

REQUIREMENTS OF THE GOVERNOR-ELECT—Continued

The budget document contains no information on how these funds would be allocated or the basis on which the \$125,000 request was formulated. Approval of this item would establish a precedent of state support for a Governor-elect and therefore poses a policy issue which should be reviewed by the Legislature.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 80 from the General Fund

Budget p. L-14 Program p. I-221

Requested 1974-75	\$60,100,000
Estimated 1973-74.....	62,000,000
Actual 1972-73	59,149,434
Requested decrease \$1,900,000 (3.1 percent)	
Total recommended reduction	6,300,000

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1. *Senior Citizens. Reduce \$6.3 million.* Recommend reduction because budget estimate of average household income of claimants does not take into account the 20 percent increase in Social Security benefits adopted late in 1972.

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GENERAL PROGRAM STATEMENT

This program provides property tax assistance to qualified senior citizens through a system of direct reimbursement. Residents 62 years old and over are eligible for assistance if they own and occupy their own homes and if their household income does not exceed \$10,000. The percentage of net property taxes paid by the state varies from 4 percent to 96 percent depending on income. Program expenditures for 1974-75 will represent assistance payments on 1973-74 property taxes, with the percent of assistance determined by calendar year 1973 incomes.

Table 1 shows that the average property taxes for a senior citizen in 1972-73 were \$515 gross, minus an \$88 homeowners' exemption payment, resulting in a \$427 net payment. During 1973-74, the state reimbursed 47.1 percent of these payments or an average of \$201 per claimant. Chapter 1406, Statutes of 1972, (SB 90) increased the homeowners' property tax exemption from \$750 to \$1,750 to begin in 1973-74. This change will substantially reduce net senior citizens' property tax payments and as a result also reduce the assistance provided under this program in 1974-75.

Largely offsetting this total cost reduction is the impact of Chapter 1216, Statutes of 1973, which adds approximately 59,300 homeowning welfare recipients, 62 and older, who will be able to obtain tax relief for the first time under the Senior Citizens' Property Tax Assistance Law. The addition of the 59,300 new welfare claimants, however, will raise total disbursements to \$53.8 million, according to our estimate, which is still significantly below total disbursements for the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend a \$6.3 million reduction in the amount budgeted for the Senior Citizens' Property Tax Assistance Program for the 1974-75 fiscal year.

Federal legislation, PL 92-603, 1972, increased Social Security payments by 20 percent starting in September 1972. These higher payments significantly increased senior citizens' incomes in 1973 over 1972, and will decrease assistance payments in the 1974-75 fiscal year. This increase in household income is not reflected in the proposed budget amount for 1974-75.

Table 1 below shows the factors determining the program cost for 1973-74, the proposed budget for 1974-75 and our estimate for 1974-75.

Table 1
Senior Citizens' Program

<i>Program excluding welfare recipients</i>	<i>Actual 1973-74 (preliminary)</i>	<i>1974-75</i>	
		<i>Budget estimates</i>	<i>Legislative Analyst's estimates</i>
Number of claimants	300,000	302,000	300,000
Average income.....	\$5,125	\$5,150	\$5,380
Property tax rate	11.74	11.35	11.35
Average gross property tax paid	515	535	535
Homeowners' exemption.....	88	-197	-197
Average net property tax paid	427	338	338
Assistance per claimant	201	155	135
Assistance as percent of tax	47.1%	45.6%	40%
Program cost (<i>thousands</i>)	\$60,300	\$46,800	\$40,500
<i>Welfare recipients entering program</i>			
Number of claimants	—	59,300	59,300
Assistance per claimant	—	\$224	\$224
Program cost (<i>thousands</i>)	—	\$13,300	\$13,300
Total program cost (<i>thousands</i>)	—	\$60,100	\$53,800

