TAX RELIEF SUMMARY

Summary of State Tax Relief Expenditures

Prior to Proposition 13, the Legislature enacted nine programs consisting primarily of property tax relief for homeowners, senior citizens, renters, and business inventories. These programs have not been adjusted to reflect the lower level of property tax burden which resulted from Proposition 13.

The budget proposes $1.4 billion to fund the nine tax relief programs in 1983–84. This amount represents only a fraction of the total amount of tax relief provided by the state. The cost of these other tax relief programs, such as the savings in tax payments resulting from Proposition 13 and income tax indexing, do not show up in the budget because they result in revenue losses. We estimate that *total* state and local tax relief will amount to approximately $16 billion in 1983–84. This does not include the estimated $9 billion in *tax expenditure program costs* identified in the Governor's Budget.

Changes in the costs to the state for most property tax relief programs is determined primarily by changes in the number of participants in the program and, to a lesser extent, by changes in individual payments. Because the exact level of participation usually is not known until the close of each year, the budget estimate of costs should be viewed as projections that are subject to change, rather than firm amounts.

Increase in Current Year Costs

As shown in Table 1, the $1,390 million proposed for tax relief payments in 1983–84 is $18.6 million, or 1.4 percent, above estimated 1982–83 expenditures. The changes includes:

- An increase of $8 million or 1.8 percent in renters' tax relief.
- An increase of $8 million or 1.6 percent, in personal property tax relief. This increase reflects the restoration of $8 million that was deleted on a one-time basis in the current year to preclude enterprise special districts from receiving business inventory reimbursements.
- An increase of $1.5 million, or 59 percent in payments to local governments for sales and property tax exemptions. This increase results from the restoration of funds deleted on a one-time basis in the current year. Adjusting for these current-year one-time reductions, proposed expenditures in the budget year are in fact $86,000, or 2.1 percent, below the current-year level.
- An increase of $1.5 million, or 0.4 percent, in homeowners' property tax relief.
- A decrease of $1 million, or 2.3 percent, in the senior citizens renters' tax assistance to reflect declines in program participation.

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.

TAX RELIEF SUMMARY—Continued

Table 1
Tax Relief Summary
(in millions)

Program	*Type*[a]	*Actual 1981–82*	*Estimated 1982–83*	*Proposed 1983–84*	*1982–83 to 1983–84 Change Amount*	*Percent*
Senior citizens' property tax assistance	R	$14.6	$11.5	$11.0	–$0.5	–4.3%
Senior citizens' property tax deferral	R	5.6	6.0	7.1	1.1	17.3
Senior citizen renters' tax assistance	R	47.6	44.3	43.3	–1.0	–2.3
Personal property tax relief	R	467.2	503.6	511.6	8.0	1.6
Homeowners' property tax relief	R	334.1	334.5	336.0	1.5	0.4
Renters' tax relief	R	424.7	456.0	464.0	8.0	1.8
Open space subventions to local governments	I	13.7	13.0	13.0	0.0	0.0
Payments to local governments for sales and property tax revenue losses	R/I	4.6	2.5	4.0	1.5	59.0
Substandard housing	I	0.1	0.1	0.1	—	—[b]
Total		$1,312.2	$1,371.5	$1,390.1	$18.6	1.4%

[a] R = tax relief; I = tax incentive.
[b] The nonrounded figures for 1982–83 and 1983–84 ($36,000 and $110,000) yield an increase of 206 percent.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 9100-101(a) from the General Fund — Budget p. GG 154

Requested 1983–84	$11,000,000
Estimated 1982–83	11,500,000
Actual 1981–82	14,612,000
Requested decrease $500,000 (–4.3 percent)	
Total recommended reduction	$1,300,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Citizens' Property Tax Assistance. Reduce Item 9100-101-001(a) by $1,300,000 to correct for overbudgeting.*** 1939

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. The state provides senior citizens' property tax assistance only for 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 provided in 1983–84 will be based on taxes paid in 1982–83.

Table 1 shows the number of approved claimants and the total assistance these claimants received in the years 1978–79 through 1982–83. The table also presents data on average income, average property taxes, and average assistance received for all claimants. The 1982–83 estimated data are based on actual claims filed through December 31, 1982 with the Franchise Tax Board (FTB), which processes the claims. FTB estimates that 98 percent of all claims are filed by December 31. Taking FTB's data and projecting it to represent 100 percent participation, our analysis indicates that an estimated 118,959 claimants will receive a total of $11.1 million in assistance in the current year.

Table 1
Senior Citizens' Property Tax Assistance
1978–79 Through 1982–83

	Actual 1978–79	*Actual 1979–80*	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*
Number of Claimants:					
Senior	280,459	226,973	178,652	142,814	112,271
Disabled	—	7,928	7,657	7,697	6,688
Total	280,459	234,901	186,309	150,511	118,959
Total Assistance (in millions)	$70.6	$24.5	$18.8	$14.5	$11.1
Per Claimant Averages:					
Household income	$6,525	$6,575	$6,673	$6,886	$7,042
Property taxes	$647	$262	$258	$258	$263
Assistance:					
Amount	$252	$104	$101	$96	$93
Percent of taxes	38.9%	39.7%	39.1%	37.2%	35.4%

Source: Franchise Tax Board.

