TAX RELIEF SUMMARY

Item 9100

Summary of State Tax Relief Expenditures

The state provides $1.4 billion to fund 10 programs consisting primarily of property tax relief for homeowners, senior citizens, renters, and business inventories. These programs were adopted before Proposition 13, but none of them has been altered to reflect the lower level of property tax burden which resulted from that voter-approved measure.

The state cost for most of these property tax relief programs is tied more to changes in the number of participants than it is to increases in the individual payments. Because the precise extent of participation is not known in many cases until the close of each year, the budgeted figures are in the nature of projections rather than commitments to expend a fixed sum of money.

Increase in Current Year Costs

As shown in Table 1, the $1,398 million estimated to be spent in the budget year is $60 million, or 4.5 percent above estimated 1981–82 expenditures. The increase reflects:

- An increase of $70 million, or 14 percent, in personal property tax relief. The large increase results from the restoration of a one-time reduction in current-year funding. The Governor is proposing a cost-of-living adjustment (COLA) of 5 percent to the base amount provided under this program, in lieu of the estimated statutory adjustment of 10 percent.
- An increase of $15 million, or 9.4 percent, in renters' tax relief. This increase reflects the historical increase in participation.
- Elimination of the refundable portion of the alternative energy tax credits. During the current year only a token amount of $1 was appropriated for these refundable payments, but the budget proposes to augment this amount by $25 million through a deficiency appropriation. The Governor proposes that the refundable portion of the refundable portion of the credits be eliminated in 1982–83.

Three programs account for 94 percent of the budget appropriations for tax relief: personal property tax relief, homeowners' property tax relief, and renters' tax relief.

Table 1
Tax Relief Summary
(in millions)

Program	*Type*[a]	*Actual 1980–81*	*Estimated 1981–82*	*Proposed 1982–83*	*Change Amount*	*Change Percent*
Senior citizens' property tax assistance	R	$19.0	$15.0	$14.0	–$1.0	–6.7%
Senior citizens' property tax deferral	R	4.2	5.0	6.1	1.1	20.7
Senior citizen renters' tax assistance	R	49.6	48.0	46.0	–2.0	–4.2
Personal property tax relief	R	496.8	467.3	537.2	69.9	15.0
Homeowners' property tax relief	R	333.7	335.0	338.0	3.0	0.9
Renters' tax relief	R	406.8	425.0	440.0	15.0	3.5
Open space subventions to local governments	I	13.2	14.0	13.0	–1.0	–7.1

TAX RELIEF SUMMARY—Continued

Payments to local governments for sales and property tax revenue losses	R/I	3.5	3.0	3.3	0.2	10.8
Substandard housing	I	0.1	0.1	0.1	—	—b
Alternative energy tax credits	I	10.9	25.0	—	−25.0	−100.0
Total		$1,337.7	$1,337.4	$1,397.7	$60.3	4.5%

[a] Key: R = tax relief; I = tax incentive.
[b] The nonrounded figures for 1981–82 and 1982–83 ($54,000 and $72,000) yield an increase of 33 percent.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 9100-101(a) from the General Fund — Budget p. GG 196

Requested 1982–83	$14,000,000
Estimated 1981–82	15,000,000
Actual 1980–81	18,985,000
Requested decrease (excluding amount for salary increases) $1,000,000 (−6.7 percent)	
Total recommended reduction	$1,500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Senior Citizens' Property Tax Assistance. Reduce Item 9100-101-001(a) by $1,500,000 to correct for overbudgeting.* 1773

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 1982–83 will be based on taxes paid in 1981–82.

Table 1 shows the number of approved claimants and the total assistance they received in the years 1978–79 through 1981–82. The table also presents data on average income, average property taxes, and average assistance received for all claimants. Preliminary data indicate that in 1981–82, the average income of the 148,736 claimants was $6,886. The average property tax paid was $258, and the average assistance was $96, or about 37 percent of the amount paid.

ANALYSIS AND RECOMMENDATIONS

We recommend that this item be reduced by $1.5 million to better reflect the extensive decline in program participation.

The budget proposes an appropriation of $14 million from the General Fund for support of the Senior Citizens' Property Tax Assistance program in 1982–83. This amount is $1,000,000 less than the revised estimate for 1981–82 contained in the Governor's Budget ($15 million).

Table 1
Senior Citizens' Property Tax Assistance
1978–79 through 1981–82

	Actual 1978–79	*Actual 1978–79*	*Actual 1980–81*	*Preliminary 1981–82*
Number of Claimants:				
Senior	280,459	226,973	178,652	141,391
Disabled	—	7,928	7,657	7,345
Total	280,459	234,901	186,309	148,736
Total Assistance (in millions)	$70.6	$24.5	$18.8	$14.3
Per Claimant Averages:				
Household Income	$6,525	$6,575	$6,673	$6,886
Property Taxes	$647	$262	$258	$258
Assistance:				
Amount	$252	$104	$101	$96
Percent of Taxes	38.9%	39.7%	39.1%	37.2%

Decline in Participation Larger than Anticipated

The 1981 Budget Act appropriated $18 million for disbursement in 1981–82. Preliminary data from the Franchise Tax Board indicate that 148,736 persons had applied as of December 1981, or 20 percent fewer than applied for assistance in the prior year. Allowing for the probability that some additional persons will file claims in the current year, the Department of Finance has estimated expenditures for 1981–82 at $15 million, or $3 million less than the amount budgeted.