The \$60.1 million budget request is based upon Department of Finance projected participation levels of 302,000 (excluding welfare recipients) for both 1973-74 and 1974-75. This estimate assumes that the number of new claimants will be offset by the number of claimants leaving the program by reason of death or sale of residence, plus those whose incomes will increase above the maximum level for eligibility. This figure is slightly higher than the actual 300,000 claimant level which the Franchise Tax Board now reports for 1973-74. As is shown in Table 1, the budget estimate reflects decreased net property taxes due to the increased homeowners' exemption. Average income, however, was not increased to include the effect of the 20 percent Social Security increase. Approximately 40 percent of senior citizens' income is attributable to Social Security payments. The 20 percent increase in benefits had only a partial year effect in 1972 but a full year's effect in 1973. We believe that this factor, together with a higher rate of increase in interest payments during 1973, should increase participants incomes by at least 5 percent in 1973. Table 1 shows that the budget assumes that claimant's average household incomes increased

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

from \$5,125 to \$5,150, a gain of only one-half of 1 percent. This calculation fails to recognize the increases in Social Security payments and the growth in interest income. We estimate that these increases will reduce the average percentage of assistance and decrease the total disbursements by \$6.3 million.

PERSONAL PROPERTY TAX RELIEF

Item 81 from the General Fund Budget p. L-14 Program p. I-222

Requested 1974-75	\$261,500,000
Estimated 1973-74.....	221,700,000
Actual 1972-73	134,126,465
Requested increase \$39,800,000 (18 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This item reimburses local government for property tax losses resulting from the partial exemption of business inventories and the special reimbursements for motion picture films, livestock, and wine and brandy.

Prior to the enactment of Chapter 1, Statutes of 1971, First Extraordinary Session, there was a temporary exemption amounting to 30 percent of the assessed value of inventories. Chapter 1 permanently established this exemption at the 30 percent level, and by abolishing the Personal Property Tax Relief Fund discontinued the formula procedure which tied the availability of reimbursements to bank and corporation tax revenues.

Chapter 1406, Statutes of 1972, increased the inventory tax exemption from the 1972-73 rate of 30 percent to 45 percent for 1973-74 and to 50 percent for 1974-75 and thereafter.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 summarizes the past, current and proposed amounts required for inventory tax exemption reimbursements.

Table 1
Personal Property Tax Relief
(in millions)

<i>General Fund</i>	<i>1972-73 Actual</i>	<i>1973-74 Estimated</i>	<i>1974-75 Proposed</i>
Business inventories	\$129.6	\$218.1	\$256.9
Motion pictures, and wine and brandy.....	3.0	2.9	3.0
Livestock.....	1.5	0.7	1.6
Totals	\$134.1	\$221.7	\$261.5

Current Year Deficit

The 1973-74 Budget Act appropriation of \$208 million assumed a 5.8 percent growth in assessed value and an average inventory property tax rate of \$11.41. Actual business inventory growth in 1973-74, however, amounted to 13.8 percent. The reason for this unusual increase in value is unclear because inventories nationally increased by only 7.4 percent during this same period.

The resulting deficit in state reimbursements was partially offset by an actual tax rate of \$11.34 which was seven cents lower than the budget estimate. The net program deficit during the current year is estimated to be \$13.7 million.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 2 traces the factors contributing to the increased cost of funding the basic business inventory exemption in 1974-75.

Table 2
Changes Affecting Growth in
Business Inventory Reimbursements
1973-74 to 1974-75

	<i>Reimbursement (in millions)</i>
1973-74 expenditures.....	\$218.1
Change in expenditures	
1. Increased exemption from 45 percent to 50 percent	24.2
2. Growth in assessed value between 1973 and 1974	18.1
3. Savings from property tax rate reduction of 15 cents.....	-3.5
Total 1974-75 expenditures	\$256.9

The 1974-75 budget estimates shown in Table 2 assume a 7.5 percent growth in the value of business inventories and a property tax rate of \$11.19 which is 15 cents below the \$11.34 tax rate recorded in 1973-74. The estimate also assumes very little real growth in inventories with most of the increase attributable to price inflation. The 15-cent property tax rate reduction in 1974-75 results from the fact that 65 percent of all inventories are placed on the unsecured roll and are taxed at the lower 1973-74 secured property tax rate.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 82 from the General Fund Budget p. L-15 Program p. I-224

Requested 1974-75	\$20,000,000
Estimated 1973-74.....	18,000,000
Actual 1972-73	13,000,000
Requested increase \$2,000,000 (11.1 percent)	
Increase to improve level of service \$2,000,000	
Total recommended reduction	Deferred

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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|---|-----|
| 1. Defer recommendation of amount until effect of Chapter 208, Statutes of 1973 (AB 1267) on school district allocations is clarified. | 211 |
| 2. Terminate Subventions after 1974-75 Allocations. Recommend the Legislature repeal the open-space subvention law (Chapter 1066, Statutes of 1972) because most lands under open-space contract are not threatened with development. | 211 |

GENERAL PROGRAM STATEMENT

The open-space subvention program provides funds to cities, counties and school districts to encourage the preservation of agricultural and open-space land.

