TAX RELIEF SUMMARY

Items 476–484

Summary of State Tax Relief Expenditures

The state provides local tax relief, both as subventions to local governments and as direct payments to eligible taxpayers, through nine different programs, each of which is funded under a separate item. Table 1 summarizes, by item number and program, total state tax relief expenditures for the prior, current and budget years.

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

Item No.	*Tax Relief Program*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*	*Change Amount*	*Change Percent*
476	Senior citizens' property tax assistance	$71.0	$24.5	$27.0	$2.5	10.2%
477	Senior citizens' property tax deferral	1.5	4.2	4.5	0.3	7.1
478	Senior citizen renters' tax assistance	5.3	44.0	48.0	4.0	9.1
479	Personal property tax relief	211.3	210.5	466.7	256.2	121.7
480	Homeowners' property tax relief	336.9	338.0	344.0	6.0	1.8
481	Open-space subventions to local government	12.9	14.0	14.0	0.0	—
482	Payments to local governments for sales and property tax revenue losses	5.6	2.3	0.8	−1.5	−165.2
483	Renters' tax relief	133.8	383.0	418.0	35.0	9.1
484	Substandard housing	—	0.1	0.1	0.0	—
	Total, Tax Relief Expenditures	$778.3	$1,020.7	$1,323.2	$302.5	29.6%

Of the $1,323.2 million budgeted for tax relief in 1980–81, nearly $467 million, or about 35 percent of the total, will be subvened to local governments as reimbursement for revenue losses resulting from personal property tax relief (consisting largely of the 100 percent business inventory exemption). Another $344 million will be used to fund homeowners' property tax relief, which is provided as a subvention to local governments for reimbursement of revenue losses resulting from the $7,000 homeowners' property tax exemption. Tax relief for renters will require $418 million, and is provided as a refundable income tax credit. A total of over $79 million will go to low- and moderate- income senior citizens through three different programs, which provide direct cash assistance to both homeowners and renters (in amounts that are inversely related to income) and allow homeowners to postpone the payment of property taxes. The remaining budgeted expenditures of just under $15 million have been requested for subventions 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), for sales and property tax revenue losses resulting from specified statutory changes under Chapter 1406, Statutes of 1972 (SB 90), and for payments to local governments of income taxes generated by the disallowance of deductions on substandard housing.

TAX RELIEF SUMMARY—Continued

Increase in Current-Year Costs

The $1,021 million estimated to be spent during the current year is an increase of about $113 million over the approximately $908 million appropriated for tax relief in the Budget Act of 1979. This net increase primarily results from three factors: (1) a substantial increase ($228 million) in the cost of renters' tax relief due to the enactment of Chapter 1207, Statutes of 1979 (AB 1151), offset by (2) significant savings in two of the senior citizens' tax relief programs (property tax assistance—$14.5 million, and renters' tax assistance—$57 million), and (3) a one-time reduction in personal property tax relief (business inventories) of $38.4 million required by Chapter 282, Statutes of 1979 (AB 8). Additional savings of about $8 million are anticipated in the Homeowners' Property Tax Relief program.

As shown in Table 1, the $1,323.2 million budgeted for 1980–81 represents a 29.6 percent increase over the $1,020.7 million estimated to be spent in the current year. This increase is due for the most part to the complete exemption of business inventories by Chapter 1150, Statutes of 1979 (AB 66).

Participation in Senior Citizens' Programs Below Expectations

Participation in the three senior citizens' tax relief programs for the current year is well below levels estimated during the budget process last year. Chapter 569, Statutes of 1978, extended eligibility in the Senior Citizens' Property Tax Assistance and the Senior Citizen Renters' Tax Assistance program to the totally disabled, regardless of age. The number of disabled persons actually participating in these programs during the current year is only a fraction of the number anticipated last year. In addition, participation by the nondisabled in the property tax assistance program has continued to decline significantly below the levels of participation in past years.

Renters' Credit Increase

Chapter 1207, Statutes of 1979 (AB 1151), substantially increased current and budget year costs for the refundable income tax credit paid to qualified renters. This statute raised the credit amount from $37 each for all renters to $60 for single renters and $137 for married couples, heads of households, and surviving spouses.

Business Inventories Fully Exempted

Chapter 1150, Statutes of 1979 (AB 66), increased the business inventory exemptions to 100 percent beginning in 1980–81, and provided for the reimbursement of local property tax revenue losses on a formula basis. The statute also provides for a complete exemption from the livestock head-day tax.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 476 from the General Fund — Budget p. GG 157

Requested 1980–81	$27,000,000
Estimated 1979–80	24,500,000
Actual 1978–79	71,006,493
Requested increase $2,500,000 (+10.2 percent)	
Total recommended reduction	$2,500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Senior Citizens' Property Tax Assistance. Reduce Item 476 by $2,500,000 due to declining participation by seniors.* 1456
2. Senior Citizens' Property Tax Assistance. Recommend Budget Bill language to permit more flexibility in the payment of claims in this program and the Senior Citizen Renters' Assistance program. 1457

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Assistance program provides partial reimbursement for property taxes paid by homeowners with less than $12,000 of household income who are (1) 62 years 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. Senior citizens' property tax assistance is available only on that portion of taxes paid on the first $34,000 of full value, after taking into account the $7,000 homeowners' property tax exemption. Assistance disbursed in 1980–81 will be based on taxes paid in 1979–80.

Table 1 shows the total number of approved claimants and the total assistance they received in 1976–77 through 1979–80. The table also presents data on average income, average property taxes and average assistance received for all claimants. Preliminary data indicate that in 1979–80, the average income of the 232,506 claimants was $6,575. The average property tax paid was $262, and the average assistance equaled $104, or approximately 40 percent of the amount paid.

Table 1
Senior Citizens' Property Tax Assistance
1976–77 to 1979–80

	Actual 1976–77	*Actual 1977–78*	*Actual 1978–79*	*Preliminary 1979–80*
Number of Claimants	293,198	325,667	280,459	232,506
Total assistance [a] (in millions)	$52.1	$77.8	$70.6	$23.3
Per claimant averages:				
Household income	$5,551	$6,318	$6,525	$6,575
Property taxes	494	579	647	262
Assistance:				
Amount	178	239	252	104
Percent of taxes	36.0%	41.3%	38.9%	39.7%

[a] Based on Franchise Tax Board workload data and differs somewhat from fiscal year expenditures shown in the budget.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend that Item 476 be reduced by $2,500,000 to reflect continued low participation in the program.

