

CALIFORNIA INFORMATION SYSTEMS IMPLEMENTATION COMMITTEE—Continued

GENERAL PROGRAM STATEMENT

The California Information Systems Implementation Committee is a statutory body comprised of 12 designated members of the Legislature and the executive branch. It is responsible for recommending specific legislative and executive actions necessary to implement the state's electronic data processing (EDP) policies. These policies are set forth in Government Code Chapter 7 (commencing with Section 11700), and Chapter 8 (commencing with Section 11775).

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The \$33,870 requested for the 1976-77 fiscal year will provide for one committee consultant and associated operating expenses. The consultant assists the committee in its efforts to review the use of EDP by state agencies and to prepare the committee's reports to the Governor and the Legislature due February 1 of each year.

Recommendations made in the committee's last annual report which are in various stages of implementation include development of a data communications master plan by the Department of General Services and a general updating of the state's long-range EDP plan by the Department of Finance.

During the current year the committee has received testimony regarding several areas of EDP application including policies and plans of the University of California, computing equipment requirements in the Health and Welfare Agency and the state's new EDP personnel program.

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE

Item 88 from the General Fund

Budget p. 168

Requested 1976-77	\$51,200,000
Estimated 1975-76.....	51,400,000
Actual 1974-75	50,035,313
Requested decrease \$200,000 (0.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Inflation Adjustment. Recommend statutory revision of the schedule of assistance to reflect impact of inflation. 169

GENERAL PROGRAM STATEMENT

This program reimburses homeowners over age 62 for a percentage of property taxes paid according to a fixed statutory schedule. The percentage of assistance ranges from 96 percent to 4 percent depending on incomes below the \$10,000 maximum.

Table 1 shows for selected ranges of income, the distribution of claim-

ants and average level of assistance provided by this program in 1975-76.

Table 1
Senior Citizens' Property Tax Assistance^a
1975-76

Household Income	Number of Claimants	Average Per Claimant			
		Appraised Value ^b	Property Taxes ^c	Tax Assistance	Percent of Assistance
\$0- 2,000	10,921	\$20,010	\$376	\$356	95%
2- 4,000	82,139	18,765	340	277	81
4- 6,000	89,935	19,871	372	186	50
6- 8,000	74,081	21,256	412	78	19
8-10,000	41,352	22,743	455	28	6
Totals	298,428	\$20,322	\$385	\$169	44%

^a Assistance paid in 1975-76 is based on taxes paid in 1974-75 and 1974 incomes.

^b Reflects assessor's appraised value on home values below \$37,000 which is the maximum value upon which assistance is granted.

^c Net taxes after deducting the \$1,750 homeowners' exemption.

ANALYSIS AND RECOMMENDATIONS

The amount requested in the budget year is \$200,000 below estimated current year expenditures and is the net effect of a continued decline in assistance due to rising household incomes offset partially by increases in property taxes. The change in estimated property taxes, shown in Table 2, from \$385 to \$435 between 1975-76 and 1976-77, represents an increase of 13 percent consisting of (1) a 10.3 percent rise in assessor's appraised value and (2) an average property tax rate increase of 24 cents from \$11.56 to \$11.80 estimated for the budget year.

Legislation Recommended

We recommend legislation revising the schedule of assistance to reflect the impact of inflation on incomes.

Senior Citizens' Property Tax Assistance is based upon two factors—property taxes and incomes. As property taxes increase, assistance increases proportionately. However, as incomes increase the level of assistance declines even though there may have been no change in the homeowners' "real" income, i.e., purchasing power of money incomes. Total program expenditures also decline (in real terms) relative to all other state programs, to the extent that other state programs are periodically adjusted for price level changes.

As prices and incomes reflecting such price changes increase, program expenditures decline. The number of claimants also will decrease as money incomes reach the \$10,000 ceiling. Table 2 shows the effect increases in income have had on the average percentage of assistance granted to each homeowner during the five-year period ending in 1976-77.