ANALYSIS AND RECOMMENDATIONS

We recommend that this item be reduced by $1.3 million to reflect the extensive decline in program participation.

The budget proposes $11 million from the General Fund for support of the Senior Citizens' Property Tax Assistance program in 1983–84. This is a decrease of $500,000, or 4.3 percent, from estimated current-year expenditures.

Decline in Participation Larger Than Anticipated

The 1982 Budget Act appropriated $12.5 million for this program in 1982–83. Based on preliminary data from the Franchise Tax Board, we estimate that 118,959 persons will submit claims in 1982–83. This is about 21 percent fewer than the number that applied for assistance in 1981–82. The Department of Finance has estimated expenditures for 1982–83 at $11.5 million, or $1 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 provided under this program is based. Since Proposition 13, the average amount of assistance has declined by approximately 3% annually. This lower level of assistance appears to be responsible for a drop in the number of claims received from newly eligible claimants as well as a drop in renewals. FTB data indicate that participation by newly eligible persons reached a high of about 11,400

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

persons in 1977, but dropped to 1,525 in 1982. Further, the number of claims received from the group of seniors aged 62–70 has declined each year since Proposition 13. Prior to Proposition 13, the number of claims from this group 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, the perceived benefit of continued participation is reduced.

The budget proposal of $11.0 million in 1983–84 is only marginally less than preliminary estimates of current year expenditures ($11.1 million). Our analysis indicates that further declines in participation and expenditures are probable. The declines, however, will probably not be so great as in recent years, because the rate of decline in the number of newly-eligible senior citizens (those who turned 62 before the income year begins) has been slowing since 1980. Table 2 shows the number of participants who turned 62 during the year before the claim year.

Table 2

Estimate of Newly Eligible Participants

Claim Year	*Participants Who Turned 62 On or Before January 1 of the Claim Year*	*Percent Change*
1977	11,400	—
1978	7,122	−38%
1979	3,951	−45
1980	2,625	−34
1981	2,037	−22
1982	1,525	−25

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 in 1983–84 than it has in recent years. Based on an expected decline in participation of 10 percent in 1983–84, along with an estimated 3 percent reduction in the level of average assistance, we recommend that this item be reduced by $1.3 million to correct for overbudgeting.

SENIOR CITIZENS' PROPERTY TAX POSTPONEMENT

Item 9100-101 (b) from the General Fund — Budget p. GG 154

Requested 1983–84	$7,150,000
Estimated 1982–83	6,093,000
Actual 1981–82	5,596,000
Requested increase $1,057,000 (+17.3 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Senior Citizens' Property Tax Postponement. Recommend legislation revising interest rates to eliminate General Fund subsidy (Potential increase in General Fund revenues: $750,000 annually.) 1942

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Postponement program allows eligible homeowners to defer payment of all or a portion of the property taxes on their residences. The state pays local governments the deferred taxes on behalf of senior citizens. The state also 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 $33,600 in 1981. The income limit for the budget year will be determined in March 1983. Based on a 6.5 percent inflation rate, the State Controller's office estimates the 1983–84 income level will be $35,800.

The program is administered by the State Controller's office. This Budget Bill item appropriates funds to the Controller, who pays local governments on behalf of the participants.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $7,150,000 for the Senior Citizens' Property Tax Postponement program in 1983–84, which is an increase of 17.3 percent over estimated current-year expenditures. As Table 1 indicates, participation in the program has been increasing steadily since 1979–80. In addition, participation is projected to increase because (1) current high interest rates will make these loans more attractive, and (2) more senior citizens will be eligible, to the extent that the income cutoff increases faster than senior citizens' income.

SENIOR CITIZENS' PROPERTY TAX POSTPONEMENT—Continued

Table 1

Program Participation

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Projected 1983–84*
Certificates issued	7,654	7,941	9,180	10,557	12,140
Certificates used	6,175	7,827	8,354	9,607	11,047
Total amount of current property taxes postponed (in thousands)	$3,391	$4,150	$5,165	$6,000 [a]	$7,150 [b]
Average amount postponed	$549	$530	$610	$625	$647

Source: Controller.

[a] Does not reflect $93,000 used to reimburse counties for their costs in administering the program.

[b] $173,000 in county administrative costs is appropriated in Item 9680-101-001, state-mandated local programs.

Need to Adjust Interest Rate

We recommend the enactment of legislation revising the statutory interest rate that applies to deferred taxes, so as to eliminate the General Fund subsidy for this program (Potential increase in General Fund revenues: $750,000 annually.)

Current law provides that the state collect interest on funds advanced on behalf of senior citizens, at the rate of 7 percent annually, not compounded. Interest is collected at the time the deferred taxes are paid by the property owner, which occurs when ownership of the property is transferred or sold.

At the time the program was established, market interest rates averaged about 7 percent. In 1977–78, the first year the loans were made, the Pooled Money Investment Fund (PMIF) earned an average annual interest rate of 6.7 percent. Because funds on deposit in the PMIF were earning 0.3 percent less than those funds loaned to pay for deferred taxes, the General Fund actually experienced a slight revenue increase as a result of this program.