The budget proposes an appropriation of $27 million from the General Fund for support of the Senior Citizens' Property Tax Assistance Program in 1980–81 which is $2,500,000, or 10 percent, more than the estimated current year expenditure.

Current year expenditures are now estimated to be 65 percent *less* than the $71 million spent during 1978–79. The magnitude of the expenditure decrease primarily reflects the effect of Proposition 13, which reduced the 1978–79 property taxes of program participants by over one-half. It also reflects, to a lesser extent, the fact that the level of participation in the current year has declined by 17 percent from the level experienced in 1978–79.

Lower than Anticipated Participation

The 1979 Budget Act appropriated $39 million for disbursement in the 1979–80 fiscal year, based on an estimated 350,000 claimants. As of January 1980, however, only 232,506 persons had applied, and as a result, expenditures were estimated at only $23.3 million. Several thousand additional claims are anticipated for the current year. On this basis, 1979–80 expenditures have been estimated at $24.5 million. Table 2 compares claims received to date with the original estimates for the current year.

Table 2
Senior Citizens' Property Tax Assistance Program
Comparison of Estimated and Actual Program Activity
1979–80

1979–80	*Number of Claimants*	*Total Assistance*
Budget estimates	350,000	$39,000,000
Preliminary actuals	232,506	23,300,000

Chapter 569, Statutes of 1978, was expected to increase participation by 75,000 claimants, due to the extension of assistance to the totally disabled. It was expected that there would be 275,000 nondisabled claimants, for a total of 350,000 claimants. Instead, only 7,618 disabled persons and 224,888 nondisabled persons are actually participating in the program. This level of participation indicates that the original estimates for the current year were high, and that participation in the program is continuing to decline from its level prior to passage of Proposition 13.

There are several factors that have contributed to the decline in participation in the current year. First, relief paid for the current year reflects, for the first time, the lower property tax payments resulting from Proposition 13. Because the initiative reduced average property tax liability by more than 50 percent, some persons probably determined that assistance was no longer meaningful or necessary. Second, inflation has pushed the income of some of the participants toward or over the $12,000 limit, so that some are no longer eligible and others are receiving less assistance than before.

Our analysis indicates that the $2.5 million increase requested for 1980–81 probably will not occur. The request does not give adequate recognition to the rate of decline in participation by nondisabled seniors during the last two years. While it is possible that more of the totally disabled made eligible by Chapter 569 will become aware of the program and apply for benefits, our analysis indicates that any increase is likely to be offset by the continuing decline in participation by the nondisabled. Therefore, we recommend a reduction in this item of $2.5 million.

Control Language

We recommend control language be adopted to permit more flexibility in the payment of claims in this program and the Senior Citizen Renters' Assistance program. Because there is some uncertainty concerning the level of participation in this program and the senior citizen renters' program in the budget year, we believe that the Franchise Tax Board should be permitted greater flexibility in the payment of claims. This would allow any deficit in one program to be made up with surplus from the other. Therefore, we recommend that the following language be included in this item:

"Provided that any unexpended balance in this item may be used to make payments to senior citizen renter claimants under Item 478."

SENIOR CITIZEN PROPERTY TAX POSTPONEMENT

Item 477 from the General Fund — Budget p. GG 158

Requested 1980–81	$4,500,000
Estimated 1979–80	4,200,000
Actual 1978–79	1,462,000
Requested increase $300,000 (+7.1 percent)	
Total recommended reduction	$1,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Payments of Postponed Taxes. Reduce Item 477 by $1,000,000* due to reduced participation.	1458

GENERAL PROGRAM STATEMENT

The property tax postponement program allows eligible homeowners to defer payment of all or a portion of the property taxes on their residences. Deferred taxes are paid to local governments by the state, which puts a lien on the property to assure that the taxes are paid when the property is transferred. Thus, the program is essentially a loan to the eligible property owners by the state, to be repaid when the property is sold. Interest

SENIOR CITIZEN PROPERTY TAX POSTPONEMENT —Continued

is charged on amounts deferred at 7 percent annually.

To be eligible for the program, persons must be 62 years of age or older, own and occupy the property, have an equity of 20 percent of full value and meet specified income limits. The income limits are adjusted annually to account for changes in the cost of living. To postpone taxes for the current year, a person must have had a household income of less than $23,100 in 1978. The income limit for the budget year will be determined in March 1980, and is estimated at $26,700. The program is jointly administered by the State Controller's Office and the Franchise Tax Board. This Budget Bill item appropriates funds to the Controller from which the payments to local governments will be made.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $4.5 million from the General Fund for payments to local governments for reimbursement of postponed property taxes in 1980–81, which is $300,000 (7.1 percent) more than the estimated current year expenditure. Table 1 summarizes the results of the program from 1977–78 through 1979–80.

Table 1
Senior Citizen Property Tax Postponement Program
Summary of Activity

	Actual 1977–78	*Actual 1978–79*	*Estimated to Date 1979–80*[a]
Certificates issued	12,172	8,573	5,880
Certificates used	9,838	7,054	5,169
Total Appropriation	$12,700,000	$10,000,000	$4,200,000
Total Amount Postponed[b]	$11,125,333	$2,856,560	$1,157,612
Average Amount Postponed	$1,131	$405	$410

[a] As of January 1980.
[b] Based on Controller workload data and will differ slightly from fiscal year expenditures shown in the budget.

As shown in Table 1, approximately 7,054 persons postponed taxes totaling $2.9 million in 1978–79. The $4.5 million appropriation proposed for 1980–81 reflects the uncertainty regarding participation in this program in the budget year.

Participation Continues to Lag Expectations

We recommend that Item 477 be reduced by $1.0 million due to continued low participation in the program.