Article XXVIII of the Constitution authorizes local government to assess land that is under enforceable restrictions at less than market value based on the restricted use. The California Land Conservation Act of 1965 authorizes cities and counties to enter into 10-year contracts with landowners to restrict the use of property to open space and agricultural purposes.

Chapters 1 and 2, Statutes of 1971, First Extraordinary Session, authorize the allocation of state funds to cities, counties and school districts for property tax losses caused by the reduction in assessed valuation of lands placed under open-space restrictions. The Secretary of the Resources Agency administers subventions to cities and counties. He has, in turn, delegated responsibility to the Department of Conservation to review the open-space plans of local agencies and certify applications for subventions. The Superintendent of Public Instruction administers the subventions to school districts.

ANALYSIS AND RECOMMENDATIONS

Section 16140 of the Government Code continuously appropriates General Fund money for open-space subventions to counties, cities and school districts. The annual Budget Act, however, has appropriated specific substitute amounts since the subventions began in 1972. The appropriations and allocations for the three years are indicated in Table 1.

As provided by law, the state compensates local government at specified rates for each acre under contract. The subventions as authorized by law are estimated to be fully funded in the current and budget years.

Table 1
Allocation of Open-Space Subventions

<i>Agency</i>	<i>1972-73</i>	<i>1973-74^a</i>	<i>1974-75^a</i>
School districts.....	\$7,171,452	\$8,000,000	\$9,000,000
Counties and cities.....	5,828,548	10,000,000	11,000,000
Total.....	\$13,000,000	\$18,000,000	\$20,000,000

^a Estimated.

Qualifying School District Tax Rates Increased

We defer recommendation until such time as the effect of Chapter 208, Statutes of 1973, (AB 1267) on school district allocations is clarified.

Chapter 208, Statutes of 1973 the trailer bill for Chapter 1406, Statutes of 1972 (SB 90) increases the minimum school district tax rate which a district must exceed in order to qualify for open-space allocations. The Department of Education has not determined the effect of that change in the law but indicates the school districts' allocation for 1974-75 may be reduced as much as 50 percent from the estimated 1973-74 allocation level of \$8 million.

If the preliminary estimate of the department is correct, the request of \$20 million is overstated and the appropriation should be reduced. We defer a recommendation until the effect of Chapter 208 is clarified.

Program Should Be Terminated

We recommend that (1) the Legislature appropriate funds for open-space subventions as required by existing law with notice to local government that the subventions terminate with the 1974-75 allocations, and (2) the Legislature repeal the open-space subvention provisions of Chapter 1066, Statutes of 1972.

Premise of Open-Space Program

In 1965 the Legislature enacted the California Land Conservation Act (also known as the Williamson Act) in an effort to reduce the rapid conversion of agricultural lands to urban and other developments. The act was approved by the Legislature to reflect the following stated intent:

1. "That the preservation of a maximum amount of the limited supply of prime agricultural land is necessary to the conservation of the state's economic resources . . ."
2. "That the discouragement of premature and unnecessary conversion of prime agricultural land to urban uses is a matter of public interest and will be of benefit to urban dwellers themselves in that it will discourage discontinuous urban development patterns . . ."
3. "That in a rapidly urbanizing society agricultural lands have a definite public value as open space . . ."
4. "For these reasons, this chapter is necessary for the promotion of the general welfare and the protection of the public interest in prime agricultural land."

Briefly, the act as amended authorizes cities and counties to enter into 10-year contracts with landowners to restrict the use of property to open-space and agricultural purposes in return for a reduced assessment. The arrangement is voluntary between the landowner and the board of super-

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT—Continued

visors or city council. Major changes have been made in the original law which have lessened the stringency of its requirements and encouraged its wider use.

