/86. We further recommend that at the time of budget hearings, DOF and OES provide the legislative fiscal committees with a specific estimate of the amount of funds which will be needed for this purpose.*

In February 1986, flooding and heavy rains caused extensive damage to public facilities in various portions of northern and central California. Because the costs of clean-up and repair were beyond the financial capabilities of the local communities, the Legislature enacted Ch 16/86, which transferred \$115 million from the Special Fund for Economic Uncertainties to the Disaster Response-Emergency Operations Account, to be allocated by the Director of Finance as follows:

1. *Flood disaster assistance:* \$80 million to those counties which were declared state disaster areas due to the heavy storms and flooding.
2. *Property tax reimbursements:* \$20 million to reimburse local agencies for property tax revenue losses resulting from the February floods.
3. *Individual and family grant assistance:* \$10 million to the Department of Social Services to provide individual and family grant assistance.
4. *Delta reclamation districts:* \$5 million to provide aid to delta reclamation districts.

The budget proposes to revert to the General Fund, as of June 30, 1987, the *unencumbered balance* of the \$80 million appropriation provided for disaster assistance and the \$20 million appropriation provided for property tax reimbursements. Based upon information provided by the Department of Finance (DOF) and the Office of Emergency Services (OES) our analysis indicates that a total of \$46 million of the \$100 million provided by Chapter 16 for these two purposes potentially will be returned to the General Fund by the proposed reversion language.

*Additional Flood Expenditures May Be Needed.* In our judgment, the proposed reversion item is appropriate because it would return unneeded disaster assistance funds to the General Fund, so that they would be available for appropriation by the Legislature for other high priority

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state programs. We believe, however, that it is premature to propose the reversion of the *entire* unencumbered balance in the \$80 million disaster assistance appropriation at the end of the current year. This is because OES has indicated that the following factors may create the need for additional disaster assistance expenditures:

- Due to a "cap" of \$30 million on the amount of disaster assistance funding that the state is eligible to receive from the federal Department of Transportation, an additional \$5 million may be required for the repair and reconstruction of flood-damaged roads.
- Current estimates of flood damage to Delta reclamation districts indicates that an additional \$1 million in state assistance may be needed. This would be in addition to the \$5 million transferred to the 1986 Flood Disaster Account, in the Natural Disaster Assistance Fund by Chapter 16.
- Cost overruns, and projects which may be ineligible for federal funding, could require an additional \$1 million in disaster assistance funding.

Based upon these factors, OES staff advise that an additional \$7 million may be needed from Ch 16 to pay these disaster assistance costs. Further, OES indicates that it is unclear if these additional funds will be encumbered by the proposed reversion date of June 30, 1987.

Consequently, while we recommend approval of the proposed reversion item, we recommend that its provisions be amended as follows to ensure that sufficient funds are available in the account in the budget year to meet local disaster assistance needs pursuant to Chapter 16:

"9210-495—Reversion, Local Government Financing. As of June 30, 1987, the unencumbered balance of the appropriation provided in Section 6c and \$ \_\_\_\_\_ of the unencumbered balance of the appropriation provided in Section 6d of Chapter 16/86 is transferred from the Disaster Response-Emergency Operations Account to the General Fund."

We further recommend that at the time of budget hearings, DOF and OES provide the legislative fiscal committees with a specific estimate of the amount of funds that will be needed in 1987-88 for this purpose.

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