The 1979 Budget Act appropriated $4.2 million for this program in 1979–80, which is more than the current estimated level of participation requires. As of January 1980, the State Controller's Office had issued 5,880 certificates of eligibility, 17 percent less than the number of certificates issued by that time in the previous year. One reason for this decline may be that many early participants in the program did not realize they would have to reapply *every year* if they wished to continue to have their taxes postponed. The Controller has sent letters to notify prior-year participants who did not reapply of this requirement. He has also requested the Franchise Tax Board to extend the filing deadline from December 31, 1979, through April 15 of this year. Because of these changes, the Controller believes that an additional 2,945 eligible claimants will apply for postponement, bringing the total for the current year to 8,825. It is unlikely that this many certificates will actually be issued during the current year. In any event, better information regarding the effect of these changes will be available at the time of the budget hearings on this item.

For the past several years approximately 82 percent of the eligible claimants actually postponed taxes. If the ratio of postponements to eligible claimants is the same in the current year, approximately 7,240 of the 8,825 estimated claimants would postpone taxes in 1979–80. The average amount postponed to date in the current year is $410. On the basis of these figures, current-year program costs are unlikely to exceed $3.0 million.

In the budget year, it is reasonable to assume that both taxes and participation will increase. The Controller estimates the number of claimants for the budget year at 9,700, a 10 percent increase over his estimate for the current year. Again, assuming 82 percent participation and a slight increase in the amount postponed, this would result in a cost of about $3.3 million for 1980–81. Consequently, an appropriation of $3.5 million (17 percent over our estimate of current year expenditures) should be sufficient to accommodate the increase. Accordingly, we recommend that this item be reduced by $1 million.

Deficient Liens Being Corrected

In the *Analysis of the 1979 Budget Bill,* we indicated our concern over the security of the liens on the property for which taxes have been postponed. A lien is placed on the property to ensure that postponed taxes are paid when the property is transferred. The recording of lien notices is the responsibility of local government officials (assessor, tax collector and recorder). The liens may be defective if not properly recorded, or if the priority of the state's lien is not adequately represented in the lien notice. Last year the Controller reported that, statewide, about 12 percent of the liens were defective. This figure has been revised upward to about 17 percent for the liens reviewed during 1978–79.

The Controller has indicated that, with additional staffing provided for 1979–80, the backlog of lien review and correction should be eliminated by the end of the current fiscal year. Once reviewed and corrected, the liens are secure for as long as the participant remains in the program. For this reason, lien review and correction will be an ongoing activity only in relation to new participants in the program. Because we do not expect participation to increase sharply, lien security should not be a significant concern in the future. If participation does increase significantly or if the percentage of deficient liens increases, however, the program should be modified to hold counties liable for any losses resulting from defective liens.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 478 from the General Fund — Budget p. GG 158

Requested 1980–81	$48,000,000
Estimated 1979–80	44,000,000
Actual 1978–79	5,313,918
Requested increase $4,000,000 (+9.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

This program provides tax relief to renters 62 years and over, and totally disabled persons of any age, if their total household income is less than $12,000. Assistance varies inversely with income, and assumes that all renters pay the equivalent of $250 in property taxes. Actual assistance ranges from $240 (96 percent of $250) for persons with less than $3,000 of total household income, to $10 (4 percent of $250) for persons with income between $11,500 and $12,000. This assistance is in addition to the personal income tax credit provided all renters under Item 483.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes an appropriation of $48 million from the General Fund for the Senior Citizen Renters' Tax Assistance program in 1980–81. This is $4 million, or 9.1 percent, more than the estimated current year expenditures. Table 1 displays the participation and costs of the program from 1977–78 through 1979–80.

Table 1
Senior Citizen Renters' Tax Assistance
1977–78 through 1979–80[a]

	Actual 1977–78	*Actual 1978–79*	*Preliminary 1979–80*
Number of claimants	91,700	77,253	261,449
Total assistance	$6,849,516	$5,282,391	$44,800,000
Average assistance	$75	$67	$171

[a] Based on Franchise Tax Board's workload data and therefore differs slightly from fiscal year amounts shown in the budget.

As shown in Table 1, participation in the current year is significantly higher than it was in 1978–79. This is due to Chapter 569, Statutes of 1978, which (1) expanded eligibility to include totally disabled persons under 62, and (2) revised the reimbursement schedule by (a) increasing the annual household income limit from $5,000 to $12,000, (b) raising the reimbursement percentages, and (c) increasing the statutory property tax equivalent from $220 to $250.

Program Change Results in Lower-Than-Expected Increase

Preliminary data from the Franchise Tax Board indicate that actual participation in 1979–80 will be substantially less than originally expected. Table 2 compares the claims received to date (January 1980) for 1979–80 with the original estimates for the current year. In prior fiscal years, over 95 percent of the claims for the year had been processed by January 1.

Table 2
Senior Citizen Renters' Tax Assistance Program
Comparison of Estimated and Actual Program Activity
1979–80

1979–80	*Number of Claimants*	*Total Assistance*
Budget Estimates	600,000	$101,000,000
Preliminary Actuals	261,449	$44,800,000

As shown in Table 2, costs for the 1979–80 program were originally estimated at $101 million. Chapter 569 was expected to add 250,000 claimants due to the increased income limit for persons 62 years and older, and 275,000 claimants by extending eligibility to the totally disabled. When added to the 75,000 prior law claimants, a total of 600,000 claimants were expected to participate in the program. Instead, only 261,449 people have actually filed claims. Of these 202,998 are persons 62 years of age and older, and 58,451 are totally disabled claimants.

The reasons for the lower-than-expected participation are similar to the reasons for low participation in the Senior Citizens' Property Tax Assistance (homeowners') program. Since the initial estimates of the number of persons eligible for participation were made, inflation has pushed the incomes of many persons above the $12,000 limit.

The increase requested in the budget reflects the uncertainty over future participation in this program. To the extent that lower-than-anticipated participation is due to the fact that the program is relatively new and unknown, increased awareness could result in increased participation above the budget estimates. Based on available information, however, we believe that the budget request is reasonable.