Purpose of State Subvention

Chapter 1066, Statutes of 1972, authorizes and continuously appropriates General Fund money for open-space subventions. The purpose of the subventions as stated by law is “. . . to provide replacement revenues to local government by reason of the reduction of the property tax on open-space lands . . .” Presumably the subventions are intended to encourage the preservation of agricultural and open-space land.

Deficient Program

Experience to date indicates that the California Land Conservation Act and state open-space subventions are not achieving the results intended because most of the lands under contract are not threatened with development or urbanization and require no reduced property tax assessment as an inducement to remain in open space.

Preliminary data from the Department of Conservation concerning county and city entitlements to open-space subventions for 1973–74 indicates that there are 12,583,261 acres statewide under contract. Of that amount, 6 percent is classified as urban prime land, 24 percent is nonurban prime land and 70 percent is nonprime land. The law provides for state payments to be based on the type and location of land under contract. The highest rate per acre is provided for *prime* agricultural land which is:

- (1) Within an incorporated city,
- (2) Within three miles of the boundaries of a city with 1,500 or more registered voters, or
- (3) Within one mile of the boundaries of a city with less than 1,500 registered voters.

The Department of Conservation, in its entitlement data, refers to lands within the above classifications as “*urban prime land*.”

The subvention law does not require a separate classification of *non-prime land* that may be located in an urban area and the Department of Conservation does not compile such data. However, the staff who review applications for state subventions estimates that on a statewide basis there are about two acres of nonprime urban land to every acre of prime urban land. There are 775,779 acres of urban prime land included in 1973–74 county applications. Using the ratio of two nonprime urban acres to each one of the 775,779 prime urban acres, there are estimated to be 1,551,558 acres of nonprime urban land included in county applications.

Based on that estimate of the amount of nonprime urban land, the 12,583,261 acres under contract statewide may be classified as *urban* and *nonurban* as indicated in Table 2.

Of the 12,583,261 acres under contract, Table 2 indicates that 2,366,252 acres or 19 percent may be considered urban lands and 10,216,909 acres or 81 percent nonurban land.

Table 2
Number of Urban and Nonurban Acres in County and City
Applications for 1973-74 Open-Space Subventions

	<i>Urban</i>	<i>Nonurban</i>
Counties:		
Prime land.....	775,779	2,961,416
Nonprime land.....	1,551,558 ^a	7,255,493 ^a
Cities:		
Prime.....	4,764	—
Nonprime.....	34,251	—
	<u>2,366,352</u>	<u>10,216,909</u>

^a Estimated.

Most of Funds to Kern, Fresno, Tulare, and Kings

Most of the state subventions are going to four counties, Kern, Fresno, Tulare, and Kings, for lands that are not threatened with development or urbanization. In 1972-73 the state allocated statewide \$13 million in open-space subventions to 233 school districts, 41 counties and six cities. Of that amount \$7,962,701 or 61 percent was allocated to those four counties and 101 school districts within those four counties as indicated in Table 3.

Table 3
Allocation of 1972-73 Open-Space Subventions

	<i>School districts</i>	<i>Counties</i>
Kern.....	\$1,815,300	\$1,039,835
Fresno.....	1,374,813	1,313,613
Tulare.....	745,946	777,295
Kings.....	402,500	493,399
	<u>\$4,338,559</u>	<u>\$3,624,142</u>

Preliminary data from the Department of Conservation indicates that allocations to the four counties for 1973-74 will be proportional to the 1972-73 allocations. Information is not yet available for 1973-74 allocations to school districts.

Subventions Tend to Discourage Local Responsibility

The open-space subventions reimburse local government for most of its lost revenues from reduced valuations on open-space lands. The state payment compounds the problem of effective local judgment on cost-benefits from the program. Because it is left to the landowner to decide whether he will place his land under the program, assuming the local government will enter into a contract, the compensation of counties for their tax loss eliminates much of the basis for critical assessment by the county of the benefits of such contracts. When all of the cost is borne by local government, it has an incentive to assess carefully the specific benefits.