Average household incomes increased from \$4,885 in 1972-73 to an estimated \$5,486 in 1976-77 resulting in a decline in the average level of assistance from 49 percent to 40 percent of property taxes paid. The decline in the proportion of state assistance, compounded by increasing property taxes due primarily to rising assessed values, has resulted in an increase in property taxes exceeding the growth of incomes. The last

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

Table 2
Senior Citizens' Property Tax Assistance
Effects of Growth in Household Incomes
and Property Taxes on Property Tax Relief^a
(average amounts per claimant)

Fiscal Year	Household Income	Property		Net Taxes Paid	Net Tax as Percent of Income
		Taxes Paid	Percent Assistance		
1972-73.....	\$4,885	\$296	49%	\$152	3.1%
1973-74.....	5,043	311	47	166	3.3
1974-75.....	5,208	353	46	192	3.7
1975-76.....	5,312	385	44	217	4.1
1976-77 (est.).....	5,486	435	40	261	4.8

^a Adjusted to reflect the \$1,750 homeowners' exemption enacted in 1972 and the addition of welfare recipients in 1973.

column in Table 2 reflects this trend and shows that average net taxes (after assistance has been deducted) as a percent of incomes have increased from 3.1 percent in the first year of this program to 4.8 percent estimated for the budget year. Total program costs (excluding new expenditures for welfare recipients) have declined from a high of 320,000 claimants and \$60 million in property tax relief paid out in 1973-74 to the budget year low of 272,000 claimants receiving total assistance of \$46 million.

PERSONAL PROPERTY TAX RELIEF

Item 89 from the General Fund

Budget p. 168

Requested 1976-77	\$412,000,000
Estimated 1975-76.....	362,750,000
Actual 1974-75	295,799,217
Requested increase \$49,250,000 (13.6 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Personal Property Tax Relief Program reimburses local government for tax losses resulting from exempting 50 percent of the assessed value of business inventories and the special assessment of motion picture films, livestock, and wine and brandy. Table 1 summarizes 1974-75 and 1975-76 expenditures and shows the estimates for 1976-77 upon which the budget amount is based.

1975-76 Deficits Continue

Table 2 shows that actual growth in inventory values has been higher than budget estimates in each of the last three years. Inventory values increased by 13.9 percent in 1973-74, by 21.5 percent in 1974-75, and by 19.1 percent in 1975-76. Consequently, deficiency appropriations have been required each year to reimburse fully local tax losses, with the current year deficit estimated to be \$28 million.

Table 1
Personal Property Tax Relief

	<i>Actual</i> <i>1974-75</i>	<i>Estimated</i> <i>1975-76</i>	<i>Requested</i> <i>1976-77</i>	<i>Budget</i> <i>Change</i>
Business inventories assessed value (in millions)	\$5,194	\$6,188	\$6,930	12.0%
Exemption	50%	50%	50%	—
Exempt assessed value (in millions)	\$2,597	\$3,094	\$3,465	12.0
Property tax rate	11.19	11.38	11.50	1.0
State reimbursement	\$290.5	\$357.1 ^a	\$399.2	11.8%
Special reimbursements for movies, wine and livestock Legislation ^b	5.3	5.2	5.8	—
	—	0.5	7.0	—
Totals, personal property tax relief	\$295.8	\$362.8	\$412.0	13.6%

^a Includes \$2.2 million for estimated prior year adjustment payments through June 30, 1976.

^b Legislation consists of Chapter 1441, Statutes of 1974, which grants reimbursements for escape assessments.

Table 2
Personal Property Tax Relief
Comparison of Budget with Actual Expenditures
for the Business Inventory Exemption
1973-74 Through 1975-76 (in millions)

	<i>Actual</i> <i>1973-74</i>	<i>Actual</i> <i>1974-75</i>	<i>Estimated</i> <i>1975-76</i>
<i>Expenditures</i>			
Budget estimate	\$208.0	\$256.9	\$329.1
Actual	217.7	290.5	357.1
Deficit	\$9.7	\$33.6	\$28.0
<i>Assessed Value</i>			
Budget estimate	\$4,051	\$4,594	\$5,869
Actual	4,274	5,194	6,188
Difference	\$223	\$600	\$319

These assessed value growth rates are difficult to explain because (1) they were significantly above the high rates of inflation experienced during this period, and (2) they exceeded the annual increase in those economic indicators (e.g., real property values and personal incomes) with which inventories are normally closely related. For example, inventories increased nationally at an annual average rate of 7.1 percent during the 10-year period 1963 through 1972, which was parallel to the 8.7 percent growth in U.S. personal incomes and the 6.7 percent growth in California property values for this same period.

