STATE BAR OF CALIFORNIA—Continued

the court thereafter admits the certified applicants to practice.

The board is also empowered to aid in all matters pertaining to the advancement of the science of jurisprudence or to the improvement of the administration of justice, including all matters that may advance the professional interests of the members of the State Bar and such matters as concern the relations of the bar with the public.

Except for the state funds provided by this item, the State Bar is financed by membership and examination fees, earned interest and miscellaneous service charges. The total 1977 revenue of the State Bar was estimated at $7,848,000 of which $5,665,000 was membership fees. The bar had an estimated surplus of over $860,000 at the end of 1977. Chapter 305, Statutes of 1977, an urgency measure, authorized per diem payments from the state General Fund of $50 per day but not to exceed $500 per month for each of the public members. Expenses of the attorney members of the board of governors are paid from State Bar funds.

This item provides $30,000 to reimburse the State Bar for the public member per diems. These reimbursements have totaled $7,800 from July 1, 1977, through October 31, 1977. Therefore, the amount budgeted appears reasonable until more experience is gained as to actual requirements.

TAX RELIEF

Summary of State Tax Relief Expenditures

The state provides local tax relief, both as subventions to local government and as direct payments to eligible individual taxpayers, through eight separate programs. Table 1 summarizes by program total state tax relief expenditures for the current and budget years.

Table 1
Tax Relief Expenditures Summary by Program (amounts in millions)

	Estimated 1977–78	*Proposed 1978–79*	*Change Amount*	*Change Percent*
Senior citizens' property tax assistance	$78.0	$85.0	$7.0	9.0%
Senior citizens' property tax deferral	5.0	10.0	5.0	100.0
Senior citizen renters' tax assistance	7.0	9.0	2.0	28.6
Personal property tax relief	420.1	450.0	29.9	7.1
Homeowners' property tax relief	760.0	745.0	−15.0	−2.0
Open-space subventions to local government	21.0	22.0	1.0	4.8
Payments to local government for sales and property tax revenue losses	5.5	6.7	1.2	21.8
Renters' tax relief	130.0	135.0	5.0	3.8
Total tax relief expenditures	$1,426.6	$1,462.7	$36.1	2.5%

Of the nearly $1.5 billion budgeted for tax relief expenditures in 1978–79, about $1.2 billion (over 80 percent) will be subvened to local government as reimbursement for revenue losses resulting from two programs—the homeowners' property tax exemption (a flat $7,000 of full value for each qualified homeowner) and personal property tax relief (consisting largely of a 50-percent business inventory exemption). Another $135 million will be paid directly to renters in the form of a refundable income tax credit (a flat $37 per renter). A total of over $100 million will go to low- and moderate-income senior citizens through three different programs which provide direct cash assistance (inversely related to income) to both homeowners and renters and allow homeowners to postpone the payment of property taxes. The remaining budgeted expenditures of nearly $30 million will be subvened to local government for property tax revenue losses resulting from enforceable open-space restrictions under the California Land Conservation Act of 1965 (the Williamson Act) and for sales and property tax revenue losses resulting from the effect of specified statutory changes under Chapter 1406, Statutes of 1972 (SB 90).

As shown in Table 1, the $1,462.7 million budgeted for 1978–79 represents only a 2.5 percent increase over the $1,426.6 million estimated in the current year. This low overall growth rate is largely the result of an expected 2 percent *decline* in budget-year expenditures under the homeowners' property tax exemption program, reflecting a projected continuation of the decline in the statewide average property tax rate experienced in 1976–77 and again in 1977–78.

New Tax Deferral Program for Senior Citizens

Chapter 1242, Statutes of 1977, (AB 1070) enacted the senior citizens' property tax deferral program. This new program, which is discussed in detail under Item 402, is effective beginning in the current year and provides homeowners 62 and older whose incomes do not exceed $20,000 the option of postponing payment of the property taxes on their home until it is sold or otherwise transferred (at death, for example). Interest accrues on the deferred balance at an annual rate of seven percent and is not payable until the principal is due, i.e., at the time the property is sold or transferred. For senior citizen homeowners who qualify both for property tax assistance (see Item 401) and for tax deferral, the amount of any available assistance is first deducted from the total tax liability, and only the remaining tax is deferred.

Surplus Reserved for New Programs

The Governor's Budget proposes to reserve $1 billion from the General Fund surplus to provide additional property tax relief in 1978–79. The budget indicates that the actual form of the additional relief will be decided by the Legislature.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 401 from the General Fund — Budget p. 1084

Requested 1978–79	$85,000,000
Estimated 1977–78	78,000,000
Actual 1976–77	52,528,985
Requested increase $7,000,000 (9.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Senior citizens' property tax assistance is available to homeowners 62 and over with total household incomes below $12,000. Assistance varies inversely with income, ranging from 96 percent of property taxes for qualified homeowners with incomes below $3,000 to 4 percent of taxes between $11,500 and $12,000 of income. Assistance disbursed in the budget year will relate to taxes paid in the 1977–78 fiscal year and incomes in the 1977 calendar year.