Los Angeles County Not Participating

Participation in the open-space program is voluntary on the part of local government. So far 44 counties are participating and all but four of those counties are estimated to receive some amount of state open-space subvention in 1973-74. The most populace county in the state, Los Angeles, which contributes most of the revenue to the state General Fund and has

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT—Continued

one of the greatest needs for preservation of open-space lands, does not participate in the open-space program.

From a policy standpoint, we cannot recommend continuing the state subvention program even though it may be necessary to continue state appropriations for commitments made under existing law. The state should not allocate its funds for a program which largely achieves no beneficial state purpose and does not achieve the purpose intended for local government. The state can better utilize its funds for preservation of open-space areas identified by the state. For example, the state probably faces a major commitment in preservation of open-space areas along the ocean shoreline as a result of the coastal zone plan now being developed by the Coastal Zone Conservation Commission.

The state should appropriate funds as required by existing law for open-space subventions for 1974-75. In doing so, however, the Legislature should indicate that 1974-75 is the final year for subventions under the program and should repeal the open-space subvention provisions of Chapter 1066, Statutes of 1972.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 83 from the General Fund

Budget p. L-15 Program p. I-223

Requested 1974-75	\$668,550,000
Estimated 1973-74	651,350,000
Actual 1972-73	242,877,651
Requested increase \$17,200,000 (2.6 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
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1. Potential Deficit. Recommend special consideration to allow for possible deficit of as much as \$10 million. 215

GENERAL PROGRAM STATEMENT

The assessed value of owner-occupied homes which is exempt from property taxation was increased from \$750 to \$1,750 by Chapter 1406, Statutes of 1972, effective for taxes paid in fiscal year 1973-74. This item reimburses local government for the resulting loss in property tax revenues.

Table 1
Homeowners' Exemption Program Growth, 1974-75

	1972-73	1973-74	1974-75	Percent change
Total expenditures (millions)	\$242.9	\$651.4	\$668.6	+2.6%
Number of claimants (thousands)	2,758	3,301	3,358	+1.7%
Value per claim	\$88	\$197	\$199	1.0
Exempt assessed value	750	1,736	1,738	0.0
Property tax rate	11.74	11.35	11.45	0.9

Table 1 summarizes those factors which affected the size of this program in 1972-73 and 1973-74 and also shows the estimates projected by the Department of Finance to determine the amount requested in the budget year.

The current year expenditures also include a \$274,000 allocation from Item 110, Budget Act of 1973, which appropriated 10 cents per claim filed to counties for the administrative cost of increasing the homeowners' exemption from \$750 to \$1,750. The Emergency Fund allocation includes an additional \$76,000 for a total appropriation of \$350,000 to cover the increased number of claims filed during the current year.

Unexpected Growth in 1973-74

Table 1 shows that the total number of claimants increased from 2,758,000 to 3,301,000 in 1973-74, an increase of 543,000 and a growth rate of 20 percent. Most of this increase had been expected, with 46,000 new claims attributable to new owner-occupied home construction, 257,000 veterans shifting to the higher \$1,750 exemption, and 97,000 multiple unit owners becoming eligible in 1973-74. The remaining 143,000 in new claims was not anticipated and we believe is attributable to two factors:

1. An underestimate of new owner-occupied home construction, and
2. An increase in participation rate—previously eligible homeowners who were either unaware of their eligibility or who did not bother to file for the lower value \$750 exemption.

Increased expenditures resulting from this higher number of claimants was partially offset by a property tax rate of \$11.35 which was 36 cents below the \$11.71 rate originally estimated in the 1973-74 budget. The net program deficit during the current year is therefore not expected to exceed \$3,750,000.

ANALYSIS AND RECOMMENDATIONS

We recommend special consideration, recognizing that program growth may exceed the budget estimate by as much as \$10 million.

The amount requested is based upon a conservative program growth of 57,000 new claims filed and a property tax rate of \$11.45 which is 10 cents above the current year rate.