PERSONAL PROPERTY TAX RELIEF

Item 479 from the General Fund — Budget p. GG 159

Requested 1980–81	$466,725,000
Estimated 1979–80	210,525,000
Actual 1978–79	211,341,669
Requested increase $256,200,000 (+121.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Wine and Brandy Exemption Reimbursement. Recommend Budget Bill language on method of calculating reimbursements.	1464

GENERAL PROGRAM STATEMENT

The Personal Property Tax Relief program currently reimburses local governments for the actual property tax revenue losses resulting from the 50 percent exemption granted to owners of business inventories. Local governments are also reimbursed under this program for 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 1150, Statutes of 1979 (AB 66), increased the business inventory exemption to 100 percent beginning in 1980–81, and provided for the reimbursement of local property tax revenue losses on a formula basis. Generally, the formula fixes the reimbursements at twice their current levels, and requires increases in the reimbursements for future years based on increases in the cost of living and population (average daily attendance for schools). The statute also provides for a complete exemption from the livestock head-day tax.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 summarizes actual expenditures for personal property tax relief in the 1978–79 fiscal year, and estimated expenditures for the current and budget years. The $466.7 million budgeted for 1980–81 is a 122 percent increase over the $210.5 million estimated for the current year. Ninety-eight percent of personal property tax relief expenditures in the budget year—$460 million—will consist of subventions to local government for revenue losses resulting from the 100 percent business inventory exemption.

Table 1
Personal Property Tax Relief
Summary of Expenditures
(in thousands)

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*	*Percent Change*
Business inventory exemption	$207,864	$245,400	$460,000	87.4%
Chapter 282, Statutes of 1979	—	−38,400	—	N/A
Motion picture films	972	975	975	0
Wine and brandy	49	50	50	0
Livestock head-day tax exemption	2,457	2,500	5,700	128.0
Totals	$211,342	$210,525	$466,725	121.7%

Table 1 also shows the effect of Chapter 282, Statutes of 1979 (AB 8), which made a one-time reduction of $38.4 million in business inventory reimbursement to cities ($21 million) and counties ($17.4 million). This reduction was made in order to keep the total cost of AB 8 under a certain limit.

The estimated current year expenditure for the 50 percent business inventory exemption, about $245 million exclusive of the one-time reductions imposed by Chapter 282, is about 18 percent higher than the 1978–79 level. This increase reflects the extraordinary 18.7 percent growth in the exempt value of business inventories for 1979–80.

Business Inventories Fully Exempted

Chapter 1150, Statutes of 1979 (AB 66), not only increased the business inventory and livestock exemptions from 50 percent to 100 percent beginning in 1980–81, but it also prohibited county assessors from assessing these properties. As a result, no data will be available in the future to compute the *actual* revenue losses resulting from these exemptions. Therefore, the statute provides for the reimbursement of local property tax losses on a formula basis.

Chapter 1150 specifies that future reimbursements shall be based on the general $4 local property tax rate, and shall no longer cover the revenue loss associated with local tax rates for debt service. Starting in 1980–81, other property owners will have to cover this revenue loss. This is because the tax rate for debt service will have to be higher than it would have been if inventories had not been fully exempted.

In the future, the inventory reimbursements will be computed by doubling the amount in 1979–80 that was attributable to the $4 local tax rate, and then increasing this amount by the appropriate "Inventory Tax Factor" for each jurisdiction. For cities, counties, and special districts, this factor is the percent change in the cost of living plus the percent change in the population of the jurisdiction. For schools, the factor is the percent change in the cost of living plus the percent change in average daily attendance (ADA) of the school or community college district.

Table 2 shows the computation of the 1980–81 reimbursement, based upon 1979–80 reimbursements exclusive of the Chapter 282 reductions. Because the cost-of-living statistics used here are only estimates of the final figures to be used, there is some uncertainty over the precise amount of

PERSONAL PROPERTY TAX RELIEF—Continued

reimbursement that will be required. Table 2 also shows the estimated distribution of reimbursements among types of jurisdictions. At the budget hearings on this item, we will provide a revised estimate of reimbursements in the budget year, based on the final cost-of-living and ADA estimates, and the actual allocation of business inventory reimbursements to jurisdictions for the current year.

Table 2
Computation of 1980–81 Business Inventory Reimbursement (in millions)

	Estimated 1979–80 $4.00 Reimbursement[a]	*Cost-of-Living Percent Change*	*Population or ADA Percent Change*	*1980–81 Reimbursement*
Cities, Counties and Special Districts	$125.8	12.7%	1.7%	$287.8
K–12 School Districts	65.8	12.7	−0.7	147.4
Community College Districts	10.3	12.7	2.6	23.8
Totals	$201.9	N/A	N/A	$459.0

[a] Reimbursement based on the $4 general property tax rate. Does not include the $38.4 million Chapter 282 reduction. Estimated distribution based upon the allocation of property tax revenues specified by Chapter 282 for 1978–79. Actual distribution depends upon the relative growth of business inventory assessed value in 1979–80 within specific jurisdictions.

Chapter 1150 also increased the corporation tax rate by a variable amount (beginning with the 1980 income year) in order to offset the state's cost of the increased business inventory reimbursement. The higher tax rate results in a gain of about $66 million in 1979–80 corporation tax revenues. In 1980–81, the state will receive about $159 million in increased Corporation Tax revenues, while the *increased cost* of the reimbursement will be approximately $180 million. Thus, considering the effect on both years, the net gain to the state is estimated to be about $45 million. We do not have sufficient information at this time to estimate the net effect in subsequent fiscal years.

Excess Reimbursement Due to Erroneous Tax Rate

As shown in Table 1, the reimbursement for the wine and brandy exemption is budgeted at $50,000 for the current and budget years. The statutory reimbursement formula for this exemption specifies that the amount of the reimbursement shall be based on the applicable *school district* tax rate and the average of the assessed valuation for four years prior to the original effective date of the exemption. As a result of Proposition 13, there were no school district tax rates in 1978–79—only the county-wide general property tax rate of $4. The State Controller paid the reimbursement for the wine and brandy exemption based on this county-wide general $4 rate. This resulted in a 66 percent *increase* in the reimbursement—about $20,000—from 1977–78 to 1978–79.

The property tax allocation system established by Chapter 282, Statutes of 1979, will enable the county auditor to determine an effective school district tax rate. The reimbursement should be made using that tax rate, rather than the county-wide $4 rate.

We do not recommend a reduction in this item because the amount of the business inventory reimbursement is somewhat uncertain at this time. However, we recommend that the following language be included in this item:

"Provided that the reimbursement pursuant to Revenue and Taxation Code 16112 be calculated based on the applicable effective school district tax rate as certified to the Controller by the county auditor."