Effective in the current year, this program was significantly expanded by Chapter 1060, Statutes of 1976. Chapter 1060 raised the income limit from $10,000 to $12,000 and increased the maximum full value on which assistance is allowed from $30,000 to $34,000. (This limit, which is applied after the $7,000 homeowners' exemption, permits assistance on the first $41,000 of the full value of a home as determined by the assessor.)

Table 1 summarizes for the 1975–76 through 1977–78 disbursement years actual workload data relating to the number of homeowners participating in the program, property taxes paid by claimants and the amount of assistance disbursed. Nearly 325,000 claimants received assistance payments which averaged $239 in 1977–78, representing approximately 41 percent of their average 1976–77 property tax liability of $579. The substantial increase in the number of claimants and assistance paid in the

Table 1

Senior Citizens' Property Tax Assistance 1975–76 through 1977–78

	Actual 1975–76	*Actual 1976–77*	*Preliminary 1977–78*[b]
Number of claimants	300,737	293,198	324,576
Total assistance[a]	$50,821,380	$52,146,563	$77,540,000
Per claimant averages:			
Household income	$5,307	$5,551	$6,319
Property taxes	438	494	579
Assistance:			
Amount	$169	$178	$239
Percent of taxes	38.5%	36.0%	41.3%

[a] This figure is based on Franchise Tax Board workload data and will differ somewhat from fiscal year expenditures reported by the State Controller.

[b] Reflects program changes enacted under Chapter 1060, Statutes of 1976.

current year largely reflects the expansion under Chapter 1060. The extension of the household income limit from $10,000 to $12,000 added approximately 40,000 claimants, while the higher reimbursement percentages applicable to all eligible homeowners accounted for a major proportion of the 34 percent increase in average assistance (from $178 to $239).

ANALYSIS AND RECOMMENDATIONS

We recommend approval

The $85 million budgeted for this program in 1978–79 represents a 9 percent increase over the $78 million expended in the current year. Although this projected growth rate substantially exceeds increases which have occurred over those historical periods where the reimbursement schedule and income limit have remained constant (from 1974–75 through 1976–77, for example, the annual growth in total expenditures averaged only 2.5 percent), we do not believe an estimate of $85 million for the budget year is unrealistically high. It is probable that the combined effect of (1) substantial increases in property taxes, reflecting the recent rapid growth in single-family home values, and (2) some second-year increase in the rate of participation by those senior citizen homeowners who are newly eligible under the $12,000 income limit will result in an above-normal expenditure growth pattern for this program in 1978–79.

SENIOR CITIZENS' PROPERTY TAX POSTPONEMENT

Item 402 from the General Fund — Budget p. 1086

Requested 1978–79	$10,000,000
Estimated 1977–78	5,000,000
Actual 1976–77	None
Requested increase $5,000,000 (100 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Financial Accountability. Recommend Department of Finance develop an annual statement of costs, loans and repayments to insure fulfillment of constitutional requirements. 1061

GENERAL PROGRAM STATEMENT

Article 13, Section 8.5 of the Constitution, approved by the voters in June 1976, allowed the Legislature to establish by statute a property tax postponement program for senior citizens. Chapter 1242, Statutes of 1977, established such a program, to be administered by the Franchise Tax Board and the State Controller.

The statute allows senior citizen homeowners with household income of $20,000 or less to defer payment of all or a part of property taxes on

SENIOR CITIZENS' PROPERTY TAX POSTPONEMENT—Continued

specified dwellings. Such dwellings must be owner-occupied, must have an equity of 20 percent of full value, and must have a separate tax bill. Property taxes deferred by senior citizens would be paid to local governments by the State Controller. The deferred taxes then become a loan from the state to the senior citizen, bearing interest at 7 percent per year on the outstanding balance, and secured by a lien on the taxpayer's residence. The $20,000 income limit will be adjusted for inflation each year beginning in 1978.

This Budget Bill item appropriates money to the Controller from which payments will be made to local tax collectors for deferred taxes. Although the administrative costs of this program are appropriated in the budget items for the State Controller and Franchise Tax Board, we have included in this section a discussion of the administrative budgets as well as the subventions to local governments.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the amounts proposed for local government subventions. Table 1 summarizes the output and expenditures of the program. The Governor's Budget proposes an appropriation of $10 million to pay local governments for deferred property taxes for 25,000 claimants. The estimate of 25,000 claimants in the budget year represents approximately 4.2 percent of the total population of senior citizen homeowners qualified by income. This is the maximum number expected based on Oregon's experience with a similar program. While participation to date has been less than originally estimated, partipation could increase rapidly when the existence of the program becomes more widely known. Franchise Tax Board reports that as of early January 1978, claims had been received from 8,200 applicants, and 6,000 had been approved.