1976-77 Estimates Difficult

The budget estimates are based upon an expected 12 percent growth in assessed values between March 1, 1975 and March 1, 1976, and a property tax rate of \$11.50 which is \$0.12 above the current year business inventory tax rate.

These estimates represent the Department of Finance's best judgment of the growth of business inventories, given continuation of the present level of economic activity. There are a number of reasons inventory values are difficult to predict at this time.

PERSONAL PROPERTY TAX RELIEF—Continued

1. There is no economic series which measures the historical growth in California inventories. National inventory data includes automobile stocks which are not subject to the inventory tax in California.
2. The estimates are based upon holdings on a specific date, i.e., March 1, rather than average holdings for the year, and therefore, have revealed no measurable relationship to annual or monthly sales data.
3. Inventory values are subject to violent short-term fluctuations due to cyclical changes in the volume of sales leading to unplanned accumulation or de-cumulation of stocks.
4. Expectations of future rates of inflation affect inventory holdings. The 21.5 percent growth in values between March 1, 1973 and 1974 partially reflected accelerated purchases of inventories to avoid expected future price increases.

The budget year estimates are projected from the March 1, 1975, base at which time there was a significant unplanned accumulation of inventories nationally due to the overall decline in economic activity. While the budget year estimates of inventory growth are lower than rates of increase for the prior three years, the amounts budgeted may exceed actual requirements if inventories are reduced to more closely reflect historical levels.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 90 from the General Fund

Budget p. 168

Requested 1976-77	\$798,000,000
Estimated 1975-76.....	755,400,000
Actual 1974-75	700,881,038
Requested increase \$42,600,000 (5.6 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The homeowner's exemption is \$1,750 of assessed value. The amount of property tax calculated on this assessed value is deducted from the property tax bill after the property tax rate has been determined. Each jurisdiction is then reimbursed from the state General Fund for the resulting tax losses. Table 1 summarizes those factors which affect the size of this program and which were used to determine the expenditure amounts contained in the Governor's Budget.

Continuing Deficits

This program has experienced deficits in every year since the \$1,750 exemption was enacted. Table 2 compares the original budget estimates with actual expenditures for each of these years.

Table 1
Homeowners' Exemption Program Growth

	<i>Actual</i> 1974-75	<i>Estimated^a</i> 1975-76	<i>Requested</i> 1976-77	<i>Percent</i> <i>Change</i>
Current year expenditures (millions)	\$694.8	\$743.5	\$787.4	5.9%
Prior year adjustments (millions)	6.1	11.9	10.6	-10.9
Total expenditures (millions)	\$700.9	\$755.4	\$798.0	5.6%
Current year claims (thousands)	3457.0	3640.0	3804.0	4.5%
Value per claim	\$201	\$205	\$207	1.0
Average property tax rate	\$11.56	\$11.76	\$11.88	1.0

^a State Controller's estimate based upon county claims for reimbursement.

Table 2
Homeowners' Exemption Program
Comparison of Budget Estimates With Actual Expenditures

	<i>Actual</i> 1973-74	<i>Actual</i> 1974-75	<i>Estimated</i> 1975-76
Expenditures			
Original appropriation (millions)	\$647.3	\$676.2	\$716.0
Actual expenditures (millions)	657.1	700.9	755.4
Deficit (millions)	\$9.8	\$24.7	\$39.4
Number of claims ^a			
Original Estimate (thousands)	3,158	3,358	3,546
Actual (thousands)	3,300	3,523	3,706
Difference (thousands)	142	165	160
Property Tax Rate			
Original Estimate	\$11.71	\$11.45	\$11.64
Actual	11.34	11.56	11.76
Difference	-\$0.37	\$0.11	\$0.12

^a Includes estimated prior year adjustments and, therefore, exceeds estimates of current year claims shown in Table 1.

Table 2 shows that the number of claims filed consistently exceeded the estimate in each year. The net deficit was lower in 1973-74, however, because property tax rates declined significantly in that year. A detailed explanation of the source of the deficit for each year is not possible because counties are not required to identify claims separately between (1) current year, (2) prior year late filings, and (3) prior year adjustments. The prior year adjustment data shown in Table 1 are based upon incomplete county reports.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget increase of \$42.6 million will provide funding for 165,000 new homeowner claims and includes \$10.3 million to fund prior year adjustments and 1975-76 late filing claims which are projected on the basis of the partial information reported in 1975-76 and prior years. The budget year funding level is also based upon a property tax rate of \$11.88 which is 12 cents above the current year level.