HOMEOWNERS' PROPERTY TAX RELIEF

Item 480 from the General Fund — Budget p. GG 159

Requested 1980–81	$344,000,000
Estimated 1979–80	338,000,000
Actual 1978–79	336,931,063
Requested increase $6,000,000 (+1.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The homeowners' property tax exemption is $1,750 of the assessed value ($7,000 full value) of an owner-occupied dwelling. For the budget year, this exemption will provide almost 4.1 million homeowners with an estimated average property tax reduction of $84. The state reimburses local government for all revenue losses resulting from the exemption.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget requests $344 million for the Homeowners' Property Tax Exemption Program in 1980–81, which is a 1.8 percent increase over the current year expenditure of $338 million as estimated in the budget. Table 1 summarizes the number of claims, exempt assessed value, and our estimate of expenditures related to the Homeowners' Property Tax Exemption Program.

Table 1
Homeowners' Property Tax Exemption
Summary of 1978–79 to 1980–81 Expenditures

	Actual 1978–79	*Estimated 1979–80*	*Estimated 1980–81*	*Percent Change*
Claimants (thousands)	3,967	4,015	4,095	2.0%
Exempt Assessed Value (millions)	$6,938	$7,006	$7,166	2.3
Per Claimant Averages				
Exempt assessed value	$1,749	$1,745	$1,750	0.3
Tax benefit	85	84	84	—
Property Tax Rate	$4.86	$4.80	$4.80	—
Expenditures (millions)	$337	$336	$344	2.4%

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

Current Year Expenditures

As the table indicates, we estimate that current year costs under this program will be $336 million, $2 million less than the budget estimate. Our estimate assumes a tax rate of $4.80, reflecting a slight decline in the rate levied for the purpose of retiring voter-approved debt. This estimate, however, is subject to change.

Our estimate of $336 million for the current year is slightly less than the actual amount reimbursed in 1978–79 ($337 million). This is due to the fact that the savings resulting from the decline in the tax rate will more than offset the additional costs of a 1.2 percent growth in the number of claimants.

Because the homeowners exemption is fixed at $1,750 of assessed value, state costs for this program are not affected by changes in *property values* or the limits on assessed value growth set by Proposition 13. State costs depend only on the *number of homeowners* and the *level of tax rates* applicable to owner-occupied property.

Budget Year Expenditures

The applicable tax rate estimated for 1980–81 is $4.80—the same as in 1979–80. The property tax rate is not expected to decline in 1980–81 because the complete exemption of business inventory property will reduce the amount of taxable assessed value available for the retirement of debt service.

Table 2 displays the growth in number of claimants for this program since the 1975–76 fiscal year. These data show that the number of claimants has been increasing less rapidly in the last two years. This may reflect the impact of higher housing prices and interest rates, as well as the reduction in the value of the homeowners exemption itself. We do not know to what extent the growth rate will continue to decline in future fiscal years. Based on past trends, however, we believe the 2 percent growth in the number of claimants assumed in the budget is reasonable.

Table 2
Homeowners' Property Tax Exemption
Showing Growth in the Number of Claimants
(in thousands)

	Actual 1975–76	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Estimated 1979–80*
Number of claimants	3,640	3,760	3,890	3,967	4,015
Percent increase over prior year	—	3.3%	3.5	2.0	1.2

For these reasons, we have no basis on which to recommend a change in the budget estimate of $344 million for this program.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 481 from the General Fund — Budget p. GG 159

Requested 1980–81	$14,000,000
Estimated 1979–80	14,000,000
Actual 1978–79	12,905,683
Requested increase—None	
Total recommended reduction	$14,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Eliminate Funding. Reduce Item 481 by $14 million.* Recommend funds budgeted for open-space subventions be eliminated. 1468

GENERAL PROGRAM STATEMENT

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.

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

The Secretary of the Resources Agency, through the Department of Conservation, administers subventions to cities and counties.

ANALYSIS AND RECOMMENDATIONS

Section 16140 of the Government Code appropriates General Fund money for open-space subventions to counties and cities. However, Budget Act appropriations have superseded the statutory authorization since the subventions began in 1972.

The budget requests $14 million for subventions to the 48 counties and 20 cities which are expected to have a total of about 17 million acres under Williamson Act contracts during 1980–81. The subvention for cities and counties is determined by a formula which bases the amount of money provided for each acre of land under contract on the type of land and its location. For this purpose, land is classified as "prime" or "nonprime". "Prime" agricultural land is defined as land rated as class I or II in the Soil and Conservation Service land use capability classification, or other comparable classification.

As of 1978–79, school districts no longer qualify for open-space subventions because tax rates have fallen below limits specified by Section 16148 of the Government Code since the passage of Proposition 13.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT—Continued

Method of Valuing Open-Space Land Revised

Immediately after the passage of Proposition 13, the Board of Equalization ruled that land under open-space contracts was to be assessed according to the initiative's assessment rules. That is, land under contract that had not undergone a transfer of ownership was to be assessed by taking the *1975* capitalized income (restricted) value and applying the 2 percent factor for inflation.

Chapter 242, Statutes of 1979 (AB 1488), reversed the board's rule by declaring that land under contract is to be valued on a *current* capitalized income basis.

After the enactment of Chapter 242, a number of instances were discovered where the current capitalized income value of land under contract was *higher* than the unrestricted value under Proposition 13. Consequently, the Legislature enacted Chapter 1075, Statutes of 1979 (AB 581), which provides that unless the county or landowner objects, the value of land under an open-space contract shall not be greater than the unrestricted value under Proposition 13. The statute also specifies that payment of the state subvention shall be made only when the value of the land under open-space contract (current capitalized income basis) is *less* than the unrestricted Proposition 13 value.

Under Chapter 1075, a subvention will be paid when the value of land under contract is *any amount* below the unrestricted value. Thus, in some cases payments made to local governments, especially for prime land, will *exceed* the property tax revenue loss resulting from placement of the land under an open-space contract. We do not know at this time in how many cases an excessive reimbursement is being paid, but we do not believe it is a widespread occurrence. The incidence will increase over time, however, as the restricted value of land under contract rises more rapidly than the unrestricted value of that land.

Eliminate Subvention

We recommend that (1) the funding for open-space subventions be eliminated for a savings of $14 million, and (2) Section 16140 of the Government Code be repealed to eliminate the statutory appropriation.