Since 1977–78, however, interest rates earned by the PMIF have exceeded the statutory interest rate for this program by an average of 2.8 percentage points. This means that less interest is being earned on the amount of the deferred loans than otherwise would be earned if the monies were on deposit in the PMIF. For each year that the PMIF earns more than 7 percent, the General Fund actually is subsidizing the loans granted under the senior citizens postponement program. Assuming that the PMIF would earn 10 percent in 1983–84, and that the outstanding balance of loans equals $25 million, we estimate that this subsidy will amount to approximately $750,000 in the budget year.

Table 2 displays the cumulative effect of this General Fund loss of interest income. A review of taxes deferred since 1977–78 indicates that $32.3 million has been loaned to date. The Controller's office informs us that approximately $11 million of this amount has been repaid to the state, leaving an outstanding balance of approximately $21 million. Because we are unable to identify the specific time periods and amounts of the loans that already have been repaid, we are unable to determine the actual cost to the General Fund of subsidizing this program. Table 2, however, illustrates the *potential* cost to the General Fund, on the assumption that none of the deferred taxes have been repaid.

Table 2
Cumulative Effect of General Fund Subsidy
(Assumes All Loans Are Outstanding)

			Current Law		Pooled Money Investment Fund		
Fiscal Year	*Amount Loaned*	*Cumulative Amount Loaned*	*Interest Rate*	*Actual Annual Interest Earnings*	*Interest Rate*	*Imputed Annual Interest Earnings*	*Annual General Fund Subsidy*
1977–78	$11,125,333	$11,125,333	7.0%	$778,773	6.7%	$745,397	–$33,376
1978–79	1,462,000	12,587,333	7.0	881,113	8.5	1,069,923	188,810
1979–80	3,391,000	15,978,333	7.0	1,118,483	10.5	1,677,725	559,242
1980–81	4,150,000	20,128,333	7.0	1,408,983	10.8	2,173,860	764,877
1981–82	6,165,000	26,293,333	7.0	1,840,533	12.07	3,173,605	1,333,072
1982–83	6,000,000	32,293,333	7.0	2,260,533	10.0	3,229,333	968,800
Totals		$32,293,333		$8,288,418		$12,069,843	$3,781,425

Table 2 indicates that the General Fund may have provided as much as $3.8 million in subsidies in the six years that the program has been operative. This represents a General Fund cost of up to approximately $630,000 per year over the life of the program.

We do not question the merit of assisting eligible homeowners in paying their property taxes. We can find no analytical basis, however, for requiring the General Fund to subsidize the program, as occurs whenever the PMIF earnings exceed 7 percent. For these reasons, we recommend that legislation be enacted eliminating a specified interest rate, and providing instead that interest on deferred property tax payments be charged at the annual average rate earned by the Pooled Money Investment Fund.

SENIOR CITIZENS RENTERS' TAX ASSISTANCE

Item 9100-101(c) from the General Fund — Budget p. GG 155

Requested 1983–84	$43,300,000
Estimated 1982–83	44,300,000
Actual 1981–82	47,651,000
Requested decrease $1,000,000 (–2.3 percent)	
Total recommended reduction	$2,400,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Citizens Renters' Tax Assistance. Reduce Item 9100-101-001(c) by $2,400,000 to correct for overbudgeting.*** 1944

GENERAL PROGRAM STATEMENT

This program provides tax relief to renters age 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 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

SENIOR CITIZENS RENTERS' TAX ASSISTANCE—Continued

income tax credit provided all renters under Item 9100-101-001(h).

ANALYSIS AND RECOMMENDATIONS

We recommend that this item be reduced by $2,400,000 to reflect more recent data on 1982–83 expenditures.

The budget proposes an appropriation of $43.3 million from the General Fund for the Senior Citizen Renters' Tax Assistance program in the budget year. This amount is $1 million less than estimated current-year expenditures.

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, does not reflect more recent estimates of current-year costs and participation levels.

Table 1 shows the number of approved claimants and the total assistance they received in the years 1979–80 through 1982–83. It also presents data on average income, average property taxes, and average assistance received for all claimants. The data for 1982–83 are estimates, based on the actual number of claims filed through December 31, 1982 with the Franchise Tax Board (FTB), which processes the claims. FTB estimates that the number of claims filed by December 31 represents 98 percent of all claims that will be filed in a fiscal year. We took the FTB's data and projected it to represent 100 percent participation. Our analysis indicates that in 1982–83 an estimated 284,878 claimants will receive a total of $41.9 million in assistance. This represents a decrease of (a) 12,828 participants (−4.3 percent) and (b) $4.6 million (−9.9 percent) from 1981–82. The amount requested in the budget for 1983–84, thus, is $1.4 million greater than the $41.9 million we estimated will be expended in the current year.

