MILITARY DEPARTMENT—CAPITAL OUTLAY—Continued

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 9100-101(a) from the General Fund — Budget p. GG 160

Requested 1985–86	$8,120,000
Estimated 1984–85	8,120,000
Actual 1983–84	9,068,000
Requested increase—None	
Total recommended reduction	695,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Citizens' Property Tax Assistance. Reduce Item 9100-101(a) by $695,000.*** Recommend reduction to correct for overbudgeting. 1618

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 old 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 taxes paid on the first $34,000 of property value, after taking into account the $7,000 homeowners' property tax exemption. Assistance provided in 1985–86 will be based on taxes paid in 1984–85.

OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget proposes that $8,120,000 be appropriated for the cost of this program in 1985–86—the same amount as in the current year. The budget assumes that participation in the program will remain constant at 88,000 persons.

ANALYSIS AND RECOMMENDATIONS

We recommend that this item be reduced by $695,000 to correct for overbudgeting.

Table 1 shows the number of approved claimants and the total assistance these claimants received in the years 1981–82 through 1984–85. The table also presents data on the average income, the average property taxes, and the average assistance received by all claimants. The 1984–85 data is based on actual claims filed with Franchise Tax Board (FTB) through December 31, 1984.

Table 1
Senior Citizens' Property Tax Assistance
1981–82 through 1984–85 [a]

	Actual 1981–82	*Actual 1982–83*	*Actual 1983–84*	*Estimated 1984–85* [b]
Number of Claimants:				
Senior	142,814	111,129	91,973	79,419
Disabled	7,697	6,886	5,875	5,276
Total	150,511	118,015	97,848	84,695
Total Assistance (in millions)	$14.0	$11.0	$9.1	$7.8
Per Claimant Averages:				
Household income	$6,886	$7,042	$7,143	$7,113
Property taxes	$258	$263	$270	$273
Assistance:				
Amount	$96	$93	$93	$92
Percent of taxes	37.2%	35.4%	34.4%	33.7%

[a] Source: Franchise Tax Board.
[b] Legislative Analyst's office estimates.

Ever since Proposition 13 was approved by the voters in 1978, expenditures for the Senior Citizens' Property Tax Assistance program have declined steadily. In 1979–80, expenditures for this program were $24.5 million, reflecting the participation of some 235,000 elderly and disabled persons. By 1983–84, the last year for which actual data are available, participation had declined to less than 98,000 persons, and the total amount of assistance provided had fallen to $9.1 million. According to the Governor's Budget, current-year expenditures will fall another 11 percent, to approximately $8.1 million, while participation will drop to about 88,000 persons. The budget, however, anticipates that the decline in program expenditures has "hit bottom," and accordingly, the appropriation requested for the budget year reflects no further declines.

Based on more recent FTB data than was available at the time the Governor's Budget was prepared, however, we estimate that current-year expenditures will be only $7.8 million, representing a 14.3 percent drop from actual 1983–84 expenditures. Even this is conservative, given that participation fell by over 20 percent per year during the two prior years.

The FTB estimates that participation will fall to 80,000 claimants in 1985–86, a drop of about 5,000, or 5.5 percent, from our current-year estimates. Holding the average claim constant at the current-year level, the board anticipates that budget-year expenditures will fall to $7,425,000 (a 5.1 percent decline). Given the substantial, continuing declines in program participation, the FTB's expectation of budget-year expenditures appears more reasonable than that reflected in the budget. Accordingly, we recommend that this item be reduced by $695,000.

SENIOR CITIZENS' PROPERTY TAX DEFERRAL

Item 9100-101 (b) from the General Fund — Budget p. GG 161

Requested 1985–86	$9,572,000
Estimated 1984–85	8,250,000
Actual 1983–84	7,150,000
Requested increase $1,322,000 (+16 percent)	
Total recommended reduction	996,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Citizens' Property Tax Deferral. Reduce Item 9100-101(b) by $996,000.*** Recommend reduction to correct for overbudgeting. 1621

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Deferral program allows eligible homeowners to defer payment of all or a portion of the property taxes on their residences, with the state paying local governments on their behalf. The state also puts a lien on the property to assure that the taxes are paid when the property is transferred. Thus, under the program, the state essentially provides a loan to the eligible property owners, which is to be repaid when the property is sold. Interest is charged on amounts deferred at a rate tied to the yield on investments made by the Pooled Money Investment Account. This Budget Bill item appropriates funds to the Controller, who administers the program and pays local governments on behalf of the participating senior citizens.