Participation has declined by roughly 20 percent in each of the last three years. Our analysis indicates that this decline is attributable to two factors. First, Proposition 13 reduced by about 60 percent the average amount of property taxes paid by claimants, on which assistance under this program is based. This dramatically reduced the average amount of assistance paid from $252 *prior* to Proposition 13 to less than $100 in 1981–82. This lower level of assistance appears to be responsible for a drop in the number of claims received from those persons newly eligible for the program. It is also partially responsible for the drop in renewals from those persons previously enrolled. FTB data indicate that participation by newly eligible persons reached a high of about 11,400 persons in 1977, and that they totaled only 2,037 in 1980. Further, the number of claims received from the group of seniors aged 62–70 has declined each year since Proposition 13, whereas prior to Proposition 13, the number of such claims remained relatively constant.

Second, as inflation increases the income of participants, there is a decline in the amount of assistance for which they are eligible. This tends to explain why some persons, eligible for continued assistance, discontinue their participation. As the amount of assistance declines, and as the real value of that assistance declines as well, the benefit of continued participation is perceived by some as being negligible.

As noted earlier, the budget estimates that 1982–83 expenditures will total $14 million. This is only marginally less than preliminary data would indicate will be spent in the current year ($14.3 million). Our analysis

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

indicates that further declines in expenditures are probable. The declines, however, will probably not be so great as in recent years, because the number of newly-eligible senior citizens (those who turned 62 before the income year began) has been declining at a *slower rate* from 1978–79 to 1981–82.

Table 2 shows the number of participants who turned 62 during the year before the claim year. (This number is somewhat higher than the number of *newly eligible* participants because it includes disabled persons who participated in the program before turning 62.)

Because a decline in the number of new participants is the major reason for the decline in total participation, we anticipate that total participation will also decline at a slower rate than in recent years. We believe it is reasonable to expect a decline in participation of 10 percent in 1982–83, and therefore recommend that this item be reduced by $1.5 million.

Table 2

Estimate of Newly Eligible Participants

Claim Year	*Participants Who Turned 62 On or Before January 1 of the Claim Year*	*Percent Change*
1978	7,122	—
1979	3,951	–45%
1980	2,625	–34
1981	2,037	–22

SENIOR CITIZENS' PROPERTY TAX POSTPONEMENT

Item 9100-101(b) from the General Fund — Budget p. GG 197

Requested 1982–83	$6,093,000
Estimated 1981–82	5,046,000
Actual 1980–81	4,150,000
Requested increase (excluding amount for salary increases) $1,047,000 (+20.7 percent)	
Total recommended reduction	None

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 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 $30,200 in 1980. The income limit for the budget year will be determined in March 1982, and is estimated at $33,000.

The program is administered by the State Controller's Office. This Budget Bill item appropriates funds to the Controller from which the payments to local governments will be made.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes that funding for the Senior Citizens' Property Tax Postponement program be increased 21 percent, to $6,093,000 in 1982–83. Participation is expected to increase because (1) current high interest rates will make these loans more attractive to seniors, and (2) a greater number of senior citizens will be eligible because the income cutoff will probably increase significantly faster than senior citizens' incomes.

Table 1 provides workload data.

Table 1

Program Participation

	1979–80 (Actual)	*1980–81 (Actual)*	*1981–82 (Estimated)*
Certificates issued	7,654	7,941	8,300
Certificates used	6,175	7,827	8,200
Total amount postponed (in thousands)	$3,391	$4,150	$5,000
Average amount postponed	$549	$530	$610

Source: Controller.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 9100-101(c) from the General Fund — Budget p. GG 197

Requested 1982–83	$46,000,000
Estimated 1981–82	48,000,000
Actual 1980–81	49,577,000
Requested decrease (excluding amount for salary increases) $2,000,000 (−4.2 percent)	
Total recommended reduction	$1,700,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Senior Citizen Renters' Tax Assistance. Reduce Item 9100-101-001(c) by $1,700,000 to correct for overbudgeting.* 1776

GENERAL PROGRAM STATEMENT

This program provides tax relief to renters 62 years and over, and to 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

SENIOR CITIZEN RENTERS' TAX ASSISTANCE—Continued

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 9100-101-001 (h).

ANALYSIS AND RECOMMENDATIONS

We recommend that this item be reduced by $1.7 million to reflect more recent data on 1981–82 expenditures.

The budget proposes an appropriation of $46 million from the General Fund for the Senior Citizen Renters' Tax Assistance Program in the budget year. This amount is $2 million less than the budget estimate of expenditures in the current year.

Our analysis indicates that the budget's projection of a decline in expenditures is reasonable. As inflation causes participants' income to rise, the amount of assistance for which the participants are eligible is reduced. The budget's projection, however, should be applied to the more-recent estimate of current-year costs.

Table 1 provides data on participation, from the Franchise Tax Board. Preliminary Franchise Tax Board data indicate that in 1981–82, about 211,000 senior citizens and 80,000 disabled persons will receive assistance averaging $156 per recipient. The household income of recipients is expected to average $5,595.