There are greater uncertainties about the amount needed for subventions than about the number of claimants. Assuming that 25,000 claimants qualify for tax postponement, the amount needed for subventions will depend on the number who actually choose to use the certificates of eligibility, and the amount which they choose to defer. Under current law, applications must be submitted by January 31. Certificates of eligibility submitted to tax collectors prior to April 10 can be used for payment of

Table 1
Senior Citizens' Property Tax Postponement Program
Program Summary

Subventions	*Estimated 1977–78*	*Proposed 1978–79*
Number of claimants	10,000	25,000
Subvention expenditures	$5,000,000	$10,000,000
Administration		
Controller's office		
Personnel-years	5.7	8.5
Expenditures	$200,941	$306,467
Franchise Tax Board		
Personnel-years	8.0	8.0
Expenditures	$125,000	$133,000
Local government reimbursements (estimated maximum)	$5,000	$12,500

the 1977–78 property tax bill. Thus, information should be available in late April or early May which will allow a better estimate of the amount needed for subventions in the budget year.

Financial Accountability Obscured

We recommend that the Department of Finance develop, annually update, and publish in the Governor's Budget a program fund statement which displays the costs incurred in this program, the loans and interest charges outstanding and the repayments received, to insure fulfillment of the constitutional requirements of the program.

Article 13, Section 8.5 of the Constitution states in part that: "The Legislature shall provide . . . for reimbursement to the state of such subventions . . . (and) for the payment of interest on, and *any costs to the state incurred in connection with, such subventions.*"

Chapter 1242 will result in several identifiable costs: (1) state agencies costs for administering the program, (2) local agencies costs for administrative procedures, (3) costs for establishing eligibility which the law allows claimants to have deducted from loan balances, (4) loss of interest which the state would otherwise have earned and (5) loan losses. If all costs of this program are to be reimbursed to the state, then it is necessary that the 7 percent interest paid by claimants be sufficient to cover the costs identified above. Because these costs are presently distributed in various administrative budgets and subvention programs or not otherwise accounted for it will be difficult for any determination to be made in succeeding years as to whether the constitutional provisions are being met.

Our recommendation aims to assure that information is developed annually which will allow the constitutional requirements to be addressed. Such a statement of program costs will display the net cost of the program at the end of each fiscal year. Although we would expect, in the early years, that the program would be in deficit due to initial start-up costs, the statement would provide a basis for determining if the constitutional requirements would be met in future years. We believe that the Department of Finance is the appropriate party to develop and publish this information.

Administrative Inefficiencies

We believe that the current involvement of two state agencies in the administration of this program is unnecessary. The primary responsibilities of the Controller in this program are (1) issuing a certificate of eligibility (essentially a voucher with which to pay property taxes) to senior citizens whom the Franchise Tax Board (FTB) has declared eligible, (2) maintaining an account for each senior citizen who has borrowed from the state in this manner, applying interest charges, additional borrowings, payments from taxpayers or from the Senior Citizen Property Tax Assistance Program, and other activity, (3) maintaining a record of each property on which liens have been recorded, and related information including the amount of the lien, and (4) protecting the state's interest at foreclosure sales of such properties through specified means. The Fran-

SENIOR CITIZENS' PROPERTY TAX POSTPONEMENT—Continued

chise Tax Board is responsible for (1) establishing the eligibility of all claimants (2) reporting eligible claims to the Controller, and (3) notifying the State Controller for application of senior citizen property tax assistance payments to lien accounts for senior citizens participating in both programs. The Department of General Services, at the Controller's direction, is responsible for foreclosure sales of properties on which the amounts secured by liens are due and payable.

Local tax collectors are responsible for determining, at the time the voucher for taxes is accepted, if there is a lien recorded in favor of the State of California for taxes deferred under this program. If no lien has been recorded, the tax collector fills out a "Notice of Lien for Postponed Property Taxes" and sends such notice to the assessor who forwards it to the county recorder.

We believe the administrative procedures established by the statute are cumbersome. The involvement of two state agencies further complicates a process that already involves the senior citizen taxpayer and various local government officials including the tax collector, assessor and recorder. Currently, both the State Controller and the Franchise Tax Board have separate toll-free telephone numbers for information about this program. This needless duplication of service will cause confusion in taxpayers' minds and create the potential for dissemination of conflicting information.

We believe that this program could be most efficiently and effectively handled by one state agency. With one administering agency, service to the taxpayer would be improved, operational efficiencies would be more likely to be realized, and accountability to the Legislature would be facilitated.

At this time, it appears that the Franchise Tax Board should be given primary responsibility for this program. Since the Controller currently issues income tax refunds in amounts specified by the Franchise Tax Board, it appears appropriate that the Controller's office be responsible for issuing the vouchers to senior citizens.

The record keeping activities of the Controller could be transferred to the Franchise Tax Board. We have requested additional information from the State Controller and the Franchise Tax Board and if consolidation of some or all responsibilities is feasible, we will prepare a supplemental analysis with recommendations for the budget hearings.