In the current year, two taxpayer groups are participating in the program. The largest group is composed of persons 62 years of age or older, who own or occupy their property, have an equity in their home of at least 20 percent of full value, and meet specified income limits. The income limits are $34,000 for claimants who filed for the first time during or prior to 1983, and $24,000 for those who file for the first time in 1984 or thereafter. The second, much-smaller group of participants, are mobilehome owners whose homes are located on rental or leased property and whose incomes are at or below the established $24,000 limit. These mobilehome owners became eligible to participate as a result of AB 800 (CH 1051/83), beginning with taxes due for the current fiscal year.

Proposition 33, approved by the voters in November 1984, extended program benefits to another taxpayer group—blind and disabled persons, regardless of age. This newly eligible group will file for deferral for the first time with respect to taxes due for the 1985–86 fiscal year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $9,572,000 for the Senior Citizens' Property Tax Deferral program in 1985–86. This is an increase of $1,322,000, or 16 percent, over estimated current-year expenditures. This amount is intended to provide for the continued growth in participation by senior citizens, and to fund the initial participation of blind and disabled homeowners.

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of $996,000, or 10.4 percent, to correct for overbudgeting.

According to estimates prepared by the Controller's office, which receives claims and pays local governments for the deferrals, participation by both senior homeowners and mobilehome owners in the current year has been significantly overestimated. At the time the budget was prepared, the Department of Finance (DOF) expected that $8.3 million in claims for deferrals would be received in the current year. According to more recent data from the Controller's office, a $7.5 million expenditure level appears to be more likely.

Participation by senior citizen homeowners declined sharply following Proposition 13, but since that time it has grown steadily. In the current year, the budget anticipates that 11,500 senior citizen and mobilehome owners will utilize this program for payment of their property taxes. However, the Controller's more recent data indicates that only 10,700 claims will be used by these groups, representing an increase of 11.2 percent over the number of claims received in 1983–84. Only 150 claims from mobilehome owners have been received, as opposed to the 6,400 originally envisioned by the Controller. Finally, the average amount of taxes deferred has actually declined, from $743 in 1983–84 to $701 in the current year, according to the Controller's office. The Department of Finance has assumed that this amount will grow to $717 in the current year.

In preparing its estimate of expenditure requirements for 1985–86, the DOF expected that the number of claims for deferral filed by the senior citizen and mobilehome owner groups would grow by 5 percent, yielding an expenditure level of $8,662,000. Using the revised current-year estimate and assuming the same growth rate, we estimate that only $7,875,000 will be needed in the budget year to cover the deferrals for this group. This amount is $787,000, or 9.1 percent, below the proposed level.

The proposed budget also provides funding for the participation of newly eligible blind and disabled homeowners. The budget anticipates that $910,000 will be needed to meet the expected cost of deferrals to be claimed by 1,400 blind and disabled homeowners. This is based on the assumption that 10 percent of the total eligible population of blind and disabled homeowners will participate. The estimate of the total eligible population is based on 1982 data from the Senior Citizen Property Tax Assistance program.

Our analysis indicates that the budget estimate is likely to be high. Based on 1984 data from the same source, we believe only 1,000 blind and disabled persons are likely to participate. Assuming that the amount deferred by this group corresponds to the average amount deferred by current participants ($701), we expect expenditures for this group to be $701,000 in the budget year, or $209,000 (23 percent) less than anticipated in the budget.