There was virtually no growth in the number of claimants during the first four years of this program, 1968-69 through 1971-72. Program increases were significant during the last two years, however, with 118,000 new claims (adjusted for a change in law) filed in 1972-73 and 189,000 additional filings reported in 1973-74. The 1972-73 and 1973-74 increases coincided with a parallel growth in new home construction with 115,000 new single family building permits issued in 1971 and 125,000 new single family housing starts added during 1972. The continued high level of single family home construction during 1973, estimated to be 115,000 new units, will result in up to 50,000 more claims than estimated by the budget if most of these homes are sold and occupied before March 1, 1974.

RENTERS' TAX RELIEF

Item 84 from the General Fund

Budget p. L-16 Program p. I-225

Requested 1974-75	\$45,000,000
Estimated 1973-74.....	110,000,000
Total recommended reduction	Pending

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1. Potential Deficit. Withhold recommendation on amount budgeted until May 1, 1974. 216
2. Simplify Funding. Recommend entire program be appropriated from the General Fund. 217

GENERAL PROGRAM STATEMENT

Chapter 1406, Statutes of 1972, initiated a program of renters' tax relief with payments ranging from \$25 to \$45 depending upon income. Eligibility provisions of the law require all of the following:

1. The claimant must be a California resident renting his principal place of residence on March 1 of the previous calendar year.
2. The residence must not be exempt from property tax.
3. The amount of relief shall be proportionately reduced for each month that the claimant received a housing or shelter allowance within a public assistance grant.

Married couples are limited to filing one claim for assistance while all single persons, regardless of the number residing in the same dwelling unit, are eligible to file individual claims for assistance.

Assistance is granted in the form of an income tax credit with the unapplied balance refunded from amounts appropriated by this item. The credit portion will reduce receipts to the Personal Income Tax Fund and will be reflected as a reduction in General Fund revenues. The total 1974-75 fiscal year program expenditures identified in the budget amount to \$120 million, which consists of \$75 million in revenue reductions and the \$45 million in refunds appropriated by this item.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the amount requested until May 1, 1974, when a more accurate estimate of first-year costs will be known.

The number and distribution of persons claiming renters' assistance is presently unknown because first-year claims under this new program will be submitted during the normal personal income tax filing period, January 1 through April 15, 1974.

Potential Deficit

Table 1 shows the distribution of potentially eligible renter claimants extracted from 1970 census data, the schedule of assistance provided by Chapter 1406 and the maximum possible state costs projected to 1974.

Table 1
Renters' Tax Relief
Distribution of State Costs With 100 Percent Participation
1974-75

<i>Adjusted gross income</i>	<i>Number of potential claimants (1970 census—in in thousands)</i>	<i>Amount per claimant</i>	<i>Amount of relief (in millions)</i>
\$0-5,000.....	2,113	\$25	\$52.8
5-6,000.....	302	30	9.1
6-7,000.....	295	35	10.3
7-8,000.....	260	40	10.4
8,000 and up	1,186	45	53.4
Total claims (1970 potential)	—	—	\$136.0
Projected at 2 percent per year to 1974	—	—	147.0
Amount budgeted	—	—	120.0
Potential deficit with 100 percent participation	—	—	\$27.0

Table 1 shows that the \$120 million budget request is based upon a refund level which is \$27 million less than the estimated maximum amount that could be claimed, assuming many potential claimants will not be aware that they are eligible for this new program or that the assistance level is not worth the trouble of submitting a claim form. While we agree with the concept of these assumptions, we do not believe that the participation rate will be as low as the budget estimates. Participation rates in this program should be high because claims submittal is integrated with the filing of personal income tax returns. The withholding of taxes will generate a tax return from almost all persons who have any income from wages and salaries regardless of tax liability. Presumably all renters who file an income tax return for a withholding refund will provide the additional information required to claim the renter assistance refund.

Current Year Budgeted by Continuous Appropriation

We recommend the Budget Bill be amended and legislation be enacted to provide that total program expenditures be appropriated from the General Fund.

The Budget Act of 1973 appropriated \$40 million for refunds and estimated an additional \$70 million in credits for a 1973-74 budget total of \$110 million. This funding procedure was abandoned for the 1973-74 year only by enactment of Chapter 952, Statutes of 1973. Chapter 952 continuously appropriates from the General Fund amounts necessary to cover both refunds and credits. This change was made because the effect the special one-time personal income tax credit enacted by Chapter 296, Statutes of 1973, will have upon the composition of renter credits and refunds is unknown. The fact that the 1973-74 appropriation is made without limit also recognizes that the total number of persons and amounts claimed during the first year of this program is unknown.