Dual Telephone Systems Unnecessary

Currently both the Franchise Tax Board and the State Controller's office are requesting funds for operation of toll-free telephone lines to provide assistance to claimants and potential applicants. The Franchise Tax Board operates a toll-free telephone system for the current property tax assistance programs it administers, as well as for the Personal Income Tax and Bank and Corporation Tax program. The State Controller's office does not currently operate a toll-free telephone system. It is proposing to contract with the Department of Benefit Payments which operates such a system for the various health and welfare programs. The contract calls for payments of $5.02 per call, and assumes approximately 4,800 calls. The budget of the Franchise Tax Board includes funds for approximately 19,000 calls for this program, at a cost of 60 cents per call. The large differences reflect different approaches to budgeting used by the two agencies.

To avoid needless duplication of services, and to facilitate the provision of information about the related property tax assistance programs to senior citizens, we believe that the Franchise Tax Board should be solely responsible for the toll-free telephone system for this program. Accordingly, we are recommending under Item 47 that $24,100 in the State Controller's budget for the contract with the Department of Benefit Payments be deleted.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 403 from the General Fund — Budget p. 1084

Requested 1978–79	$9,000,000
Estimated 1977–78	7,000,000
Actual 1976–77	N/A
Requested increase $2,000,000 (28.6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Senior citizen renters' tax assistance is provided under a new program established by Chapter 1060, Statutes of 1976. It is similar, in concept, to assistance currently available to senior citizen homeowners. Renters 62 and over are eligible for assistance beginning in the current year if their total household income does not exceed $5,000 and if their monthly rent is at least $50. This assistance is in addition to the $37 grant provided *all* renters under the Renters' Tax Relief program, and is based on a variable percentage of a flat "property tax equivalent" of $220. This reimbursement rate ranges from 96 percent of the equivalent (or $211) for renters

Table 1
Senior Citizen Renters' Assistance [a]
1977–78

Household income	*Number of claimants*	*Total assistance (thousands)*	*Average assistance*
Under $1,000	329	$65.2	$198
$1,000–2,000	2,555	479.5	188
2,000–3,000	11,094	1,431.3	129
3,000–4,000	61,139	4,365.9	71
4,000–5,000	14,712	370.9	25
Total	89,829	$6,712.8	$75

[a] Based on preliminary Franchise Tax Board workload data.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE—Continued

with incomes below $3,000 to 4 percent (or $9) for renters with incomes between $4,500 and $5,000.

Based on preliminary Franchise Tax Board workload data, approximately 90,000 senior citizen renters will receive assistance totaling $6.7 million in 1977–78, the first year of the program. The average payment to these claimants will be about $75. Table 1, on the preceding page, provides a distribution for 1977–78 of the number of claimants and amounts of assistance by level of income.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The $9 million proposed under this program in 1978–79 represents an increase of nearly 29 percent over the $7 million estimated for the current year. This growth rate, although substantial, appears to be reasonable in light of the potential for significant annual increases in the rate of participation under the program in the first few years, as eligible renters become increasingly aware of the benefits and familiar with the filing procedures. Once participation stabilizes, however, it is expected that total disbursements under the Senior Citizen Renters' program will actually *decline* from year to year. This is because general increases in average household income levels will result both in fewer renters qualifying under the $5,000 income limit and a lower average assistance payment.

Unexplained Low Number of Claimants

Although, as indicated above, the participation rate in the first year of a new program is expected to be somewhat lower than the ongoing level of participation, there remains a substantial unexplained discrepancy between preliminary estimates of the number of claimants under this program and the actual number of recipients. A total of $20 million was budgeted for disbursement in the current year based on an estimated 200,000 claimants (representing 70 percent of the 285,000 senior citizen renters estimated to be eligible for this program). Because of the limitations of the data used in making the original estimate (primarily updated data from the 1970 U.S. Census of Housing), it is not clear whether the fact that only 90,000 renters claimed assistance indicates an unusually low participation level or merely reflects inflated estimates of the total number of low-income senior citizen renters.

PERSONAL PROPERTY TAX RELIEF

Item 404 from the General Fund Budget p. 1084

Requested 1978–79	$450,000,000
Estimated 1977–78	420,100,000
Actual 1976–77	387,067,372
Requested increase $29,900,000 (7.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Personal Property Tax Relief program provides for reimbursement of local revenue losses resulting from the exemption of 50 percent of property taxes on business inventories. Reimbursements also are made under this program to replace local revenue losses due to a 50-percent exemption of livestock head-day taxes and special provisions for assessing motion picture films and wine and brandy.