Accordingly, we recommend a total reduction in funding for the Senior Citizens' Property Tax Deferral program of $996,000.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 9100-101(c) from the General Fund — Budget p. GG 161

Requested 1985–86	$33,530,000
Estimated 1984–85	33,530,000
Actual 1983–84	36,325,000
Requested increase—None	
Total recommended reduction	2,530,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Senior Citizens Renters' Tax Assistance. Reduce Item 9100-101(c) by $2,530,000.*** Recommend reduction to correct for overbudgeting. 1622

GENERAL PROGRAM STATEMENT

This program provides tax relief to renters who are 62 years old and over, and to totally disabled persons, regardless of age, if their total household income is less than $12,000. Assistance varies inversely with income, and assumes that all renters pay the equivalent of $250 in property taxes. Actual assistance ranges from $240 (96 percent of $250) for persons with less than $3,000 of total household income, to $10 (4 percent of $250) for persons with income between $11,500 and $12,000. This assistance is in addition to the personal income tax credit provided to all renters under Item 9100-101(g).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $33,530,000 from the General Fund for the Senior Citizen Renters' Tax Assistance program in the budget year. This amount is identical to the administration's estimate of current-year expenditures.

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of $2,530,000 in the amount requested for this program to correct for overbudgeting.

Table 1 shows the number of approved claimants and the total assistance they received in the years 1981–82 through 1984–85. It also presents data on the average income, the average property taxes, and the average assistance received, for all claimants. The data shown for 1984–85 are estimates provided by the Franchise Tax Board (FTB). According to the board's estimates, expenditures will fall to $32.7 million in the current year, a 9.9 percent decline. This is $830,000 *less* than estimated expenditures shown in the budget document for 1984–85.

Since 1981–82, the Senior Citizen Renters' Assistance program has shown marked declines in both participation and average claim levels, resulting in decreased program expenditures. Early Franchise Tax Board data, upon which the Governor's Budget was based, suggested that this downward trend would continue through 1984–85, but at a slower rate. More-recent FTB estimates of current-year expenditures show that the decline in participation has moderated, but not to the extent anticipated by the Department of Finance. The FTB now estimates that 244,000 persons will participate in the program during the current year, as opposed to the 250,000 estimated by the department.

Table 1
Senior Citizen Renters' Tax Assistance
1981–82 through 1984–85

	Actual 1981–82	*Actual 1982–83*	*Actual 1983–84*	*Estimated 1984–85*
Number of Claimants:				
Senior	214,705	201,099	186,029	175,000
Disabled	83,001	81,502	72,497	69,000
Totals	297,706	282,601	258,526	244,000
Total Assistance (in millions)	$46.5	$41.6	$36.3	$32.7
Per Claimant Averages:				
Household income	$5,595	$5,848	$6,052	$6,152
Assistance	$156	$147	$139	$134

Source: Franchise Tax Board.

For the budget year, the FTB estimates that expenditures will fall to $31 million, a 5.2 percent decline from estimated current-year expenditures. This estimate is consistent with the moderate declines in senior and disabled participation rates experienced in past years. We believe that the FTB estimate of program expenditures is more reasonable than the estimate reflected in the Governor's Budget. Accordingly, we recommend a $2,530,000 reduction in the amount requested for the Senior Citizens Renters' Tax Assistance program.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 9100-101 (d) from the General Fund — Budget p. GG 162

Requested 1985–86	$334,500,000
Estimated 1984–85	332,900,000
Actual 1983–84	333,967,000
Requested increase $1,600,000 (+0.5 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 resulting tax loss. This item provides the funds for these Constitutionally-required reimbursements.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $334.5 million for Homeowners' Property Tax Relief in 1985–86. This is an increase of $1.6 million, or one-half percent, above the $332.9 million estimate of current-year expenditures contained in the budget.

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

Table 1
Homeowners' Property Tax Relief
1981–82 Through 1985–86

	Actual 1981–82	*Actual 1982–83*	*Actual 1983–84*	*Estimated 1984–85*	*Projected 1985–86*
Claimants (thousands)	4,168	4,214	4,256	4,262	4,326
Percent change from prior year	1.5%	1.1%	1.0%	0.1%	1.5%
Tax reimbursement (millions)	$334.1	$334.0	$334.0	$332.9	$334.5
Percent change from prior year	0.1%	—	—	−0.3%	0.5%
Average tax benefit	$80	$79	$78	$78	$77
Exempt assessed valuation (billions)	$29.1	$29.4	$29.6	$29.8	$30.2
Property tax rate [a]	1.144%	1.131%	1.126%	1.121%	1.116%

[a] Including debt service.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Table 1 shows the costs and level of participation in the program since 1980–81, as estimated by the Department of Finance. The table indicates that an estimated 4,262,000 claimants will receive a property tax reduction averaging $78 in the current year.