Table 1

Senior Citizen Renters' Tax Assistance

1979–80 Through 1982–83

	1979–80 (Actual)	*1980–81 (Actual)*	*1981–82 (Actual)*	*1982–83 (Estimated)*
Number of Claimants:				
Senior	206,877	217,889	214,705	203,515
Disabled	61,459	75,361	83,001	81,363
Total	268,336	293,250	297,706	284,878
Total Assistance (in millions)	$46.0	$49.0	$46.5	$41.9
Per Claimaint Averages:				
Household income	$4,997	$5,211	$5,595	$5,848
Assistance	$171	$167	$156	$147

Source: Franchise Tax Board

Table 2 compares total program expenditures for 1982–83 and 1983–84, as identified in the Governor's Budget with our estimates, which are based on the more recent data provided by FTB. The Governor's Budget projects a decline of 2.3 percent.

Table 2
1982–83 Estimates and 1983–84 Projections
(in millions)

	1982–83 Expenditures (Estimated)	*1983–84 Expenditures (Projected)*	*Projected Decline 1982–83 to 1983–84* Amount	Percent
Governor's Budget Estimates	$44.3	$43.3	−1.0	−2.3%
LAO Estimates (based on more recent FTB data)	41.9	40.9	−1.0	−2.3

If the 2.3 percent decline is applied to the more recent estimate of current-year expenditures, expenditures in 1983–84 will be $40.9 million, rather than $43.3 million as proposed in the budget, a difference of $2.4 million. Based on this, we recommend a reduction of $2,400,000 to correct for overbudgeting.

PERSONAL PROPERTY TAX RELIEF

Item 9100-101(d) from the General Fund — Budget p. GG 155

Requested 1983–84	$511,613,000
Estimated 1982–83	503,625,000
Actual 1981–82	467,174,000
Requested increase $7,988,000 (+1.6 percent)	
Total recommended reduction	$9,002,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Enterprise Special Districts. Reduce Item 9100-101-001(d) by $9 million and continue a modified version of existing statutory language precluding specified enterprise districts from receiving business inventory and other reimbursements.*** 1946
2. ***Livestock Reimbursement Overstated. Reduce Item 9100-101-001(d) by $2,000 to correct for overbudgeting.*** 1947

GENERAL PROGRAM STATEMENT

This program 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.

Current law provides for the reimbursement of local property tax revenues losses on a formula basis. Generally, the formula provided for reimbursement in 1980–81 to be twice the amount paid in 1979–80. Thereafter, reimbursement is to be based on the amount paid in the prior year, as adjusted by the "State Reimbursement for Inventory Tax Factor." This factor provides for increases based on changes in the cost-of-living and population which, for the budget year, equals a 6.3 percent increase.

PERSONAL PROPERTY TAX RELIEF—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes $511,613,000 for Personal Property Tax Relief in 1983–84, an increase of 1.6 percent above estimated current-year expenditures. This increase is attributable to the restoration of funds which were deleted from the 1982–83 budget. The budget proposes no increase for price or population growth in the budget year.

Table 1 shows the cost of personal property subventions for the period 1979–80 through 1983–84.

Table 1
Personal Property Tax Relief
1979–80 Through 1983–84
(in thousands) [a]

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Projected 1983–84*
Livestock	$2,034	$3,754	$3,878	$3,810	$3,812
Aircraft	—	546	634	700	700
Cotton	—	1,212	1,361	1,519	1,519
Regular business inventories	221,667	490,429	460,286	496,602	504,602
Total Business Inventories	$223,701	$496,941	$466,159	$502,631	$510,633
Motion pictures	1,066	1,009	1,015 [b]	994	980
Total Personal Property	$224,767	$496,950	$467,174	$503,624	$511,613

[a] Source: Department of Finance.
[b] This does not reflect $23,000 in reductions based on audit adjustments.

Enterprise Special Districts

We recommend a reduction of $9,000,000 in Item 9100-001-000(d), to eliminate funding for enterprise special districts, as specified. We further recommend that legislation be adopted to preclude these districts from receiving business inventory reimbursements.

For 1982–83, the Legislature reduced funding for this item by $8 million, and adopted statutory language precluding enterprise special districts, other than airport and transit districts, from receiving reimbursement for property tax revenues lost as a result of the exemption for business inventories. Enterprise special districts are those special districts which are entirely or predominantly self-supported by user charges, and are operated in a manner similar to a private business. Enterprise special districts include: water, hospital, harbor and port, airport, electric utility, transit, waste disposal, and redevelopment districts. A review of claims filed with the Controller's office indicates that precluding enterprise districts from receiving business inventory reimbursements will result in current-year savings of approximately $11 million, or $3 million more than the amount expected when the budget was enacted.

Many enterprise districts engage in nonenterprise, as well as enterprise, activities. In the current year they are precluded from receiving *any* business inventory reimbursement, even if the reimbursement is associated with a nonenterprise activity. Information from the Department of Finance indicates that these districts lost approximately $2 million in reimbursements in the current year as a result of this preclusion.

The budget proposes an increase of $8 million in 1983–84 so that the state can once again reimburse all types of enterprise special districts. The budget trailer bill, SB 124, amends the statutory language adopted in the current year, so that county auditors will be authorized to claim these reimbursements for the enterprise districts.