Table 1
Senior Citizen Renters' Tax Assistance
1979–80 through 1981–82

	1979–80 (Actual)	*1980–81 (Actual)*	*1981–82 (Preliminary)*
Number of Claimants:			
Senior	206,877	217,889	211,065
Disabled	61,459	75,361	79,734
Total	268,336	293,250	290,799
Total Assistance (in millions)	$46.0	$49.0	$45.3
Per Claimant Averages:			
Household income	$4,997	$5,211	$5,595
Assistance	171	167	156

Based on the preliminary FTB data, we estimate current-year expenditures to be approximately $46.2 million, which is $1.8 million less than the amount estimated in the budget. Our estimate is slightly higher than the preliminary FTB data because we have accounted for the probability of late filings.

Table 2 compares budget data with the more-recent estimate. If the budget projection of a 4.2 percent decline is applied to the more recent current-year estimate of $46.2 million, costs of $44.3 million are projected for 1982–83.

Table 2
1981–82 Estimates and 1982–83 Projections

	Current-year Expenditures	*Projected Decline*	*Budget-Year Expenditures*
Budget estimate	$48.0	4.2%	$46.0
More-recent estimate	46.2	4.2	44.3

On the basis of the more-recent data on current-year expenditures, we recommend that this item be reduced by $1.7 million to reflect 1982–83 projected expenditures of $44.3 million.

PERSONAL PROPERTY TAX RELIEF

Items 9100-101(d) and (j) from the General Fund — Budget p. GG 198

Requested 1982–83	$537,206,000
Estimated 1981–82	467,267,000
Actual 1980–81	496,776,000
Requested increase (excluding amount for salary increases) $69,939,000 (+15.0 percent)	
Total recommended reduction	$50,000

1982–83 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
9100-101-001(d)	—Personal Property Tax Relief	General	$511,625,000
9100-101-001(j)	—Special Adjustment—Cost of Living increase	General	25,581,000
Total			$537,206,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Personal Property Tax Relief. Reduce Item 9100-101-001(j) by $50,000 to correct for overbudgeting.* 1779

GENERAL PROGRAM STATEMENT

This program annually reimburses local governments for property tax revenue lost because of:

- The complete exemption of business inventories (including cotton, livestock, and general aircraft), and
- The partial exemption of motion picture films.

The reimbursement for the tax loss arising from the reduced assessment of motion picture films is based on the local agency's *current* tax rate and the *historical* average value (1965–1969) of motion picture films. Reimbursement for the loss from the exemption of business inventories is based on a formula which takes into account the *actual* revenue loss which resulted from the prior partial exemption, and the changes in cost of living and population as a proxy for growth in exempt value since the complete exemption was enacted.

Each county auditor's claim for reimbursement is based on the reimbursement for the previous year, increased by the "State Reimbursement for Inventory Tax Factor". The county auditor apportions this reimbursement to all jurisdictions within the county, based on their share of current county property tax revenues. The "State Reimbursement for Inventory Tax Factor", as revised by Ch 102/81 (AB 251), is the change in countywide population over the previous calendar year, multiplied by the lesser of the change in the cost of living for the current calendar year or the change in California per capita personal income for the previous calendar

PERSONAL PROPERTY TAX RELIEF—Continued

year. In 1982–83, the statewide average factor is estimated to be 10 percent.

ANALYSIS AND RECOMMENDATIONS

The Governor proposes $537,206,000 for Personal Property Tax Relief in 1982–83, an increase of 14 percent above estimated current-year expenditures. This increase reflects a *one-time* reduction in business inventory reimbursements during the current year. (Chapter 683, Statutes of 1981, required that certain county auditors reduce their claims by the amount of interest earned on supplemental 1978–79 unsecured roll collections.) In addition, the increase reflects a 5 percent cost-of-living adjustment (COLA) for 1982–83, which has been applied to the original subvention for 1981–82 (that is, the amount before the deduction for interest payments). The Governor proposes the 5 percent COLA in lieu of the statutory COLA of 10 percent.

Table 1 shows the cost of personal property subventions for the past three years.

Table 1
Personal Property Tax Relief
1979–80 Through 1981–82
(in thousands) [a]

	Actual 1979–80	*Actual 1980–81*	*Estimated 1981–82*
Livestock	$2,034	$3,754	$3,744
Aircraft	—	546	634
Cotton	—	1,212	1,361
Other business inventories	221,667	490,429	504,894
Total Business Inventories	$223,701	$495,941	$510,633
Motion pictures	1,066	1,009	992
Total Personal Property	$224,767	$496,950	$511,625
Interest on unsecured roll			51,361
Total payments			$460,264

[a] Detail may not add because of rounding.

Audit of 1980–81 Claims

Claims for the business inventory subvention for 1980–81 are being audited by the Controller, pursuant to language in the Supplemental Report of the 1981–82 Budget Act. The Controller plans to make the results of these audits available prior to the time of budget hearings on this item.

Additional Savings Anticipated for Current Year

The Governor's Budget estimates that 1981–82 disbursements under this item will be $44.4 million less than the pre-Chapter 638 statutory level due to the capture of unsecured roll interest earnings mentioned above. At the time this analysis was prepared, however, the Controller reported that these disbursements have been reduced by a total of $51.4 million, or $7 million more than the amount estimated in the Governor's Budget. These figures are subject to further adjustment, and may decline slightly upon completion of audits currently being conducted by the Department of

Finance.

Budget-Year Request Overstated

We recommend that funding for this item be reduced by $50,000 to correct for overbudgeting.