Chapter 173, Statutes of 1977, will provide additional tax relief for livestock owners in the current year. This act provides, for the 1977–78 tax year only, a *complete* exemption from the head-day tax to owners of livestock adversely affected by the drought. Estimated subventions under Chapter 173 have not been identified separately in the Governor's Budget, but are not expected to be substantial.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 summarizes actual expenditures for personal property tax relief in 1976–77 and estimated expenditures for the current and budget years. The $450 million budgeted for 1978–79 represents a 7.1 percent increase over the $420.1 million estimated to be expended in the current year. The bulk of total personal property tax relief expenditures—about $445 million in the budget year—consists of subventions to local governments for revenue losses resulting from the business inventory exemption.

Table 1
Personal Property Tax Relief
Summary of Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Proposed 1978–79*	*Percent Change*
Business inventory exemption	$381,442,910	$415,035,000	$444,800,000	7.2%
Motion picture films	3,166,324	3,035,000	3,068,000	1.1
Wine and brandy	28,339	30,000	32,000	6.7
Livestock head-day tax exemption	2,429,799	2,000,000 [a]	2,100,000	5.0
Total	$387,067,372	$420,100,000	$450,000,000	7.1%

[a] Does *not* reflect the effect of Chapter 173, Statutes of 1977, which provides for a *complete* exemption from the head-day tax (for 1977–78 only) to livestock owners affected by the drought.

Table 2 provides a breakdown of exempt assessed values, tax rates and expenditures under the business inventory exemption. Disbursements in the budget year assume a 10.6 percent growth in assessed values of busi-

PERSONAL PROPERTY TAX RELIEF—Continued

ness inventories. This compares to a 10 percent increase for 1977–78 and reflects a rate of inventory accumulation which is in line with expectations for a sustained recovery from the 1974/1975 economic slowdown. Projected expenditures of $445 million in 1978–79 represent a 7.2 percent increase over 1977–78 business inventory subventions of $415 million. This expenditure growth rate is lower than the estimated 10.6 percent increase in assessed values of inventories due to an assumed 35 cent reduction in the average tax rate applicable to this type of property—from $11.48 per $100 of assessed value in 1977–78 to $11.12 in the budget year. Substantial increases in the assessed values of all taxable property in recent years have allowed local taxing agencies to generate needed revenues at significantly lower tax rates.

Table 2
Business Inventory Exemption
Exempt Assessed Values and Expenditures
(in millions)

	Actual 1976–77	*Estimated 1977–78*	*Proposed 1978–79*	*Percent Change*
Exempt assessed values				
Total	$3,478	$3,643	$4,000	9.8%
Less nonreimbursable escape assessments [a]	−190	−28	—	N.A.
Net reimbursable	$3,288	$3,615	$4,000	10.6%
Average property tax rate	$11.60	$11.48	$11.12	−3.1
Expenditures	$381.4	$415	$445	7.2%

[a] Represents exemptions allowed on escape assessments made under a U.S. Supreme Court decision *(Michelin Tire Corp. v. Wages)* which permitted taxation of certain imported goods. Claims for reimbursement of these exemptions have been disallowed (see text).

Disallowed Reimbursements for Exempt Escape Assessments

In *Michelin Tire Corp. v. Wages,* the U.S. Supreme Court ruled that counties are permitted to assess certain imported goods which previously were considered exempt under interpretations of the Federal Constitution. Escape assessments on affected property were specifically prohibited by Chapter 335, Statutes of 1976, but the validity of this prohibition has been challenged. Regardless of the outcome of pending litigation, the Department of Finance has indicated that claims for reimbursement of exemptions allowed on escape assessments made as a result of the Michelin decision will be denied. Accordingly, as shown in Table 2, exempt escape assessments estimated at $190 million in 1976–77 and $28 million in 1977–78 have been excluded from reimbursable exempt assessed values of business inventories.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 405 from the General Fund — Budget p. 1085

Requested 1978–79	$745,000,000
Estimated 1977–78	760,000,000
Actual 1976–77	760,534,405
Requested reduction $15,000,000 (2.0 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Multiple Claims Study. Recommend study of feasibility of identifying erroneous multiple exemptions. 1069

GENERAL PROGRAM STATEMENT

The homeowners' property tax exemption is $1,750 of the assessed value ($7,000 full value) of an owner-occupied dwellng. For the budget year, this exemption will provide nearly four million homeowners with an estimated average property tax reduction of $187. The state reimburses local government for all revenue losses resulting from the exemption.

Chapter 1060, Statutes of 1976, extended the homeowners' exemption to welfare recipients, effective with the 1976–77 fiscal year. Because this extension was enacted after the April 15, 1976, filing deadline, only late claims (limited to 80 percent of the exemption) could be filed for 1976–77. Although actual data on late claims filed by welfare recipients for 1976–77 are not available, it is estimated that reimbursements of about $8 million for 40,000 to 60,000 such claims were included in total current-year reimbursements of $760 million.