The budget estimates current-year expenditures at $332.9 million. Our analysis, however, indicates that the current-year expenditure estimate is overstated by a minimum of $400,000. The State Controller's office, which receives and pays the counties' reimbursement claims, indicates that counties have filed only $331.5 million worth of claims in the current year, or $1.4 million less than the amount indicated in the Governor's Budget. Although audit adjustments and/or supplemental claims are likely to increase the total value of the claims received by the Controller, a review of such adjustments over the past four years indicates that it is unlikely the value will increase by more than $1 million. Therefore, we believe it is unlikely that current-year costs will exceed $332.5 million.

Because the homeowners' exemption is fixed at $7,000 of assessed value, the state's cost for the program depends only upon the number of participants and local property tax rates. The budget projects that expenditures will increase by 0.5 percent (or 0.6 percent if our estimate of current-year expenditures is used).

As shown in Table 1, there has been minimal, if any, growth in this program since 1981–82. Our analysis indicates that this is largely due to the poor condition of the state's economy in recent years. While no statistical relationship between such variables as interest rates, housing starts, sales of existing homes and the number of homeowners has yielded meaningful results, it nevertheless seems likely that the recent improvement in these economic indicators, which is projected to continue in 1985, would tend to *increase* the number of homeowners participating in the program.

In sum, we believe the budgeted amount is reasonable, given recent trends, and thus we recommend that it be approved.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS

Item 9100-101 (e) from the General Fund — Budget p. GG 162

Requested 1985–86	$14,100,000
Estimated 1984–85	$14,100,000
Actual 1983–84	13,527,000
Requested increase—None	
Total recommended reduction	None

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 (familiarly known as the Williamson Act), cities and counties may enter into contracts with landowners to restrict the use of property to open-space and agricultural purposes. In return for the restriction, the land is assessed at less-than-market value, thereby lowering the landowner's cost to hold the property as open space or agricultural land. For purposes of this act, "agricultural use" is defined to mean use of land for the purpose of producing an agricultural commodity for commercial purposes.

State compensation to cities and counties is based on the type of land under contract, rather than on the actual property tax loss. There are four classifications into which property under contract is categorized, each yielding a different reimbursement rate. These are:

- "$8 Urban Prime"—for land that is either (a) within an incorporated city with a population of 25,000 or more, or (b) within three miles of a city with such a population.
- "$5 Urban Prime"—for land that is either (a) within an incorporated city with a population between 15,000 and 25,000, or (b) within three miles of a city in this population range.
- "$1 Other Prime"—for all other prime agricultural land.
- "40 cents Nonprime"—for nonprime land.

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." The state does not provide compensation if a contract is "nonrenewed" or canceled. Once a contract is nonrenewed, taxes on the property gradually return, over a 10-year period, to the level at which comparable nonrestricted property is taxed.

As an alternative to nonrenewal, the landowner may petition the local government to cancel the contract. If cancellation is granted, the landowner must (1) pay a substantial cancellation fee to the state, generally equal to about 12.5 percent of the open space valuation, and (2) pay a specified charge to the local government to enable it to recapture a portion of the tax benefits enjoyed by the landowner during the term of the contract.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $14,100,000 for open-space payments to local governments in the budget year. This is the same amount that the Governor's Budget indicates will be spent in the current year. Information from the Department of Conservation, however, indicates that actual claims filed for reimbursement in the current year total $13,981,000. Consequently, the level of funding proposed for the budget year represents an increase of $119,000, or 0.9 percent, over the department's estimate of current-year expenditures.

ANALYSIS AND RECOMMENDATIONS

Table 1 shows the cost and number of acres under Williamson Act contracts since 1981–82.