Because enterprise special districts are, by definition, self-supporting, we can find no analytical basis to justify providing them with business inventory reimbursements in connection with their enterprise-related activities. To the extent that the loss of revenue is associated with *nonenterprise* activities, however, we believe that reimbursement should be resumed. Accordingly, we recommend (1) the adoption of legislation restricting enterprise special districts other than airport and transit districts, from receiving reimbursement for enterprise-related activities and, (2) a reduction in this Item of $9 million, for a corresponding savings to the General Fund.

Livestock Reimbursement Overstated

We recommend a reduction of $2,000 to correct for overbudgeting.

In the current year, local governments will be reimbursed $3,810,000 for property tax revenue losses resulting from the exemption of livestock business inventories from the property tax. Because the Governor's Budget is proposing no cost-of-living adjustment, reimbursements for these losses in the budget year should be funded at the same level as in the current year. The budget, however, proposes reimbursement of the livestock exemption at $3,812,000, an increase of $2,000. We recommend that this item be reduced by $2,000, to correct for this technical error.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 9100-101 (e) from the General Fund	Budget p. GG 155
Requested 1983–84	$336,000,000
Estimated 1982–83	334,500,000
Actual 1981–82	334,066,000
Requested increase $1,500,000 (+0.4 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 $336 million for Homeowners' Property Tax Relief in 1983–84. This is an increase of $1.5 million, or 0.4 percent, over estimated current-year expenditures.

Information from the State Controller's office, which receives and pays the counties' claims for reimbursement, indicates that $333.95 million in claims have been filed in the current year. Allowing for the probability of supplemental claims and/or audit adjustments, we concur with the esti-

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

mate that current-year costs will approximate $334.5 million.

Table 1 identifies the level and cost of participation for this program for the period 1979–80 to 1983–84. As the table indicates, in the current year, 4,234,979 claimants will receive an average property tax reduction of $79 each from the exemption.

Table 1
Homeowners' Property Tax Exemption
1979–80 to 1983–84

	Actual 1979–80	*Actual 1980–81*	*Actual 1981–82*	*Estimated 1982–83*	*Projected 1983–84*
Claimants (thousands)	4,042	4,182	4,241	4,235	4,344
Percent change from prior year	—	3.5%	1.4%	−0.1%	1.7%
Tax reimbursement (millions)	$328.2	$333.7	$334.1	$334.5	$336.0
Percent change from prior year	—	1.7%	0.1%	0.1%	0.4%
Average Tax Benefit	$81	$80	$79	$79	$78
Exempt Assessed Value (millions)	$28,024	$28,556	$29,138	$29,421	$29,421
Property Tax Rate [a]	1.16%	1.14%	1.135%	1.125%	1.115%

[a] Including debt service.

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 0.4 percent, which is slightly less than the average annual percent increase over the last four years (0.5 percent). Assuming that the average tax rate statewide declines to 1.115 percent in 1983–84, the budget projection implies that participation will increase by about 1.7 percent, which appears reasonable. Accordingly, we recommend approval.

Current Year Savings Anticipated

The 1982 Budget Act appropriated $338 million to reimburse counties for property tax revenue lost as a result of the homeowners' exemption. This is $3.5 million more than is estimated to be expended in the current year.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 9100-101 (f) from the General Fund — Budget p. GG 156

Requested 1983–84	$13,000,000
Estimated 1982–83	13,000,000
Actual 1981–82	13,713,000
Requested increase: None	
Total Recommended Reduction	$100,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Subventions for Open-Space. Reduce Item 9100-101-001 (f) by $100,000 to reflect reduced number of acres in program.*** 1950

GENERAL PROGRAM STATEMENT

Existing law requires the state to provide replacement revenue to cities and counties to compensate them for reduced property tax revenues on open-space and agricultural land. The Secretary of the Resources Agency, through the Department of Conservation, 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, which reflects 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 does not provide compensation if 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 12.5 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.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT—Continued

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 the same amount appropriated in the current year.

Cancellation Window

Ch 1095/81 provided a one-time "window" for cancellations of existing open-space contracts. From January 1 to May 30, 1982, landowners were authorized to petition local government for cancellation, subject to specified conditions and fees. A discussion of the results of this "window" period appears in our analysis of Item 3480-001-001, the budget for the Department of Conservation.

Fiscal Impact of Window

We recommend a reduction of $100,000 to reflect reimbursement savings resulting from "window" cancellations.

Information from the Department of Conservation reveals that 311 cancellation requests covering 98,526 acres were filed with local government pursuant to Ch 1095/81. Table 2 displays a breakdown, by land type, of the 98,526 acres currently under review for cancellation. Table 2 also indicates the potential savings to the state from reduced reimbursements if all of the cancellation requests are approved.

Table 2

Acres Under Cancellation Review Pursuant to Ch 1095/81

Type of Land	*Number of Acres*	*Reimbursement Rate per acre*	*Potential Savings*
Urban Prime [a]	14,886	$8.00	$119,088
Urban Prime [b]	1,581	5.00	7,905
Other Prime	6,145	1.00	6,145
Non Prime	75,914	.40	30,366
Total	98,526	—	$163,504

[a] Acres located within 3 miles of a city with a population greater than 25,000.
[b] Acres located within 3 miles of a city with a population of between 15,000 and 25,000.