Lower Tax Rate Reduces State Relief Costs

Table 1, on the following page, summarizes workload, expenditure and property tax data related to the homeowners' property tax exemption program. Current-year costs under this program of $760 million are basically unchanged from total state reimbursements of $760.5 million in 1976–77, with the higher number of claimants offset by a decline in the statewide average homeowners' tax rate. Because the homeowners' exemption is a fixed $1,750 of assessed value, the annual growth in state costs under this program is not affected by changes in property values, but depends on the increase in the *number of homeowners* from year to year and the *level of the tax rates* applicable to owner-occupied property. In 1976–77 and again in the current year, property tax rates, on the average, have declined significantly, largely reflecting substantial increases in assessed property values which have allowed local taxing agencies to generate needed revenues at lower tax rates.

In 1977–78, an increase in the average assessed value of owner-occupied homes estimated to be about 17 percent will be accompanied by a reduction in the average tax rate for this type of property of over 50 cents (from $11.61 per $100 of assessed value to $11.08). This decline in the tax rate will

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

Table 1

Homeowners' Property Tax Exemption
Summary of Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Proposed 1978–79*	*Percent change*
Claimants (thousands)	3,760	3,890	3,975	+2.2%
Exempt assessed value (millions)	$6,552	$6,787	$6,942	+2.3
Per claimant averages:				
Exempt assessed value	$1,743	$1,745	$1,746	+0.1
Tax benefit	202	193	187	−3.1
Property tax rate	$11.61	$11.08	$10.73	−3.2
State expenditures (millions):				
Current year	$760.5	$752	$745	−0.9
Adjustments [a]	-	8	-	-
Total expenditures	$760.5	$760	$745	−2.0%

[a] Represents reimbursements in 1977–78 for an estimated 40,000 to 60,000 80-percent late claims filed for 1976–77 by welfare recipients under Chapter 1060, Statutes of 1976 (Chapter 1060 extended the homeowners' exemption to welfare recipients).

reduce the average benefit of the homeowners' exemption by nearly $10 (from $202 to $193) and essentially cancel the effect on total state reimbursements in the current year of 130,000 new claims and $8 million in additional reimbursements for late 1976–77 claims of welfare recipients.

ANALYSIS AND RECOMMENDATIONS

The $745 million budgeted for this program in 1978–79 is less than disbursements in the current year by about 2 percent. This reduction reflects expectations for (1) a continuation, at least through the budget year, of rapid growth in assessed values and, consequently, (2) further reductions in the tax rates applicable to homeowners. As shown in Table 1, a projected 35 cent average tax rate reduction in the budget year will result in a decrease in average benefits of about 3 percent (from $193 to $187), more than offsetting the effect on total program expenditures of an estimated 2.2 percent growth in the number of homeowners claiming the exemption.

Sample Audit Results

Chapter 60, Statutes of 1974, provided for continuous filing of claims for the homeowners' exemption, effective with the 1974–75 fiscal year. Homeowners who have received the exemption in the preceding year now automatically receive a current-year exemption unless a "termination notice" mailed to homeowners each year by the assessor is returned indicating that the claimant is no longer eligible. Reasons for loss of eligibility include rental of the home, death of the claimant, or any other change in circumstances resulting in nonoccupancy of the home as a principal place of residence on the March 1 lien date.

Because of the concern that continuous filing could result in a substantial number of invalid renewal claims, the Board of Equalization, at the request of the Department of Finance, selected a sample of approximately

1,000 of the claims allowed for 1976–77 from each of eight metropolitan counties and requested county assessors to verify homeowner eligibiity with respect to these claims. The verification process consisted of securing from each claimant a signed statement to the effect that all eligibility requirements were met (i.e., that the claimant, in fact, did occupy the home for which the claim was allowed on the March 1, 1976, lien date).

The results of this sample verification of claims suggest that only a very small percentage of invalid exemptions are allowed as a direct consequence of continuous filing. Of the total of approximately 8,000 homeowners selected, only 51 (or less than 1 percent) either could not be contacted or indicated that they were, in fact, not eligible for the exemption which they had received for 1976–77. In the case of these invalid claims, escape assessments have been made in the amount of the property tax reduction resulting from the exemption.

Potential for Undetected Multiple Claims

We recommend that the Board of Equalization, with the assistance of the Franchise Tax Board and the State Controller, determine and report to the Joint Legislative Budget Committee by June 1, 1978, on the feasibility, procedures, costs, and potential benefits of verifying a limited sample of homeowners' exemption claims for the purpose of detecting the extent of erroneous multiple exemptions.

Although the results of the sample audit of homeowners' exemption claims discussed above suggest that the implementation of continuous filing has not produced a significant number of invalid *renewal* claims, the Board of Equalization, as part of its report on these audit findings, indicates that there is a potential for homeowners to file for and receive more than one exemption (for example, on rental or vacation homes). Presently, an annual statewide computer match of Social Security numbers reported on initial claims is designed to detect multiple exemptions, but is effective only to the extent multiple claims filed by a single homeowner include the same Social Security number. If different Social Security numbers are reported by a homeowner on separate claims, undetected multiple exemptions are possible.