By statute, the COLA is to be applied only to the business inventory and livestock reimbursements; motion picture claims are calculated using a different method. The budget, however, applies the COLA to all three reimbursements, and as a result overstates the actual amount required by $50,000. We recommend that funding be reduced by $50,000 to correct for this technical error.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 9100-101(e) from the General Fund	Budget p. GG 198
Requested 1982–83	$338,000,000
Estimated 1981–82	335,000,000
Actual 1980–81	333,657,000
Requested increase (excluding amount for salary increases) $3,000,000 (+0.9 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Constitution grants a $7,000 property tax exemption on the full value of an owner-occupied dwelling, and requires the state to reimburse local governments for the tax loss. This is the only constitutionally required tax relief item in the budget.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $338 million for Homeowners' Property Tax Relief in 1982–83.

The budget estimates that current-year costs will be $335 million, which is the amount appropriated. The Controller, however, has recently reported that claims for $333.2 million have already been filed. Allowing for the probability of supplemental claims and audit adjustments, we estimate that current year costs will be approximately $333.5 million, or $1.5 million less than appropriated.

Table 1 indicates that in the current year, 4.2 million homeowners will receive an average property tax reduction of $79 apiece from the exemption.

Table 1
Homeowners' Property Tax Exemption
1979–80 to 1981–82

	1979–80	*1980–81*	*1981–82*
Claimants (thousands)	4,042	4,182	4,241
Exempt Assessed Value (millions)	$28,293	$29,272	$29,689
Property Tax Rate (including debt service)	1.16%	1.14%	1.125%
Tax reimbursement (millions)	$328.2	$333.7	$333.5
Average Tax Benefit	$81	$80	$79

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

Because the homeowners' exemption is fixed at $7,000 of full 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. The budget projects that expenditures for the budget year will rise by about 1 percent. Assuming that the average tax rate statewide declines to 1.11 percent in 1982–83, the budget projection implies that participation will increase by about 2½ percent, which appears reasonable.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS

Item 9100-101 (f) from the General Fund — Budget p. GG 198

Requested 1982–83	$13,000,000
Estimated 1981–82	14,000,000
Actual 1980–81	13,235,000
Requested decrease (excluding amount for salary increases) $1,000,000 (−7.1 percent)	
Total recommended reduction	$13,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Eliminate Funding. Reduce Item 9100-101-001 (f) by $13,000,000.* Recommend funds budgeted for open space subventions be eliminated.	1782
2. Eliminate Statutory Subvention. Recommend legislation to eliminate statutory subvention of funds.	1782

GENERAL PROGRAM STATEMENT

Open-space subventions provide replacement revenue 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 the subvention program.

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

State compensation to cities and counties is based on the type of land under contract, rather than on the actual property tax loss. Compensation ranges from $8.00 per acre for certain urban prime land to $0.40 per acre for nonprime land. The state ceases to provide compensation as soon as a contract is nonrenewed or canceled.

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

As an alternative to nonrenewal, the landowner may petition the local government to cancel the contract. If cancellation is granted, the landowner must pay a substantial cancellation fee to the state. (This fee is 12½ percent of the lesser of current unrestricted value or factored base-year unrestricted value.) The landowner must also pay an additional charge to the local government to enable it to partially recapture the tax benefits enjoyed by the landowner under the contract. The cancellation fee may be waived only with the concurrence of both the Resources Secretary and the local government; the additional charge may be reduced or waived at the local government's discretion.

New "Window" for Cancellation

Until this year, a local government was required to make *both* statutory findings ("consistent with the act" and "in the public interest") before it could cancel a contract. Local governments varied considerably in the strictness with which they interpreted the two statutory findings. In 1981, the state Supreme Court ruled (Sierra Club v. City of Hayward) that the Legislature intended nonrenewal to be the normal method of contract termination; cancellation was to be reserved strictly for emergency situations. Consequently, the court set down strict guidelines for the two findings, and also determined that the local government's reasoning and decision may be appealed to the courts.

The Legislature, in Chapter 1095, Statutes of 1981 (AB 2074), modified the law to permit a local government to cancel a contract if it made *either* of the two statutory findings. The court's strict interpretation of each of the findings was generally codified.

In addition, Ch 1095/81 provided a one-time "window" for cancellations. From January 1 to May 30, 1982, a landowner may petition the local government for cancellation on the grounds that a proposed use (a) would not result in discontiguous patterns of urban development, and (b) would be consistent with the local government's general plan. If the local government makes both of these two findings, it *may* agree to cancellation, but is not required to do so.

"Window" cancellations are subject to the cancellation fee, but the Resources Secretary may not waive the fee under such circumstances. Moreover, if the local agency grants tentative approval of the cancellation provided certain conditions are met, and the landowner agrees to those conditions but fails to meet them, he must still pay the cancellation fee.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $13,000,000 for open space payments to local governments in the budget year. This is $1 million less than the amount appropriated for 1981–82.

Fiscal Impact of the Window

In recent years, contracts covering about 4,000 to 5,000 acres have been canceled annually, with cancellation fees of approximately $1 million going into the General Fund each year. According to the Governor's Budget,

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS—Continued

the state will receive $10 million in 1981–82 and $40 million in cancellation fees during 1982–83. This estimate is based upon a telephone survey of county and city officials conducted by the Office of Planning and Research (OPR) in November 1981. The survey indicates that local officials expect cancellations of about 375,000 acres, or 2.3 percent of the area under contract. While the survey provides an indication of the potential magnitude of the cancellations, we believe that actual cancellations will be significantly less than predicted by OPR. It appears that there are several factors—some of which were explicitly recognized by OPR—which will operate to restrict the extent of cancellation activity.