The renters' relief program was integrated with the personal income tax filing program because claiming a credit or refund on a Form 540 tax return will result in significant administrative cost savings. The administration of this program, however, does not require the split funding procedure proposed in the Governor's Budget.

RENTERS' TAX RELIEF—Continued

Unlike the personal exemption and dependent tax credits, the Renters' Tax Relief Program was not designed to provide personal income tax relief and therefore should not be presented in budget totals as a reduction in revenues. By appropriating the entire \$120 million from the General Fund, expenditure totals will reflect true program costs and personal income tax revenues will not be reduced by a program unrelated to the Personal Income Tax Law. Full General Fund budgeting will also eliminate the complicated procedure of annually estimating the composition of credit versus refund amounts.

PAYMENTS TO LOCAL GOVERNMENT FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 85 from the General Fund Budget p. L-16 Program p. I-259

Requested 1974-75	\$4,002,000
Estimated 1973-74.....	2,000
Actual 1972-73	—
Requested increase \$4,000,000	
Total recommended reduction	Pending

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1. Property Tax Exemptions. Recommend deferral of Item 85 pending updated estimate of local government revenue loss. 219

GENERAL PROGRAM STATEMENT

Chapter 1406, Statutes of 1972, requires the state to reimburse local governments for losses caused by sales tax exemptions or property tax exemptions.

The budget proposes a \$2,000 appropriation for reimbursements for Chapter 16 (SB 117), Statutes of 1973, and a \$4 million appropriation for reimbursements for Chapter 1169 (SB 911), Statutes of 1973.

ANALYSIS AND RECOMMENDATIONS**A. Blind Veterans Exemption: Chapter 16 (SB 117)**

We recommend approval.

For 1973-74, this bill increases the property tax exemption for blind veterans from \$5,000 to \$10,000. The bill applies only to blind veterans who reside in a corporate-owned residence which the veteran is entitled to live in by virtue of his ownership of shares in the corporation.

The bill appropriates \$2,000 from the General Fund to the Controller to pay claims arising in 1973-74. That appropriation was based on an estimate that the number of veterans qualifying for the exemption is less than five.

The bill requires the Controller to report to the Legislature by Novem-

ber 15, 1973, on 1973-74 claims. As of January 14, 1974, the Controller had not made the report. According to the Controller's office, the report will be made after it is determined whether the 1973-74 exemption provided by Chapter 16 is valid. The question of validity arises because the bill became operative on April 4, 1973, after the March 1, 1973, lien date. The bill specifies that it is operative for the 1973-74 fiscal year and for fiscal years thereafter.

Only one claim was filed for 1973-74. From Orange County, the claim is for \$1,504.

For 1974-75, the validity of the exemption is not in question. We recommend approval of the proposed appropriation of \$2,000.

B. Certificated Aircraft: Chapter 1169 (SB 911)

We recommend deferral pending updated Board of Equalization estimate.

Certificated aircraft are assessed for property taxation purposes according to a formula which takes into account the amount of air and ground time an aircraft spends in the state. For fiscal years 1974-75 through 1979-80, this bill excludes from the assessment formula, first, the time prior to the aircraft's first revenue flight and, second, ground time in excess of 12 consecutive hours. Those exclusions reduce taxable assessed value.

The bill requires the State Board of Equalization to estimate the local property tax revenue loss which would have occurred if the bill had been in effect in 1972-73 and to certify that amount to the Controller and to the Department of Finance. For 1974-75, the bill provides that the reimbursement is 112 percent of the 1972-73 amount certified by the board. For 1975-76 through 1979-80, the reimbursement is 106 percent of the prior year's reimbursement.

The budget proposal of \$4 million is the estimate made by the board when the bill was being considered by the Legislature. The board is currently gathering data on which to base the certification required by the bill. The board expects to make the certification by late June 1974. An updated estimate, however, will be possible prior to that time. We recommend deferral of this item until the board provides the Legislature with an updated estimate of 1974-75 cost.