Table 1
Acres under Williamson Act Contracts and Open-Space Payments to Local Government 1981–82 through 1984–85

	Acres			
Land Category	*1981–82*	*1982–83*	*1983–84*	*1984–85*
$8 Urban Prime	545,449	557,334	553,906	615,200
$5 Urban Prime	81,205	95,043	94,898	110,146
$1 Other Prime	4,532,029	4,550,532	4,546,980	4,521,368
40 Cents Nonprime	11,052,477	9,976,324	10,185,253	9,968,251
Total Acres	16,211,160	15,179,233	15,381,037	15,241,965
Totals, Cost	$13,722,636	$13,474,948	$13,526,818	$13,980,995

The table indicates that, although the total *number* of acres under contract has declined, the overall *cost* of the program has increased. This is due to a shift in the number of acres from the lower-cost land categories to the urban prime category, for which the maximum $8 reimbursement is received. This shift reflects city population growth.

A county-by-county analysis conducted by this office indicates that 92 percent of the growth in $8 urban prime acreage can be attributed to the expansion of two cities. When the population of the city of Tulare (Tulare County) reached 25,000 on January 1, 1984, approximately 44,200 acres located within three miles of the city and formerly classified as "$1 Other Prime" was reclassified as "$8 Urban Prime." In addition, when the population of the city of Gilroy (Santa Clara County) reached 25,000, 12,200 acres were reclassified as "$8 Urban Prime" from the "$5 Urban Prime" land category.

Our analysis indicates that more acreage will be reclassified into the more expensive reimbursement categories during the budget year. As a result, we believe the increase in program costs anticipated in the budget is reasonable. Accordingly, we recommend that the budgeted amount be approved.

RENTERS' TAX RELIEF

Item 9100-101 (f) from the General Fund — Budget p. GG 163

Requested 1985–86	$460,000,000
Estimated 1984–85	441,000,000
Actual 1983–84	423,448,000
Requested increase—$19,000,000 (+4.3 percent)	
Total recommended reduction	4,600,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Renters' Tax Relief. Reduce Item 9100-101 (f) by $4.6 million dollars.*** Recommend reduction to correct for overbudgeting. 1628

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief program provides a fixed payment to persons who are residents of the state and who rent 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, $137 for married couples, heads of households, and surviving spouses, $69 for married persons filing separately, and $99 for heads of households with joint custody of their children.

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 (if any) paid directly to the renter. Persons with no income tax liability must file a return to receive the tax relief payment. Table 1 provides information about program participation.

Table 1
Renters' Tax Relief Program [a]
Number of Renters' Credit Claimants
By Income Year
(in millions)

	Estimated 1982 [b]	*Estimated 1983* [b]	*Estimated 1984*	*Estimated 1985*
Single	2.19	2.31	2.44	2.56
Joint	1.48	1.50	1.51	1.53
Other [c]	0.60	0.64	0.69	0.73
Total	4.27	4.45	4.64	4.82
Percentage change from prior year	15.4 %	4.2 %	4.3 %	3.9 %

[a] Source: Department of Finance.
[b] FTB instituted desk audits on January 1, 1983 to check eligibility of renters' credit claimants. As a result, final data are not yet available.
[c] Includes head of household, surviving spouse and married filing separately.

RENTERS' TAX RELIEF—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of $4.6 million to correct for overbudgeting.

The budget proposes an appropriation of $460 million for the Renters' Tax Relief program in 1985–86. This is an increase of $19 million, or 4.3 percent, over estimated current-year expenditures.

The Department of Finance, using historical income-year data provided by the Franchise Tax Board, predicted current- and budget-year expenditures with the aid of a computerized forecasting model. Based on the model's results, the department estimates that $441 million (a 4.1 percent increase) and $460 million (a 4.3 percent increase) will be spent in the current and budget years, respectively.

To test the accuracy of this model, the department ran a comparison between estimated and actual data for the 1973–74 through 1983–84 period. The results indicated that the model tended to overstate expenditures. Since 1977–78, the model *consistently overestimated expenditures* by 1.2 percent to 3 percent. The department made a $2 million downward adjustment in its current year expenditure estimate to reflect this consistent pattern of overestimating, but no adjustment was made to its estimate for 1985–86.