- The board of supervisors or city council may choose not to approve cancellation requests.
- Even if the board or council is disposed favorably toward cancellation, the proposed alternative use must be consistent with the county or city general plan which either was in effect October 1, 1981, or was amended as a result of proceedings initiated *before January 1, 1982.*
- The landowner may be deterred by the cancellation fee, which is generally equal to 12½ percent of what the assessed value would be under Proposition 13. This fee cannot be waived. In addition, the local agency may impose a charge to partially recoup the property tax revenue it lost during the term of the contract.
- The demand for open-space land by developers is likely to be weak for the next few years. The building industry is now in a severe and protracted slump.

The budget predicts a *hundredfold* increase in canceled acreage while the window is open. This implies an extraordinary pent-up demand for contract termination. There is no independent evidence of such a demand. The magnitude of the budget estimate may be seen in a better perspective by assuming that only *half* the canceled acreage were to be used for housing development (quarter-acre lots). This would imply a near-term demand for 750,000 new housing units, or more than *six times* the number of housing units authorized in all of 1981. Such a supply of new housing would far outstrip demand for several years. It is therefore likely that many landowners would choose to retain the tax advantage and either cancel in a future year (perhaps receiving a higher price as the building industry recovers and the demand for subdivision lots increases) or nonrenew their contracts (thereby avoiding the cancellation fee).

Program Not an Effective Use of State Funds

We recommend that (1) funding for open-space subventions be eliminated, 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 it is not effective in achieving the goals established by the Legislature. Specifically:

1. ***The program provides a reduction in property taxes, and a state subvention, for a large portion of land that is not threatened with development and therefore 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 and 88 percent of the prime land under contract is outside urban areas. Because the land is outside urban areas, most of it is presumably not threatened with development. Yet, reimbursement on behalf of

the property tax losses in connection with this land will amount to approximately $7.6 million, or 58 percent of the budget request. Table 1 shows the breakdown of acreage and subvention, by type of land, for 1981–82.

Table 1
Open-Space Acreage and Subvention Payments in 1981–82 (in thousands)

Type of Land	*Acreage*	*Percent of Total*	*Payments*	*Percent of Total*
Urban Prime [a]	623.8	3.9%	$4,746.5	34.8%
Other Prime	4,472.9	27.8	4,472.9	32.8
Nonprime	11,031.0	68.4	4,412.4	32.4
Total	16,127.6	100.0%	13,631.8	100.0%

[a] Prime land within three miles of an incorporated city with population of at least 15,000.
[b] Totals may not add because of rounding.

2. ***Proposition 13 has substantially weakened the incentive effect of the tax differential.*** Although a favorable differential generally still exists between the taxes on restricted and unrestricted value, the value of the tax savings has been reduced significantly because property taxes have been reduced by over 50 percent under Proposition 13.

3. ***Proposition 13 is an effective shield against future development pressures.*** One of the premises of the Williamson Act was that the market value of open-space land would rise as development pushed closer and closer, thereby compelling the landowner to sell because of spiraling property taxes. Proposition 13, however, limits to 2 percent the annual increase in the assessed value of land not under contract (except when the land is sold). Thus, it is highly unlikely that a landowner will find it necessary to sell his land because of rapidly increasing property taxes.

4. ***It is unlikely that subvention payments provide a significant incentive to local governments, compared to the economic forces that generally accompany development pressure.*** The subvention payments may provide local governments with up to $8.00 per acre, but development of these properties can produce increases in property tax revenues of hundreds of dollars per acre.

AB 2074 made the original program less strict by making cancellation significantly easier than it has been in most jurisdictions in the past. This is because the measure permits cancellation if (1) it would be consistent with the Act, *or* (2) it would be in the public interest. Before passage of AB 2074, *both* criteria had to be met.

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 for 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.

PAYMENTS TO LOCAL GOVERNMENTS FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 9100-101(g) from the General Fund — Budget p. GG 198

Requested 1982–83	$3,292,000
Estimated 1981–82	3,046,000
Actual 1980–81	3,519,000
Requested increase (excluding amount for salary increases) $246,000 (+8.1 percent)	
Total recommended reduction	$1,558,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Excess Reimbursements. Reduce Item 9100-101-001(g) by $1,558,000 to recover two overpayments made in 1980–81.*** 1784

GENERAL PROGRAM STATEMENT

Existing law (Ch 1406/72, as amended by Ch 1135/77) requires the state to reimburse local governments for the net loss resulting from sales or property tax exemptions enacted in 1973 and thereafter. Reimbursement is not required by Article XIIIB of the Constitution.

The budget identifies 18 statutes which have ongoing funding requirements and thus necessitate annual Budget Act appropriations. Eleven of the items are for *actual* property tax losses. Each county auditor files an annual claim for reimbursement under these statutes. Seven of the items are for *estimated* sales tax losses. Because records of exempt sales are not maintained, reimbursement for these losses is based on a formula. When an exemption is first enacted, the Board of Equalization estimates the loss for the first year. This amount is apportioned by the Controller to cities and counties based on a formula. In succeeding years, local governments receive this amount multiplied by the estimated annual growth in statewide sales tax revenues. This growth is estimated to be slightly over 13 percent in 1982–83.