In past years, our analysis of the open-space program has indicated that the program is not effective in achieving the goals set for it by the Legislature. Specifically, our analysis has indicated that:

1. *The program provides a reduction in property taxes, and a state subvention, for land that is not threatened by development and, presumably, not in need of an incentive to remain in agricultural or open-space use.* We estimate that more than 80 percent of the nonprime land under contracts is outside urban areas and not threatened by development. Reimbursements for this nonprime land will amount to at least $3.8 million of the $14 million subvention request. The bulk of the prime land under contract is also located outside of urban areas. Because it is outside urban areas, most of this land presumably is not threatened by development. Table 1 shows the breakdown of acreage under open-space contract by counties and cities and type of land for the 1978–79 fiscal year.

Table 1
Actual Open-Space Acreage Under Contract in Counties and Cities for 1978–79

	Urban Prime Land[a]	*Other Prime Land*	*Nonprime Land*	*Total Acreage*
Counties	516,632	4,482,430	11,082,512	16,081,574
Cities	7,802	662	36,460	44,924
Totals	524,434	4,483,092	11,118,972	16,126,498

[a] Land that is located within three miles of a city with a population of 15,000 or more.

2. *It is unlikely that the reduced tax liability provided by an open-space contract provides a sufficient incentive for an owner of land that is threatened by development to place that land under contract for a 10-year period.* Based on discussions with planning departments in a number of counties, it is apparent that the usefulness of open-space contracts as a means of controlling the conversion of agricultural land is limited. Reduced property taxes on restricted land provides a means for local governments to compensate landowners for the agricultural zoning of land on which development pressures are not particularly severe but which is worth preserving. However, in these cases the controlling factor is local governments' ability to enforce the agricultural zoning of certain lands. The value of reduced property taxes as an incentive to the landowner is minimal.

With respect to lands close to the urban fringe, where development pressure is more intense, lower property taxes provide virtually no inducement for the retention of the land in agricultural use. This is because economic pressures aside from property tax liability simply overwhelm the value of reduced property taxes under an open-space contract.

3. *Subvention payments play an insignificant role in local government decisions to place lands threatened by development under an open-space contract.* In addition, local governments' willingness to restrict the development of agricultural land by zoning is limited, given the intense political and economic forces that generally accompany development pressure. State subvention payments are not a significant factor in zoning decisions made by local governments in the face of these far more significant considerations.

Effect of Proposition 13.

Our analysis indicates that Proposition 13 has further weakened the ability of this program to achieve the Legislature's goals. Although a favorable differential still exists between the taxes on restricted and unrestricted value, this differential has been reduced significantly because property taxes have been reduced by over 50 percent under Proposition 13. This further limits the effectiveness of the tax differential as an incentive to restrict the use of land. Moreover, because Proposition 13 limits the growth of the assessed value of land not under contract (except when that land is sold), increases in property taxes will not exert the same pressure for developments as they may have prior to Proposition 13. This is especially true now that open-space values are based on *current* capitalized income.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT—Continued

Thus, we conclude that the program

- provides a windfall to owners of property not subject to development pressures, but
- has little impact on owner decisions where development pressures exist.

For these reasons, we recommend that the subventions to local governments for open-space contracts be eliminated and that the Legislature consider more direct methods of protecting agricultural and open-space land that is threatened by development. We also recommend that Section 16140 of the Government Code be repealed to eliminate the continuing appropriation.

Our recommendation would have the effect of reducing state subventions to the approximately 70 local jurisdictions which will participate in the open-space program by an estimated $14 million in the budget year. The $14 million budgeted for open-space subventions would, of course, continue to be available for other purposes, including, (1) increased state aid to local governments, and (2) new legislation to protect agricultural and open-space land.

PAYMENTS TO LOCAL GOVERNMENTS FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 482 from the General Fund — Budget p. GG 160

Requested 1980–81	$817,100
Estimated 1979–80	2,329,500
Actual 1978–79	5,571,451
Requested decrease $1,512,400 (−64.9 percent)	
Total recommended increase	$201,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Veterans' Property Tax Exemption. Increase Item 482 by $706,000.* Recommend in reimbursements due to underestimate of current year costs. Also recommend that the Legislature direct the Controller to require a breakdown of county claims by statute.	1472
2. Wildlife Habitat Contracts. Recommend Budget Bill language to specify the method of computing the property tax revenue loss resulting from wildlife habitat contracts.	1473
3. *Sport Fishing Vessels. Reduce Item 482 by $275,000.* Recommend reduction because reimbursement is no longer necessary.	1474
4. *Mobilehome Taxation. Reduce Item 482 by $230,000.* Recommend reduction because reimbursements is not necessary.	1474

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 11 statutes which have ongoing funding requirements and thus necessitate annual Budget Act appropriations. All of the statutes are funded from this single budget item. This allows the State Controller flexibility to cover deficits resulting from some statutes with surplus funds for others.

ANALYSIS AND RECOMMENDATIONS

The budget estimates that in 1980–81 required reimbursements to local government for revenue losses will be significantly less than those estimated for the current year. This is due to the repeal of Chapter 1169, Statutes of 1973, which modified the computation of certificated aircraft assessed value. As a result, reimbursement is no longer required for this statute. Chapter 1169 accounted for approximately $1.6 million of the reimbursements paid under this item during 1979–80.

The amounts budgeted for the following statutes in 1980–81 appear to reflect the applicable revenue loss, and we recommend that they be approved.

	Estimated 1979–80	*Requested 1980–81*
Chapter 456, Statutes of 1974	$5,000	$5,000

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

	Estimated 1979–80	*Requested 1980–81*
Chapter 878, Statutes of 1978	$2,500	$2,800

This statute exempts from sales taxes medical alert tags furnished by nonprofit organizations.

	Estimated 1979–80	*Requested 1980–81*
Chapter 765, Statutes of 1979	$1,300	$2,200

This act exempts from sales taxes goods sold by certain nonprofit library associations which perform services for public libraries.

	Estimated 1979–80	*Requested 1980–81*
Chapter 1048, Statutes of 1979	$11,700	$13,100

This statute exempts from sales taxes meals served to residents of senior citizens' boarding homes.

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

Current-Year Costs Underestimated

We recommend that Item 482 be increased by $706,000 to account for the underestimation of the current-year cost of reimbursing four statutes pertaining to the veterans' property tax exemption. We also recommend that the Legislature direct the Controller to require counties to identify the amount of reimbursement claimed by statute.