Our analysis indicates that a 1 percent adjustment should be applied to the budgeted amount to account for the model's tendency to overestimate. On this basis, our analysis indicates that the budget request overstates the likely level of expenditures by $4.6 million. Accordingly, we recommend that this item be reduced by $4.6 million.

SUBSTANDARD HOUSING

Item 9100-101 (g) from the General Fund — Budget p. GG 163

Requested 1985–86	$102,000
Estimated 1984–85	98,000
Actual 1983–84	70,000
Requested increase—$4,000 (+4.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

Assembly Bill 475 (Ch 238/74) disallows certain income tax deductions for rental housing that has been found to be in violation of state or local housing codes. Assembly Bill 3515 (Ch 1286/78) 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 distributed by the State Controller to the cities and counties in which the properties found to be in violation of the state or local housing codes are located. Local agencies use these funds for code enforcement activities, housing rehabilitation, and related activities.

Generally, two fiscal years elapse between the time when housing code violations are reported and when the additional tax revenues generated by these violations are distributed to local governments. Table 1 presents information on program activity between 1981–82 and 1983–84.

Table 1

Substandard Housing Program Activity

1981–82 through 1983–84

	1981–82	*1982–83*	*1983–84*	*Percent Change*
Number of noncompliance notices received	386	470	685	45.7%
Number of local agencies submitting notices	16	16	13	−18.6
Revenue collected	$110,440	$138,000	$142,186	3.0

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes that $102,000 be transferred from the General Fund to the LACERF in 1985–86 under the Substandard Housing program. This amount represents the actual revenues generated through the disallowance of deductions during the 1983–84 fiscal year, minus FTB's projected costs ($40,000) for administering the program. The request is justified, and accordingly, we recommend that it be approved.

ALTERNATIVE ENERGY TAX CREDITS

Item 9100-101(h) from the General Fund — Budget p. GG 163

Requested 1985–86	$68,500,000
Estimated 1984–85	—
Actual 1983–84	—
Requested increase—$68,500,000 (+100 percent)	
Total recommended reduction	$68,500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Funding for Tax Credits. Reduce Item 9100-101(h) by $68,-500,000.*** Recommend reduction because funding for the credits should be considered in connection with the legislation needed to implement the budget proposal. 1631

GENERAL PROGRAM STATEMENT

Current state law allows individual and corporate taxpayers to claim tax credits for the cost of solar energy and energy conservation devices. The credit amount for *solar energy devices* installed on residential premises is 50 percent, with a maximum credit amount of $3,000, and 25 percent for installations on other premises. For residential *energy conservation devices,* the credit is 35 percent, with a maximum of $1,500; it is 25 percent for nonresidential installations. The state credit must be offset by the amount of any *federal* energy credit claimed by the taxpayer.

ALTERNATIVE ENERGY TAX CREDITS—Continued

Taxpayers claim the credit on their Personal Income Tax (PIT) or Bank and Corporation (B&C) tax returns. The credit is applied, on a dollar-for-dollar basis, against the amount of taxes the taxpayer owes to the state. If the credit amount exceeds the tax liability, the unused portion can be carried forward and applied against tax liabilities in future years. Under current state law, the solar and energy conservation tax credits will be repealed as of December 31, 1986.

Table 1

Solar and Energy Conservation Tax Credits [a]
Number and Amount [b]
of Claims for the Credits
(dollars in thousands)

	1982 [c]		*1983*		*1984*	
	Number	*Amount*	*Number*	*Amount*	*Number*	*Amount*
Solar Credit	91,826	$48,514	80,387	$63,789	83,187	$78,189
Energy Conservation Credit	217,924	41,097	238,686	59,142	199,116	41,538
Total	309,750	$89,611	319,073	$122,931	282,303	$119,727
Percent Change from Prior Year	—	—	3.0%	37.2%	−11.5%	−2.6%

[a] Source: Franchise Tax Board. Figures are shown for the year when the tax returns with credits were filed. In most cases, these credits represent installations during the prior calendar year. Data for 1984 are preliminary.

[b] Amounts represent the tax benefits claimed, before audit, and include unused credits carried over from previous years.