The most recent data available from the Department of Conservation (November 1982) indicates that hearings have been conducted on 8,966 acres, or the equivalent of about 9 percent of the total acreage to be reviewed. Of these, approximately 87 percent, or 7,815 acres, have been approved for cancellation. If this same approval rate is applied to the acres yet to be reviewed, approximately 75,307 acres, reimbursed at a total annual cost of approximately $140,000, will be cancelled. Allowing for the fact that this approval rate may decline as more complex and controversial cancellation requests are reviewed, our analysis indicates that it is reasonable to assume that approximately 60,000 acres, reimbursed at an annual cost of approximately $100,000, will be cancelled—an approval rate of 60%.

The proposed budget appropriation for 1983–84 has not been adjusted to reflect this anticipated reduction in reimbursements. Accordingly, we recommend a reduction of $100,000.

PAYMENTS TO LOCAL GOVERNMENTS FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 9100-101 (g) from the General Fund — Budget p. GG 156

Requested 1983–84	$3,969,000
Estimated 1982–83	2,497,000
Actual 1981–82	4,616,000
Requested increase $1,472,000 (+59 percent)	
Total recommended reduction	$193,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Increase Not Substantiated. Reduce Item 9100-101-000(g) by $165,000.*** Recommend funding for increased reimbursements under Ch 1276/78 be eliminated because the increase lacks justification. 1953
2. ***Overbudgeted Reimbursements. Reduce Item 9100-101-000(g) by $28,000.*** Recommend reduction to correct for overbudgeting. 1954

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 and property tax exemptions enacted in 1973 and thereafter. (Reimbursement of these revenue losses—unlike the reimbursement of mandated costs—is not required by Article XIIIB of the Constitution.)

The budget identifies 18 statutory sales and property tax exemptions which require 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, this amount is multiplied by the estimated annual growth in statewide sales tax revenues.

All of the statutes are funded from this single budget item. This allows the Controller flexibility to cover deficits in connection with some statutes using surplus funds associated with other statutes.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $3,969,000 for reimbursements to local governments for sales and property tax revenue losses in 1983–84. This is $1,472,000, or 59 percent, higher than estimated expenditures in 1982–83. This increase, however, is artificially high because of one-time reductions made in the current year. Allowing for these reductions, overall expenditures under this item proposed for the budget year are $86,000, or 2.1 percent, below the comparable 1982–83 level. The decrease is due to two factors (a) reductions in property tax reimbursements for documented vessels and (b) a half-year reduction in funding for sales tax reimbursements for

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

gasohol because the statute sunsets, effective January 1, 1983.

Table 1 identifies the specific statutes and the reimbursement levels associated with each, for the period 1981–82 through 1983–84.

Table 1

Sales and Property Tax Loss Reimbursements 1981–82 through 1983–84

Statute	*Actual 1981–82*	*Estimated 1982–83*	*Requested 1983–84*
Property Tax Exemptions			
1. Ch 16/73 (blind veterans)	$19,000	$7,000	$11,000
2. Ch 961/77 (surviving spouse of disabled veterans)	65,000	89,000	94,000
3. Ch 1273/78 (expanded disabled veterans program)	1,379,000 [a]	937,000	1,000,000
4. Ch 1276/78 (increased disabled veterans benefits)	1,107,000 [a]	721,000	895,000
5. Ch 172/80 (veteran's late claims)	4,000	2,000	3,000
6. Ch 1165/73 (wildlife habitats)	29,000	24,000	27,000
7. Ch 866/78 (church parking lots)	3,000	3,000	3,000
8. Ch 588/79 (student bookstores)	15,000	19,000	22,000
9. Ch 928/79 (business records)	5,000	5,000	5,000
10. Ch 18/80 (documented vessels)	375,000	417,000	100,000
11. Ch 610/80 (certificated aircraft)	46,000	55,000	60,000
Subtotal, property tax exemptions	$3,047,000	$2,279,000	$2,220,000
Sales Tax Exemptions			
12. Ch 765/79 (nonprofit libraries)	$3,000	$3,000	$3,000
13. Ch 1048/79 (boardinghome meals for seniors)	14,000	16,000	18,000
14. Ch 878/78 & Ch 222/80 (medical alert tags)	3,000	3,000	3,000
15. Ch 645/80 (meals for elderly)	18,000	20,000	23,000
16. Ch 1077/80 (gasohol)	404,000	— [b]	259,000
17. Ch 1246/80 (factory built housing)	227,000	176,000 [b]	291,000
18. Ch 1348/80 (bottled water)	900,000	— [b]	1,152,000
Subtotal, sales tax exemptions	$1,569,000	$218,000	$1,749,000
Total	$4,616,000	$2,497,000	$3,969,000

[a] Includes one-time funding for prior year claims.
[b] Reflects one-time reduction to offset prior year overpayments.

Current-Year Deficiency Anticipated

The 1982 Budget Act appropriated $1,734,000 to cover projected expenditures under this item in the current year. The Governor's Budget, however, indicates that costs for the current-year are estimated to be $2,497,000, which is $763,000, or 44 percent, more than the amount budgeted. Information from the Department of Finance indicates that monies sufficient to cover this $763,000 shortfall will be covered by a transfer of surplus funds from the Homeowners' Property Tax Relief program.