ANALYSIS AND RECOMMENDATIONS

Chapters 1077 and 1348, Statutes of 1980

We recommend that this item be reduced by $1,558,000 in order to correct for two overpayments in 1980–81.

The budget estimates that required reimbursements in 1982–83 will be $3,292,000, or $246,000 higher than expenditures for reimbursement in the current year.

Our analysis indicates that in 1980–81, the state provided reimbursements in excess of the estimated losses resulting from the following two statutes:

	Estimated 1981–82	*Requested 1982–83*
Chapter 1348, Statutes of 1980	$900,000	$1,019,000

Exempts from the sales tax noneffervescent and noncarbonated water sold in one-gallon or larger containers.

	Estimated 1981–82	Requested 1982–83
Chapter 1077, Statutes of 1980	$404,000	$458,000

Exempts gasohol from a portion of the sales tax. The exemption, which is based on gallonage rather than dollar value, will be 4 cents per gallon in 1982 and 3 cents in 1983. The exemption sunsets at the end of 1983.

For both of these statutes, the amounts appropriated by the Legislature to reimburse the local sales tax revenue loss during the first year in which they were effective overcompensated local governments. Chapter 1077 (gasohol) appropriated $1 million to reimburse the revenue loss resulting from the bill in 1980–81. That amount, however, was based on the estimated full year revenue loss associated with an earlier version of the bill, rather than the version of the bill that ultimately was enacted. Moreover, because the bill became operative on January 1, 1981, a full-year revenue loss did not result in fiscal year 1980–81. The revenue loss resulting from the version of the bill that was enacted was about $119,000. Thus, the overreimbursement in 1980–81 amounted to $881,000.

Chapter 1348 (bottled water) appropriated $940,000 to reimburse the revenue loss resulting from the bill during 1980–81. Here again, the appropriation was based on an earlier version of the bill, and did not reflect the fact that the bill would be operative for only six months during 1980–81. The revenue loss resulting from the chaptered version of the bill was $263,000. Thus, the overreimbursement in 1980–81 amounted to $677,000.

For both measures, the correct amount was appropriated by the Budget Act of 1981. The state, however, has not recouped the overpayments from 1980–81. To recoup these funds and make them available for other high-priority state needs, we recommended that $1,558,000 be deducted from the budget year payments.

Other Sales Tax Exemptions

Reimbursement for the sales tax loss resulting from the other five statutes is as follows:

	Estimated 1981–82	Requested 1982–83
Chapter 765, Statutes of 1979	$3,000	$3,000

Exempts goods sold by those nonprofit associations (often called "Friends of the Library") which perform auxiliary services for a public library.

	Estimated 1981–82	Requested 1982–83
Chapter 1048, Statutes of 1979	$14,000	$16,000

Exempts meals served to residents of a home for the aged which charges a fixed, combined rate for both room and board.

	Estimated 1981–82	Requested 1982–83
Chapter 222, Statutes of 1980	$3,000	$3,000

Exempts medical alert tags sold by a nonprofit organization.

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

	Estimated 1981–82	*Requested 1982–83*
Chapter 645, Statutes of 1980	$18,000	$20,000

Exempts meals prepared for senior citizens living a a condominium which has common kitchen facilities.

	Estimated 1981–82	*Requested 1982–83*
Chapter 1246, Statutes of 1980	$227,000	$257,000

Exempts 60 percent of the sales price of all factory-built housing except mobilehomes.

Property Tax Exemptions

Reimbursements for property tax losses are as follows:

	Estimated 1981–82	*Requested 1982–83*
Chapter 16, Statutes of 1973	$16,000	$90,000

Increases from $20,000 to $40,000 the exemption on certain housing which is owned by a corporation but where certain blind or disabled veterans have the right of possession.

	Estimated 1981–82	*Requested 1982–83*
Chapter 961, Statutes of 1977	$80,000	$230,000

Provides that the unmarried surviving spouse of a disabled veteran may qualify for certain of the veteran's property tax exemption.

	Estimated 1981–82	*Requested 1982–83*
Chapter 1273, Statutes of 1978	$1,012,000	$175,000

Extends the disabled veterans' exemption ($40,000) to veterans who are disabled because of a disease incurred in military service, or to the veteran's surviving spouse.

	Estimated 1981–82	*Requested 1982–83*
Chapter 1276, Statutes of 1978	$820,000	$730,000

Increases the exemption for disabled veterans from $40,000 to $60,000 if the veteran has a low income.

	Estimated 1981–82	*Requested 1982–83*
Chapter 172, Statutes of 1980	$4,000	$18,000

Provides for partial payment of late claims for the disabled veterans' property tax exemption.

The Controller is auditing 1979–80 and 1980–81 claims for these five veterans' exemptions, pursuant to language contained in the Supplemental Report to the 1981 Budget Act. The result of these audits are to be made available prior to the budget hearings on this item.

	Estimated 1981–82	*Requested 1982–83*
Chapter 1165, Statutes of 1973	$48,000	$52,000

Provides that land whose use is restricted to a wildlife habitat (through a contract between the landowner and a federal or state agency) is to be assessed as open-space land.

	Estimated 1981–82	*Requested 1982–83*
Chapter 928, Statutes of 1979	$5,000	$5,000

Provides that business records are to be assessed only at the *tangible* value of the documents. This provision currently affects only title records.