The following four statutes extended the provisions of the veterans' property tax exemption. Estimated current-year costs and amounts requested for 1980–81 for these statutes are shown as displayed in the Governor's Budget.

	Estimated 1979–80	*Requested 1980–81*
Chapter 16, Statutes of 1973	$17,000	$20,000

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

	Estimated 1979–80	*Requested 1980–81*
Chapter 961, Statutes of 1977	$42,000	$46,000

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.

	Estimated 1979–80	*Requested 1980–81*
Chapter 1273, Statutes of 1978	$35,000	$38,000

This measure extends disabled veterans' benefits to disabled veterans and their unmarried surviving spouses if the veteran's disability is the result of a disease incurred during military service.

	Estimated 1979–80	*Requested 1980–81*
Chapter 1276, Statutes of 1978	$125,000	$140,000

This statute increases from $10,000 to $15,000 of assessed value the property tax exemption for disabled veterans, and their surving spouses, whose income satisfies the criteria for the Senior Citizen's Property Tax Postponement program.

The total amount shown for the current year for these statutes ($219,000) is $376,000 *below* the amounts estimated for the current year in the 1979–80 Governor's Budget. In addition, the Controller has reported a deficiency in this item for the current year of approximately $375,000. These four statutes account for about $302,000 of this deficiency, based on the Controller's estimate of claims to be paid. The total difference between the estimate of reimbursements for these statutes for 1979–80 in the 1980–81 Governor's Budget and the Controller's estimate is approximately $678,000. Thus, based on the Controller's data, the current-year costs for these statutes are about $897,000. A significant number of counties do not break down their claim for reimbursement by statute, so that the Controller's estimate for 1979–80 cannot be broken down.

The underestimate of the current-year reimbursements results from two factors. First, the estimate in the Governor's Budget is based on actual costs for two of the statutes (Chapter 16 and Chapter 961) for 1978–79, and the amounts appropriated for reimbursements for the current year by the other two statutes. Because the Controller cannot provide a breakdown of the reimbursements by statute, we do not know how accurate these estimates are. Second, San Diego County filed a late claim for 1978–79 and a claim for the current year in October 1979. Both of these claims were in excess of $450,000 for all four statutes. Neither claim is reflected in the estimate in the budget.

The budget requests $244,000 for reimbursements for these statutes in 1980–81. On the basis of the Controller's information concerning current-year claims, we estimate the cost of reimbursements for these statutes in the budget year at $950,000. This amount is about 6 percent more than our estimate for the current year. Therefore, we recommend that this item be augmented by $706,000.

We also recommend that the Legislature direct the Controller to require counties to break down their claims for reimbursement by statute so that more accurate estimates of costs will be available. Therefore, we recommend adoption of the following supplemental report language: "It is the intent of the Legislature that the Controller require counties to identify the amount of reimbursement claimed by statute."

Property Tax Revenue Laws Should be Recomputed

	Estimated 1979–80	*Requested 1980–81*
Chapter 1165, Statutes of 1973	$40,000	$45,000

We recommend that Budget Bill language be adopted to specify the method of computing the property tax revenue loss resulting from wildlife habitat contracts.

This statute requires that lands governed under a wildlife habitat contract shall be valued on a restricted basis similar to the method of valuing open-space lands.

All wildlife habitat contracts are located in Merced County, which recently filed a revised claim for property taxes lost during the current year by virtue of wildlife habitat contracts. Merced County's revised claim uses as a basis for calculating the property tax revenue loss a comparison of the restricted value and the full cash value of the land as if it were *not* covered by Article XIII A of the Constitution. We believe that the proper comparison is between the restricted value of the land and its full value *under Article XIII A.* The property tax loss results from the restricted valuation of the land. If that land were not under a wildlife habitat contract, it would be valued under Proposition 13 assessment rules.

Because the amount requested for this statute reflects approximately

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

the amount of property tax revenue loss based on what we believe is the proper comparison, no adjustment of this amount is required. However, we recommend that the following language be included in this item: "Provided that the reimbursement for property tax revenue loss resulting from the restricted valuation of land under wildlife habitat contract pursuant to Chapter 1165, Statutes of 1973, shall be based on a comparison between the value of the land pursuant to Section 423.7 of the Revenue and Taxation Code and the value of the land pursuant to Article XIII A of the Constitution."

Erroneous Reimbursements

We recommend that Item 482 be reduced by $505,000 to eliminate the erroneous reimbursement of two statutes.

We believe that reimbursements are not required under two statutes for which funds have been requested. One of the statutes has been repealed, and funds for reimbursements under the other statute were inadvertently placed in the budget. The result of these modifications, which are discussed below, is a reduction of $505,000 in funding for this item.

	Estimated 1979–80	*Requested 1980–81*
Chapter 1467, Statutes of 1974	$250,000	$275,000

This statute provides that documented commercial fishing vessels (including sport fishing vessels) are to be assessed at 1 percent, rather than 25 percent, of full cash value. Reimbursements for this statute were exclusively related to the revenue loss resulting from the reduced assessment of sport fishing vessels.

Beginning with the 1980–81 tax year, sport fishing vessels will again be assessed at 25 percent of value. Because no revenue losses should be incurred in the budget year, it is no longer necessary to budget a reimbursement for this statute. *We recommend that the item be reduced by $275,000 to reflect this fact.*

	Estimated 1979–80	*Requested 1980–81*
Chapter 1160, Statutes of 1979	$200,000	$230,000

This act reduces the sales tax liability of persons buying new mobilehomes after January 1, 1980, which are placed on permanent foundations. Because increased property tax revenues resulting from Chapter 1160 are expected to offset the loss in sales tax revenue to local government, there is no need to reimburse these governments. *Therefore, we recommend that this item be reduced by $230,000.*

RENTERS' TAX RELIEF

Item 483 from the General Fund — Budget p. GG 160

Requested 1980–81	$418,000,000
Estimated 1979–80	383,000,000
Actual 1978–79	133,801,979
Requested increase $35,000,000 (+9.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief program provides a flat payment to qualified renters without regard to age or income. Qualified renters include persons who (1) are residents of California and (2) rented and occupied a dwelling in California as their principal residence on March 1. Married persons are generally entitled to one credit. The renters' credit is not available to persons who (1) rent property that is exempt from property taxes, (2) are claimed as a dependent for income tax purposes by persons with whom they are living, or (3) receive the homeowners' property tax exemption. A partial credit is available for persons with less than 12 months' residence. 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 refunded to the renter. Persons with no income tax liability must file a return to receive the tax relief payment.