[c] Taxpayers were allowed to claim the energy conservation credit beginning with installations made during the 1981 calendar year.

Currently, the funds needed to finance the solar and energy conservation tax credits are not appropriated through the budget process. This means that the amount of state "spending" for this program is determined by the number and amount of credits claimed by taxpayers. Table 1 shows the number and total amounts of claims for the credits during the past three years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes to fund the current tax expenditure with a direct budget act appropriation of $68.5 million. Under the proposal, the amounts needed to fund the credits would be appropriated from the General Fund to the Tax Relief and Refund Account. Tax credit claims made by taxpayers then would be charged against these appropriated funds in the account.

The amount included in the budget bill corresponds to one-half of the level of tax credit claims estimated for 1985–86 ($137 million). The budgeted amount presumes that the total amount of credit claims could be reduced by 50 percent, either through an across-the-board reduction in the credit amount or through the use of "variable credit percentages," which would make the size of the credit smaller for taxpayers with higher incomes. The budget's estimate of General Fund revenues for 1985–86 no longer reflects the loss of revenue attributable to these credits.

ANALYSIS AND RECOMMENDATIONS

Funding Level Presumes Legislative Action to Change Credits

We recommend deletion of $68,500,000 proposed in the Budget Act for the solar and energy conservation tax credits, because the proposed funding should be considered in connection with the legislation needed to implement this proposal.

The budget proposes to replace the existing provisions of state law with a direct budget act appropriation, as a way of reducing the level of state subsidies for solar energy and energy conservation. The proposal presumes that these subsidies can be reduced by 50 percent simply by making funds available through the budget process for only one-half of the amount expected to be claimed.

Existing state law allows taxpayers to deduct the *full* amount of their credits from the amount of tax that they owe to the state. At the time this analysis was prepared, the administration had not requested that the Legislature amend this law in order to achieve the reduced funding level. Without the enactment of legislation, the proposed appropriation accomplishes nothing. The proposed Budget Act language merely specifies that the appropriation be transferred to the Tax Relief and Refund Account, to be used for payment of refunds and credits. This language, however, does not *limit* in any way the amount of the credit which may be taken by eligible taxpayers.

If these tax credits are continued by the Legislature, we believe that it *would* be desirable to "fund" the credits through the Budget Act, in order to help the Legislature monitor more closely the amount that the state "spends" for this program. We note that the renters' tax credit is already funded in this manner.

Nevertheless, we cannot recommend approval of this item. The amount requested in the budget assumes changes to existing law, and therefore is premature. For this reason, we recommend deletion of the $68.5 million proposed in the budget to fund the solar and energy conservation tax credits. Consistent with long-standing policy, the issue of funding for these tax credits should be considered in connection with the legislation that modifies the credits and how they are financed.

PAYMENTS TO LOCAL GOVERNMENTS FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 9100-101 from the General Fund — Budget p. GG 162

Requested 1985–86	None
Estimated 1984–85	$4,581,000
Actual 1983–84	3,784,000
Requested decrease—$4,581,000 (−100 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Chapter 1406, Statutes of 1972, requires the state to reimburse local governments for the net loss of *revenue* they incur as a result of individual sales and property tax exemptions enacted since 1972. Unlike state-man-

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

dated *costs,* Article XIII B of the Constitution does *not* require that these revenue losses be reimbursed. Thus, payments to reimburse local governments for revenue losses, though required by state law, are made at the discretion of the Legislature.

The budget identifies 19 statutory sales and property tax exemptions for which annual appropriations have been provided in the past to reimburse local agencies. Twelve of these items are for *actual* property tax revenue losses. The other seven items reimburse local agencies for *estimated* sales tax revenue losses.

All 19 statutes traditionally have been funded from this single item, which permits the Controller to cover deficits in reimbursements for some statutes with surplus funds appropriated for other statutes. Table 1 identifies the specific statutes, and the reimbursement levels which have been provided for each subvention included in this item during the period 1982–83 through 1984–85.