The $763,000 current-year deficiency in this item is attributable to the expanded disabled veterans' programs and the documented vessels program. As Table 2 indicates, the current-year deficiency would have been much higher had there not been approximately $316,000 in offsetting savings from several other property tax exemption programs funded through this same item.

Table 2
Current Year Deficiency
Property Tax Exemption Programs

Statute	*Program*	*Current Year Appropriation*	*Current Year Expenditures*	*Deficiency Amount*
Ch 1273/78	Expanded disabled veterans' programs	$175,000	$937,000	−$762,000
Ch 18/80	Documented vessels	100,000	417,000	−317,000
Subtotal		$275,000	$1,354,000	−$1,079,000
Savings from other programs				316,000
Total, Deficiency				−$763,000

Property tax exemption programs are *budgeted* based on prior-year experiences. Actual costs, however, are determined by the number of claims received in a given year. Information from the Department of Finance indicates that there was a substantially larger number of veterans' claims filed pursuant to Ch 1273/78 than anticipated in the 1982 Budget Act. For the budget year, an appropriation of $1 million is requested for this program. Our analysis indicates that this amount is reasonable. The conditions regarding the deficiency in Ch 18/80, documented vessels, are somewhat different and are discussed below.

Documented Vessels

Documented vessels are those vessels, certified by the United States Coast Guard, that are engaged or employed exclusively in carrying or transporting seven or more people for commercial passenger fishing purposes. The Governor's Budget for 1982–83 requested, and the 1982 Budget Act appropriated, $100,000 for reimbursement of local government revenue losses resulting from property tax exemptions on documented vessels in the current year. Claims for the current year, however are approximately $417,000, which is $317,000, or 317 percent, more than the amount appropriated. For 1983–84, the Governor's Budget again proposes an appropriation of $100,000 for the documented vessels program.

Information received from the Department of Finance, however, indicates that reimbursement for the four years 1979–80 through 1982–83 may have been substantially overstated. The State Controller's office presently is auditing documented vessels claims for these years, and initial results indicate that, indeed, these reimbursements *have* been overstated. Therefore, expenditures for this statute should be significantly reduced. In addition, refunds from previously "overpaid" local jurisdictions will be required. In light of this, we recommend approval of the $100,000 funding level proposed for the budget year.

Increase Lacks Justification

We recommend that the $165,000 increase in funding for reimbursements under Ch 1276/78 be eliminated, because the proposed increase has not been justified.

Chapter 1276, Statutes of 1978, increased the property tax exemption for disabled veterans from $40,000 to $60,000 if the veteran meets certain low-income specifications. The Governor's Budget indicates the program expended $1,107,000 in 1981–82. Information from the Controller's office, however, reveals that only $701,000 of this amount was expended to reimburse 1981–82 claims; the remaining $406,000 was used to pay prior year claim adjustments. Information on actual expenditures prior to 1981–82 is not available.

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

The Governor's Budget further estimates that $721,000 will be expended in the current year. Information from the Controller's office, however, indicates that current-year expenditures will be approximately $730,000, based on actual claims filed.

For the budget year, the Governor's Budget proposes $895,000 for reimbursement of revenue losses due to Ch 1276/78. This is an increase of $165,000, or 23 percent, over estimated current-year expenditures as identified by the Controller's office. We have been provided with no data that would justify this increase.

In light of the fact that claims filed for 1981–82 and 1982–83 totalled $701,000 and $730,000, respectively, and lacking justification for the proposed budget year increase, we recommend that funding be continued at the current-year level, for a reduction of $165,000.

Budget-Year Request Overstated

We recommend that funding for this item be reduced by $28,000 to correct for overbudgeting of the sales tax exemption reimbursements.

By statute, the budget year level of funding for sales tax exemption reimbursements is determined by increasing current-year funding by the estimated growth rate for annual statewide sales tax revenues. For 1983–84, statewide sales tax revenues are estimated to increase by 11.5 percent. The budget, however, uses a growth factor of approximately 13 percent, and as a result overstates the actual amount needed by $28,000. Accordingly, we recommend that funding be reduced by $28,000 to correct for this technical error.

RENTERS' TAX RELIEF

Item 9100-101 (h) from the
General Fund Budget p. GG 156

Requested 1983–84	$464,000,000
Estimated 1982–83	456,000,000
Actual 1981–82	424,713,000
Requested increase $8,000,000 (+1.8 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief program provides a fixed payment to renters who are residents and rented dwellings in California as their principal places of residence on March 1. No age or income limitations apply to renters claiming relief under this program. The credit is $60 for single renters 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. Persons with no income tax liability must file a return to receive the tax relief payment.

Table 1 displays the distribution of claimants.