	Estimated 1981–82	*Requested 1982–83*
Chapter 866, Statutes of 1978	$4,000	$4,000

Exempts church parking areas.

	Estimated 1981–82	*Requested 1982–83*
Chapter 588, Statutes of 1979	$60,000	$60,000

Exempts personal property of nonprofit student bookstores.

	Estimated 1981–82	*Requested 1982–83*
Chapter 18, Statutes of 1980	$301,000	$100,000

Provides that certain sportfishing vessels are to be assessed at 4 percent of full value.

	Estimated 1981–82	*Requested 1982–83*
Chapter 610, Statutes of 1980	$47,000	$52,000

Revises the property tax allocation formula for commercial aircraft to exclude all time prior to the aircraft's first revenue flight.

The Governor's Budget proposes that bills which mandate minor costs to local agencies be consolidated and reimbursed "on a mutually-agreed basis" in order to reduce administrative costs for both state and local governments. Because claims for property tax reimbursements under this item frequently amount to only a few thousand or even a few hundred dollars per county, it may be appropriate for the Legislature to consider providing reimbursement for the statutes in this item under the same procedure.

RENTERS' TAX RELIEF

Items 9100-101(h) from the General Fund — Budget p. GG 199

Requested 1982–83	$440,000,000
Estimated 1981–82	425,000,000
Actual 1980–81	406,813,000
Requested increase (excluding amount for salary increases) $15,000,000 (+3.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief program provides a fixed payment to renters who are residents and rented a dwelling in California as their principal place of residence on March 1. No age or income limitations apply to renters claiming relief under this program. The credit is $60 for single renters and $137 for married couples, heads of households, and surviving spouses.

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 paid directly to the renter. The full cost to the state must be budgeted each year. This is unlike all other refundable credits, for which only the refundable portion is budgeted. The remainder of these credits is simply a tax expenditure (that is, a direct revenue loss), and does not appear on the expenditure side of the budget.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $440 million for Renters' Tax Relief in 1982–83. This is an increase of $15 million, or 3.5 percent, over current-year expenditures.

Table 1 provides a breakdown of expenditures, by type of claimant, for the 1979 through 1981 income years. It indicates that single renters account for most of the increase in the number of claimants.

Table 1
Number of Renters' Credit Claimants, by Income Year (in millions)

	Actual 1979	*Estimated 1980*	*Estimated 1981*
Single	2.1	2.3	2.4
Joint	1.3	1.3	1.3
Other[a]	0.6	0.7	0.7
Total[b]	4.1	4.2	4.4

[a] Includes head of household, surviving spouse, and married filing separately.
[b] Detail may not add because of rounding.

SUBSTANDARD HOUSING

Item 9100-101 (i) from the General Fund — Budget p. GG 199

Requested 1982–83	$72,000
Estimated 1981–82	54,000
Actual 1980–81	125,000
Requested increase (excluding amount for salary increases) $18,000 (+33.3 percent)	
Total recommended reduction	36,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Mandated Program. Recommend legislation to provide that the Franchise Tax Board may be notified of violations at the discretion of the local agency. 1790
2. Budget Bill Language. Recommend change in language to conform to language in the 1981 Budget Act, as amended. 1790
3. ***Administrative Costs. Recommend that transfer to the Local Agency Code Enforcement and Rehabilitation Fund (LACERF) be reduced by $36,000.*** Recommend that these funds be used to defray the Franchise Tax Board's cost for administering this program. 1791

GENERAL PROGRAM STATEMENT

Substandard Housing 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 rental housing which is in violation of state or local housing codes. Chapter 1286, Statutes of 1978, provided that the additional tax revenues generated by Ch 238/74 are to be transferred from the General Fund to the Local Agency Code Enforcement and Rehabilitation Fund (LACERF) 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 code enforcement activities, housing rehabilitation, and related activities.

Table 1 presents data on participation in the program by local agencies. The table indicates that there is little correlation between the number of noncompliance notices received by FTB and the excess revenue collected. There are two reasons for this. First, two or more years may lapse from the time a violation is reported to the time the landlord's tax return is filed and audited. Second, the size of the tax penalty depends upon the landlord's taxable income, rather than upon the number or type of violations.

Table 1

	1970–80	*1980–81*	*Percentage Change*
Number of noncompliance notices received	262	244	−6.9%
Excess revenue collected	$79,471	$81,479	+2.5

Source: Franchise Tax Board.

SUBSTANDARD HOUSING —Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes that $72,000 be transferred from the General Fund to the LACER fund in 1982–83. Combined with the existing $18,000 balance, this would make $90,000 available for disbursement to local agencies in 1982–83.

Unnecessary Mandate

We recommend that the Legislature amend Sections 17299 and 24436.5 of the Revenue and Taxation Code to provide that the Franchise Tax Board (FTB) may be notified of violations at the discretion of the local agency.

Chapter 1286 *requires* a local agency to report housing code violations to FTB if the landlord does not correct the violation within six months. This mandate tends to increase administrative costs at both the state and local level, since staff must be used to prepare claims for state reimbursement, review the claims, make payments, and perhaps conduct audits. FTB statistics indicate that in two-thirds of the cases, notification does *not* result in increased taxes, primarily because the landlord had no taxable income.