The extent of undetected multiple claims for the homeowners' exemption is unknown. However, as a byproduct of an annual computer match intended to preclude the receipt of both the homeowners' exemption and the $37 renters' income tax credit, the Franchise Tax Board currently maintains a file of over 200,000 entries representing situations where the Social Security number reported by a recipient of the homeowners' exemption has been matched with the Social Security number shown on an income tax return, but the names appearing on the two documents are not the same. Although there are numerous legitimate reasons for such mismatches (e.g., misspelled names, incorrect Social Security numbers, data entry errors, etc.), it is probable that any multiple homeowners' exemption claims based on fictitious Social Security numbers also would be included in this file.

Given the potential for a significant number of erroneous multiple claims for the homeowners' exemption, we believe verification of Social

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

Security numbers for a small sample of the 200,000 claims in the Franchise Tax Board file could be productive. Escape assessments made with respect to erroneous claims included in this sample could produce revenues significantly greater than the costs of the sampling and verification process. Furthermore, if sample verification results suggest that multiple claims for the homeowners' exemption constitute a serious problem, ongoing cost savings could result from administrative procedures developed to verify Social Security numbers on new claims and preclude the initial filing of multiple claims.

As a means of minimizing the cost of verifying a portion of the 200,000 claims with Social Security number/name mismatches, we suggest that the Board of Equalization consider, as part of the recommended review of the feasibility of sampling these claims, the benefits of concentrating sample selection and verification in those counties where the probability of multiple claims is estimated to be the highest. Erroneous claims for the homeowners' exemption on vacation or second homes, for example, would appear to be more probable in the rural mountain and coastal counties.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 406 from the General Fund — Budget p. 1085

Requested 1978–79	$22,000,000
Estimated 1977–78	21,000,000
Actual 1976–77	17,892,232
Requested increase $1,000,000 (4.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The open-space subventions provide replacement revenues to cities, counties and school districts to compensate for reduced property tax revenues on open-space and agricultural land.

The Constitution authorizes the Legislature to provide for the assessment of land at less than market value if it is under enforceable restrictions. Under the California Land Conservation Act of 1965 (the Williamson Act) and related open-space laws, cities and counties may enter into contracts with landowners to restrict the use of property to open-space and agricultural use.

The Secretary of the Resources Agency, through the Department of Conservation, administers subventions to cities and counties. The Superintendent of Public Instruction administers subventions to school districts.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 16140 of the Government Code appropriates General Fund money for open-space subventions to counties, cities and school districts.

However, the Budget Act has appropriated specific substitute amounts since the subventions began in 1972.

For 1978–79, the budget requests $22 million, which provides $15 million for counties and cities and $7 million for school districts. Presently, 47 counties and 18 cities have a statewide total of about 15.1 million acres of land under contract.

The subvention for cities and counties is determined by a formula which provides an amount for each acre of land under contract according to the type of land and its location. To qualify for a school district subvention, a district must first exceed a specified tax rate. The subvention to qualified districts is then determined by the estimated tax loss up to a maximum amount per acre according to the type of school district.

In prior years, we have recommended termination of the open-space subventions primarily because most of the lands under contract are located in remote areas and are not threatened with development or urbanization. These remote lands do not require reduced property tax assessments as an inducement to remain in open-space. However, the Legislature has indicated a desire to continue the subventions, in part due to an obligation to cover local government revenue losses.

PAYMENTS TO LOCAL GOVERNMENT FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 407 from the General Fund — Budget p. 1085

Requested 1978–79	$6,714,000
Estimated 1977–78	5,532,000
Actual 1976–77	5,158,445
Requested increase $1,182,000 (21.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Chapter 1406, Statutes of 1972, as amended by Chapter 1135, Statutes of 1977, requires the state to reimburse local government for the net loss resulting from sales or property tax exemptions enacted after January 1, 1973. The budget identifies seven statutes which have ongoing funding requirements and, therefore, need annual Budget Act appropriations. All of the statutes are funded from this single budget item which allows the State Controller flexibility to cover deficits resulting from some statutes with surplus funds from others.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Amounts budgeted for all of the following statutes, except Chapter 961, Statutes of 1977, include increases over current year expenditures which reflect normal growth. Chapter 961, Statutes of 1977, became effective on January 1, 1977 (operative for the 1978–79 fiscal year) so that the amount

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

budgeted for this statute reflects anticipated claims for reimbursement.

	Estimated 1977–78	*Requested 1978–79*
Chapter 16, Statutes of 1973	$55,600	$85,000

This measure increased from $5,000 to $10,000 of assessed value the property tax exemption for blind veterans residing in corporate-owned residences.

	Estimated 1977–78	*Requested 1978–79*
Chapter 1165, Statutes of 1973	$74,400	$90,000

This statute requires that lands governed under a wildlife habitat contract shall be valued as open-space lands.