OVERVIEW OF THE BUDGET REQUEST

The Governor's Budget proposes that *no* reimbursement for sales and property tax losses be provided in the budget year. In support of this

Table 1

Sales and Property Tax Loss Reimbursements (in thousands)

	Actual 1983–84	*Estimated 1984–85* [a]	*Projected 1985–86* [a]
Property Tax Exemptions			
1. Ch 16/73 (blind veterans)	$7	$7	($7)
2. Ch 961/77 (surviving spouse of disabled veterans)	86	87	(89)
3. Ch 1273/78 (expanded disabled veterans' programs)	996	1,063	(1,120)
4. Ch 1276/78 (increased disabled veterans' benefit)	672	607	(600)
5. Ch 172/80 (veterans' late claims)	5	9	(12)
6. Ch 1165/73 (wildlife habitat contracts)	30	10	(15)
7. Ch 886/78 (church parking lots)	3	3	(3)
8. Ch 588/79 (student bookstores)	23	24	(25)
9. Ch 928/79 (business records)	5	5	(5)
10. Ch 18/80 (documented vessels)	116	—	—
11. Ch 610/80 (certificated aircraft)	78	—	—
12. Ch 1141/81 (needs of hospitals)	42	991	(1,000)
13. Ch 1332/84 (expanded veterans' benefits)	—	—	(3,000)
Subtotal, Property Tax Exemptions	$2,063	$2,806	($5,876)
Sales Tax Exemptions			
1. Ch 765/79 (nonprofit libraries)	$3	$3	($3)
2. Ch 1048/79 (boardinghouse meals for seniors)	18	20	(22)
3. Ch 878/77 and Ch 222/80 (medical alert tags)	3	4	(4)
4. Ch 645/80 (meals for elderly)	22	25	(27)
5. Ch 1077/80 (gasohol)	255	—	(—)
6. Ch 1246/80 (factory-built housing)	286	320	(346)
7. Ch 1348/80 (bottled water)	1,134	1,266	(1,367)
8. Ch 786/84 (expanded bottled water)	—	14	(37)
9. Ch 1450/84 (oxygen delivery systems)	—	19	(20)
Subtotal, Sales Tax Exemptions	$1,721	$1,671	($1,826)
Totals	$3,784	$4,477	($7,702)

[a] Source: Legislative Analyst's office.

proposal, the budget indicates that recent legislation has broadened the sales and property tax "base," resulting in revenue increases to local agencies which exceed the amount that they lose as a result of existing sales and property tax exemptions.

Because the Governor proposes to eliminate all funding for these sales and property tax revenue losses beginning in 1985–86, the budget provides no estimate of the projected cost of making these reimbursements in the budget year. Our analysis indicates that $7.7 million would be needed if the Legislature wishes to appropriate funds to reimburse local agencies for revenue losses in the budget year. This is $3,121,000, or 68 percent, more than the estimate of current-year expenditures for this purpose. The increase can be attributed to two factors: (1) normal program growth ($121,000), and (2) SB 1425 (Ch 1332/84) which expanded payments for disabled veterans' property tax exemptions ($3 million).

ANALYSIS AND RECOMMENDATIONS

The Department of Finance (DOF) indicates that the proposal *not* to fund these revenue losses is consistent with language contained in Section 2230.5 of the Revenue and Taxation Code. This section states that reimbursements shall be provided by each Budget Bill, as introduced by the Governor, for the *net* revenue loss resulting from the enactment of sales and property tax exemptions. While Section 2230.5 says nothing about the treatment of tax base expansion enacted by the Legislature, the use of the term "net" in this section could be construed as a reference to positive revenue effects of legislation affecting local agencies. Thus we are not able to say whether the Governor's Budget complies with the provisions of Section 2230.5.

It is true, however, that recently enacted legislation has expanded the local tax base sufficiently to provide additional revenues that are far in excess of those lost due to the enactment of exemptions identified in this program. For example, the supplemental property taxes authorized by Senate Bill 813 (Ch 498/84), will increase city and county revenues by $150 million during 1985–86.

As the original intent of providing reimbursements for sales and property tax exemptions was to hold local agencies harmless from the adverse consequences of state-level decisions on local revenues, it appears that this objective will be achieved in 1985–86 even if no reimbursement is provided for these exemptions.