We believe the mandate should be repealed so that local agencies which have not found the program to be an effective tool in preserving the existing housing stock are not required to divert staff resources from more effective programs. Repeal would not affect agencies which have found the program to be an effective tool of enforcement and a source of significant funding. Most local agencies that currently submit notifications to the FTB would probably continue to do so, even if the mandate were repealed, because of the financial incentive to do so.

The Governor's Budget proposes that $5,000 be provided for reimbursement of costs incurred by agencies which receive no revenue from the fund. If this mandate is repealed, then these reimbursements, provided under Item 1730, may be eliminated, for a savings of $5,000 to the state, and additional savings to local governments.

Change in Budget Bill Language

We recommend deletion of the Budget Bill language contained in this item providing that the revenues paid to local agencies for substandard housing enforcement shall constitute full reimbursement for mandated costs under Item 173.

The mandated costs incurred by local agencies in reporting instances of substandard housing to the FTB are reimbursed under Item 173. That item contains language providing that only those costs in excess of the revenues distributed to each local agency under Item 910 shall be paid. The language proposed under Item 910 would go even further and provide that the distribution of the revenues under Item 910 shall constitute *full* reimbursement of the mandated costs incurred under Chapter 1286. Thus, this language would preclude an agency which incurred costs in reporting instances of substandard housing, but did not receive a distribution of revenues from disallowed deductions, from receiving reimbursement for its costs.

Regardless of whether legislation repealing the notification mandate is enacted, this language should be deleted.

State Costs Should Be Recovered

We recommend that the Legislature reduce the transfer to the Local Agency Code Enforcement and Rehabilitation Fund (LACERF) by $36,-000, and reallocate these funds to defray the FTB's administrative costs.

Since the inception of the substandard housing program, the FTB's administrative costs have been financed entirely from the General Fund.

Our analysis indicates that financing these costs from the LACERF, rather than from the General Fund, would have two advantages. First, it would link more closely the cost of administering this program with the benefits derived from it. To the extent LACERF resources are used to finance these costs, the local entities that benefit directly from the program would bear the cost of supporting it. Currently, these costs are borne by taxpayers throughout the state, including those in areas that do not benefit from the program.

Second, it would free up additional General Fund resources that could be used to fund other legislative priorities.

For these reasons, we recommend that the FTB's administrative costs, estimated to be $36,000 in 1982–83, be reimbursed from the amount transferred to LACERF, and that the reimbursement to local agencies be reduced accordingly. We do not believe that this would have any adverse impact on program effectiveness because it does not appear that state financing of these costs is required for the program to be effective as a means of encouraging the abatement of substandard housing conditions. The incentive to comply with local codes is supplied by the tax penalty.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 9620 from the General Fund — Budget p. GG 213

Requested 1982–83	$20,000,000
Estimated 1981–82	3,000,000
Requested increase $17,000,000 (+567 percent)	
Recommended reduction	$20,000,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Elimination of item. Recommend item be deleted and that interest costs be appropriated through a new control section.	1792

GENERAL PROGRAM STATEMENT

For any month in which cash disbursements exceed incoming revenues, the General Fund is forced to borrow monies from the Reserve for Economic Uncertainties and from the Pooled Money Investment Account. Most of these loans are interest-free; however, existing statutes require the payment of interest under certain conditions.

Given the state's current tight fiscal situation, the General Fund will be forced to pay interest costs in both the current and budget years. The Department of Finance estimates these costs at $3 million in 1981–82 and $20 million in 1982–83.

PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend that this item be deleted and that a new control section be enacted to appropriate monies for the interest costs.

The administration's estimate of 1982–83 interest costs—$20 million—is based on monthly projections of budget-year disbursements and revenue collections, and on assumptions regarding the interest rate charged the General Fund. Given the difficulty in projecting these amounts, the *actual* interest costs may be much greater or less than the proposed amount. Consequently, to the extent that the Budget Act appropriation does not cover actual interest costs in 1982–83, the Legislature will have to consider year-end deficiency legislation.

Since the Legislature has already adopted the policy of paying interest on certain General Fund loans, it is only a question of how best to make the payment of these costs. We recommend that the Legislature eliminate the fixed-dollar, Budget Act appropriation and provide instead for an open-ended General Fund appropriation. In this way, the Controller can make the necessary year-end payments to those funds owed interest. We therefore recommend that Control Section 12.25 be added to the Budget Act to accomplish this end (see our analysis of Section 12.25).

While we show a reduction of $20 million due to the recommended elimination of this item, there is no General Fund savings of a corresponding amount. This is because the cost of the interest payments—now estimated at $20 million—would instead be paid from Section 12.25.

HEALTH BENEFITS FOR ANNUITANTS

Item 9650 from the General Fund — Budget p. GG 221

Requested 1982–83	$52,774,000
Estimated 1981–82	49,787,000
Actual 1980–81	38,757,000
Requested increase $2,987,000 (+6.0 percent)	
Recommendation pending	$52,774,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Funding for Premium Increase. Withhold recommendation, pending determination of the actual increase in health insurance premiums.	1793

GENERAL PROGRAM STATEMENT

This appropriation provides the state's contribution toward payment of monthly health insurance premiums for annuitants of retirement systems to which the state contributes as an employer. These systems include the Judges', Legislators', Public Employees', and Teachers' Retirement Systems. For the latter two systems, this health insurance contribution is limited to retired state employees.

This program offers a degree of post-retirement security for employees