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

	Actual 1979	*Actual 1980*	*Actual 1981*
Single	2.14	2.31	2.42
Joint	1.32	1.34	1.35
Other [a]	0.64	0.68	0.72
Total	4.10	4.33	4.49
Percent increase over prior year	—	5.6%	3.7%

Source: Department of Finance
[a] Includes head of household, surviving spouse, and married filing separately.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $464 million for Renters' Tax Relief in 1983–84. This is an increase of $8 million, or 1.8 percent, over estimated current-year expenditures. Our analysis indicates that the proposed level of funding is justified. Therefore, we recommend approval.

Current Year Deficiency Anticipated

The 1982 Budget Act appropriated $440 million to cover projected expenditures under the Renters' Tax Relief program in the current year. The cost of the program for 1982–83, however, presently is estimated to be $456 million, which is $16 million, or 3.6 percent, more than the amount budgeted. Preliminary information from the Department of Finance indicates that approximately $11 million of this shortfall will be covered by a transfer of unexpended funds from other tax relief programs. The remaining $5 million will be funded through a deficiency bill.

SUBSTANDARD HOUSING

Item 9100-101(i) from the General Fund — Budget p. GG 156

Requested 1983–84	$110,000
Estimated 1982–83	36,000
Actual 1981–82	54,000
Requested increase $74,000 (+205.6 percent)	
Total recommended reduction	$40,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Administrative Costs. Reduce Item 9100-101-001(i) by $40,000.* Recommend that the transfer from the General Fund to the Local Agency Code Enforcement and Rehabilitation — 1956

SUBSTANDARD HOUSING—Continued

Fund be reduced to offset the cost incurred by the Franchise Tax Board to administer this program.

GENERAL PROGRAM STATEMENT

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

Chapter 238, Statutes of 1974, disallows certain income tax deductions for rental housing which has been found to be in violation of state or local housing codes. Chapter 1286, Statutes of 1978, provides that the additional tax revenues generated by Ch 238/74 are to be transferred from the General Fund to the Local Agency Code Enforcement and Rehabilitation Fund (LACERF). These funds are to be distributed by the State Controller to the cities and counties in which the specific properties are located. Local agencies are to use these funds for code enforcement activities, housing rehabilitation, and related activities.

Table 1 presents data on program activities. The table indicates that there is little correlation between the number of noncompliance notices received by the Franchise Tax Board (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 also shows that program activity increased significantly from 1980–81 to 1981–82. This trend appears to be continuing in the current year. For the first six months of 1982–83 FTB reports that 270 noncompliance notices have been received, and $52,171 in revenue has been collected.

Table 1
Substandard Housing Program Activity
1979–80 to 1981–82

	1979–80	*1980–81*	*1981–82*	*Percent Increase 1981–82 Over 1980–81*
Number of noncompliance notices received	262	244	386	58.2%
Number of local agencies submitting notices	19	10	16	60.0
Revenue collected	$79,471	$81,479	$110,440	35.5

Source: Franchise Tax Board.

ANALYSIS AND RECOMMENDATIONS

The budget proposes that $110,000 be transferred from the General Fund to the LACERF in 1983–84. This amount represents the actual revenues generated through the disallowance of deductions during 1981–82.

State Costs Should Be Recovered

We recommend that the Legislature reduce the transfer of funds from the General Fund to the LACERF by $40,000, to defray the FTB's administrative costs attributable to the program.

Prior to the current year, the FTB's administrative costs were financed entirely from the General Fund. In the current year, the Legislature directed that the FTB's administrative costs of $36,000 be reimbursed from the amount transfered to LACERF, rather than from the General Fund.

Financing these costs from the LACERF, rather than from the General Fund, has two distinct advantages. First, it links 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 are bearing the cost of supporting it. Otherwise, these costs are borne by taxpayers throughout the state, including those in areas that do not benefit from the program. Second, it frees up additional General Fund resources that can be used for other legislative priorities.

For these reasons, we recommend that the FTB's administrative costs, estimated to be $40,000 in 1983–84, be reimbursed from the amount transferred to LACERF, and that the reimbursement to local agencies be reduced accordingly. Our analysis indicates this would not have an adverse impact on program effectiveness. Specifically, there is no evidence which indicates that state financing of these costs is required to encourage the abatement of substandard housing conditions. Rather, the incentive to comply with local codes is supplied by the tax penalty. Accordingly, we recommend that the Legislature reduce the transfer of funds from the General Fund to LACERF by $40,000, to defray FTB's administrative costs attributable to the program.

PAYMENT OF INTEREST ON GENERAL FUND LOANS

Item 9620 from the General Fund — Budget p. GG 165

Requested 1983–84	$1,000,000
Estimated 1982–83	67,100,000
Actual 1981–82	—
Requested decrease (excluding amount for salary increases) $66,100,000 (−98.5 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Interest Cost Projection Not Realistic. Recommend Legislature direct Department of Finance to explain how the level of borrowing proposed in the budget can be financed from the proposed appropriation. 1958

GENERAL PROGRAM STATEMENT

For any month in which cumulative cash disbursements exceed cumulative incoming revenues, the General Fund is forced to borrow monies from the Reserve for Economic Uncertainties and from the Pooled Money Investment Account (PMIA). Some of these loans are interest-free. If the amount of funds needed exceeds the amount available from interest-free sources, however, the General Fund will have to borrow from other funds, and this requires the payment of interest.