	Estimated 1977–78	*Requested 1978–79*
Chapter 1169, Statutes of 1973	$3,157,000	$3,350,000

This statute excludes from the computation of certificated aircraft assessed value the time prior to the aircraft's first revenue flight and subsequent ground time in excess of 12 hours.

	Estimated 1977–78	*Requested 1978–79*
Chapter 456, Statutes of 1974	$13,600	$14,000

This measure exempts the intangible value of business records including the information they contain or the value of their use. Title records are one example of documents having intangible value which became exempt from taxation under this statute.

	Estimated 1977–78	*Requested 1978–79*
Chapter 1405, Statutes of 1974	$1,799,300	$1,910,000

This statute exempts cargo containers from property taxation when such containers are used principally in ocean commerce and have a displacement of at least 1,000 cubic feet.

	Estimated 1977–78	*Requested 1978–79*
Chapter 1467, Statutes of 1974	$389,100	$475,000

This statute provides that undocumented commercial fishing vessels (including party boats) are to be assessed at 1 percent rather than 25 percent of full cash value.

	Estimated 1977–78	*Requested 1978–79*
Chapter 961, Statutes of 1977	—	$790,000

This statute extends disabled veterans' property tax exemption benefits to the unmarried surviving spouses of disabled veterans who died prior to January 1, 1977, but who would have been eligible for the exemption under laws in effect on that date.

RENTERS' TAX RELIEF

Item 408 from the General Fund — Budget p. 1085

Requested 1978–79	$135,000,000
Estimated 1977–78	130,000,000
Actual 1976–77	122,691,855
Requested increase $5,000,000 (3.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief program provides a flat grant of $37 to renters of all ages and at all levels of income. This assistance is disbursed in the form of a "refundable" income tax credit, i.e., the $37 grant first is used to offset income taxes due, with any amount in excess of the tax liability paid directly to the claimant. Renters who otherwise would not file income tax returns must make a special filing in order to receive a direct tax relief payment. Basic qualification requirements include California residency and occupancy of a rented dwelling as of the March 1 lien date.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 provides actual data on claimants and expenditures under this program in 1976–77 and estimates for 1977–78 and 1978–79. The $135 million budgeted for 1978–79 represents an average annual growth rate for the current and budget years of nearly 5 percent. Although this growth is somewhat above the estimated long-term growth pattern for renters in California (from 2.5 percent to 3 percent), it is consistent with current projections of increases in multiple-family housing units and other indicators of growth in the renter population over the applicable period.

Table 1
Renters' Tax Relief Program
Summary of Expenditures

	Actual 1976–77	*Estimated 1977–78*	*Proposed 1978–79*	*Average annual growth*
Claimants	3,316,000	3,515,000	3,650,000	4.9%
Expenditures	$122,691,885	$130,000,000	$135,000	4.9%

Senior Citizen Renters' Assistance

In addition to the $37 provided under the Renters' Tax Relief program, renters 62 and over with incomes below $5,000 are eligible for assistance through the Senior Citizen Renters' Tax Assistance program (discussed

RENTERS' TAX RELIEF—Continued

under Item 403). These two programs are unrelated and involve separate application and claims processing.

FEDERAL REVENUE SHARING

Item 409 from the Federal Revenue Sharing Fund	Budget p. 1089
Requested 1978–79	$275,000,000
Estimated 1977–78	215,000,000
Actual 1976–77	215,000,000
Requested increase $60,000,000 (27.9 percent)	
Total recommended reduction	None.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The State and Local Fiscal Assistance Act of 1972 (general revenue sharing) was enacted on October 20, 1972, with a federal appropriation of approximately $30.2 billion for distribution to state and local governments over the five-year period January 1, 1972 to December 31, 1976.

The act was designed to give financial aid to state and local governments which were finding it increasingly difficult to pay for services they provided. The allocation of general revenue sharing funds among the recipient governments for each entitlement period is made according to statutory formulas using data such as population, general tax effort, and income tax collections.

The State and Local Fiscal Amendments of 1976 was enacted on October 13, 1976, with a federal appropriation of approximately $25.5 billion for distribution over the four-year period January 1, 1977 to September 30, 1980. No substantive changes were made to the allocation formula. The new law does require recipient governments to hold public hearings on proposed uses of the funds.

Table 1 gives a breakdown of (1) the total federal revenue sharing funds generated and (2) state expenditures made since inception of the program. In fiscal year 1973–74, federal revenue sharing funds were appropriated for educational and for welfare costs of the State Supplementary Payment (SSP) program. From fiscal years 1974–75 to 1977–78, funds have been appropriated to the State School Fund for public school apportionments.

The Governor's Budget proposes that $275 million in federal revenue sharing funds be expended for the SSP program in fiscal year 1978–79 in order to reduce auditing and noncompliance problems. This is an increase of $60 million more than was expended from the fund last year and results from the state drawing down a larger amount from the fund's available surplus. The $275 million in the Federal Revenue Sharing Fund is transferred to the General Fund and then transferred to Item 271 to fund the SSP program.