Substantial Increase in Credit Amount

Chapter 1207, Statutes of 1979 (AB 1151), increased the amount of the renters' credit, beginning with the 1979 income year, from $37 per renter to $60 for single renters and $137 for married couples, heads of households, and surviving spouses. The act also made changes in the allocation of the credit to married couples living separately and persons who are nonresidents for a portion of the year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes an appropriation of $418 million in the budget year, which is an increase of $35 million, or 9.1 percent, over the estimated current year expenditure.

Table 1 displays information on the number of claimants and the expenditures under this program for the 1978–79 through 1980–81 fiscal years. The table shows how the increase in the amount of the renters' credit has resulted in a sharp increase in expenditures during the current and the budget years. The large increase in the number of participants (16.0 percent) estimated for the current year results from (1) a continuation of the historical growth in the renter population (3 percent to 5 percent per year) and (2) expanded eligibility due to Chapter 569, Statutes of 1978. That legislation allowed renters receiving public assistance to receive the full amount of the renters' credit. Formerly, such persons

RENTERS' TAX RELIEF—Continued

could claim only a portion of the credit, based on the number of months during which they did not receive public assistance. This change in eligibility is expected to result in an additional 378,000 persons claiming renters' tax relief in the current year, at a cost of $14.0 million.

Table 1
Renters' Tax Relief Program
Summary of Claimants and Expenditures

Claimants	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Number	3,614,868	4,195,000	4,340,000
Percent increase over prior year	4.2%	16.0%	3.5%
Expenditures			
Amount	$133,801,979	$383,000,000	$418,000,000
Percent increase over prior year	5.8%	186.2%	9.1%

The appropriation for 1980–81 is based upon an anticipated 4.34 million claimants, which is a 3.5 percent increase over the estimated participation during the current year.

Table 2 shows the distribution of these claimants by status (single, married, head of household, and other renters) used to estimate program costs.

Table 2
Renters' Tax Relief Program
Breakdown of Claimants by Filing Status [a]
(in thousands)

	Estimated 1979–80	*Estimated 1980–81*
Single	2,182	2,257
Married	1,427	1,475
Head of household	503	521
Other	84	87
Totals	4,195	4,340

[a] Based upon the distribution of claimants for the 1977 income year, as reported by the Franchise Tax Board.

Current Year Deficiency Anticipated

A total of $371 million is available for 1979–80, consisting of $216 million appropriated by Chapter 1207 and $155 million appropriated in the 1979 Budget Act. However, the cost of the renters' credit program in the current year is estimated at $383 million. Thus, there is an anticipated deficiency of approximately $12 million for this program in 1979–80. The Department of Finance has proposed to fund this deficiency through urgency legislation.

SUBSTANDARD HOUSING

Item 484 from the General Fund — Budget p. GG 160

Requested 1980–81	$125,000
Estimated 1979–80	107,817
Actual 1978–79	0
Requested increase $17,183 (+15.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

Chapter 238, Statutes of 1974, disallowed certain income tax deductions when taken on housing which is in violation of state or local housing codes. Chapter 1286, Statutes of 1978, provided that the additional tax revenues generated by this provision are to be transferred from the General Fund to the Local Agency Code Enforcement and Rehabilitation Fund in the next fiscal year. The funds are then distributed by the State Controller to the cities and counties in which the specific properties were located.

These funds are to be used by local agencies for (1) code enforcement activities, (2) low-income housing rehabilitation, and (3) minimizing displacement resulting from code enforcement. The Department of Finance is required to estimate the allocation of funds for transfer by the Controller, by October 1 of each year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Governor's Budget proposes an appropriation of $125,000 in 1980–81, an increase of almost 16 percent over the amounts distributed in the current year.

Table 1 displays the allocation of funds to local agencies for 1979–80, the first year of the program. As shown in the table, the City and County of San Francisco received $106,176, or about 98 percent, of the total $107,817 distributed.

Table 1

Local Agency Code Enforcement and Rehabilitation Fund
Distribution of Funds to Local Agencies
1979–80

	Amount
San Francisco City and County	$107,176
Los Angeles City	960
San Joaquin County	506
Oakland City	19
Oxnard City	49
Humboldt County	107
Total	$107,817

Chapter 1286 provides that local agencies shall notify the Franchise Tax

SUBSTANDARD HOUSING—Continued

Board of housing code violations they have identified once the taxpayer has been given a period of time to bring the substandard property into compliance. Thus, a local agency's share of Code Enforcement and Rehabilitation Fund monies is a direct function of its code enforcement activity. Although more local agencies have reportedly become aware of this program during the past year, there has not been any increase in notices received by the Franchise Tax Board. We will address this issue of local participation in our report on the effect of Chapter 1286, due to be published in July of this year.

Reimbursement for Local Costs Should Be Deducted

We recommend that Budget Bill language be adopted to reduce each local agency's share of Code Enforcement and Rehabilitation Fund monies by its mandated cost reimbursement under Item 123.

Chapter 238 requires local agencies to report the names of owners of substandard housing to the Franchise Tax Board. The statute also provided for the reimbursement of costs incurred by local governments to report these violations. This reimbursement is made through Item 123.

As a result of the enactment of Chapter 1286, local agencies now receive the tax revenues generated by the disallowance of deductions on substandard housing. Because the reporting of substandard housing violations now results in an increase in revenues to local agencies, we believe that it is no longer appropriate for local agencies to receive a reimbursement for costs in addition to tax revenues. Therefore, we recommend that each local agency's allocation of revenues generated by the disallowance of deductions on substandard housing be reduced by the costs it claims were incurred to report owners to the Franchise Tax Board.

We do not believe that it is necessary to reduce the amount requested for this item due to the uncertainty concerning the level of participation by local agencies. We recommend, however, that the following language be included in this item: "Provided that each agency's allocation pursuant to Chapter 1286 be reduced by the costs claimed by that agency and paid under Item 123."