Because the composition and amount of prior year adjustments is unknown, the Department of Finance, State Board of Equalization and Legislative Analyst are currently working with the State Controller to develop new reporting procedures which will require counties to separately identify current and prior year claims information. The development of more

HOMEOWNERS' PROPERTY TAX RELIEF—Continued

detailed reports will serve two useful purposes. First, it will encourage counties and the Controller to perform a prepayment audit of the data. Present claim reports often consist of tabular machine runs which are apparently submitted and paid without prepayment analysis by either the counties or the Controller. Second, more accurate budget forecasts will be possible once current year data are isolated from prior year adjustments.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENT

Item 91 from the General Fund

Budget p. 169

Requested 1976-77	\$17,000,000
Estimated 1975-76.....	15,500,000
Actual 1974-75	14,356,451
Requested increase \$1,500,000 (9.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Section 8, Article XIII of the Constitution authorizes the Legislature to provide for the assessment of land at less than market value if it is under enforceable restrictions. The California Land Conservation Act of 1965 (the Williamson Act) and related open-space laws authorize cities and counties to enter into contracts with landowners to restrict the use of property to open-space and agricultural purposes.

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

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

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Section 16140 of the Government Code appropriates General Fund money for open-space subventions to counties, cities and school districts. The Budget Act, however, has appropriated specific substitute amounts since the subventions began in 1972.

The 1976-77 request of \$17 million provides \$13 million for counties and cities and \$4 million for school districts. Presently, 47 counties and 14 cities have a statewide total of about 14 million acres of land under contract.

For the past two years we have recommended termination of the open-space subventions because most of the lands under contract are located in remote areas and are not threatened with development or urbanization. These remote lands do not require reduced property tax assessment as an inducement to be retained in open-space. The Legislature, however, has indicated a desire to continue the subvention in part due to an obligation to local government. Our recommendation for approval reflects this

position of the Legislature over a two-year period. We believe, however, that continuing efforts should be made to produce legislation which will obtain better results and achieve the objective of retaining open-space which would be subject to development if left to unmodified economic pressures. The present law does not apply public funds to that end in an efficient manner.

PAYMENTS TO LOCAL GOVERNMENT FOR SALES AND PROPERTY TAX REVENUE LOSS

Item 92 from the General Fund

Budget p. 170

Requested 1976-77	\$5,207,000
Estimated 1975-76.....	4,840,000
Actual 1974-75	2,673,154
Requested increase \$367,000 (7.6 percent)	
Total recommended reduction	\$100,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Disabled Veterans' Exemption Late Filing. Reduce \$100,000.* Recommend elimination of funding for Chapter 662, Statutes of 1975, which establishes a late filing period for disabled veterans' exemption. 175

GENERAL PROGRAM STATEMENT

Chapter 1406, Statutes of 1972, requires the state to reimburse local government for losses resulting from state enacted sales tax exemptions or property tax exemptions. The budget identifies seven statutes which have ongoing funding requirements and, therefore, need annual Budget Act appropriations. It also requests funding for Chapter 662, Statutes of 1975 (AB 2349). All of the statutes are funded from this single budget item which allows the State Controller flexibility to cover deficits occurring in some statutes with surplus funds from other measures.

ANALYSIS AND RECOMMENDATIONS

We recommend elimination of funding (\$100,000) for Chapter 662, which establishes a late filing period for disabled veterans' exemptions.

Chapter 662 established a late filing period (between the April 15 filing deadline and December 1) for disabled veterans to claim the special \$10,000 veterans' property tax exemption. The statute grants 80 percent of the exemption to all qualified persons who file claims during the extended period (i.e., before December 1). The budget requests \$100,000 to reimburse local agencies for property tax losses resulting from granting these partial exemptions.

Our recommendation to provide no General Fund reimbursements to local government for tax losses resulting from this statute is based upon the following policy considerations.

1. Chapter 662 does not grant a *new* property tax exemption. It merely

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

extends the filing time and, therefore, is not reimbursable under Revenue and Taxation Code Section 2229. This special veterans' exemption was originally adopted in 1954, and the amount was subsequently increased to \$10,000 in 1969.

2. The Legislature did not intend to reimburse local property tax losses in this case because no provision for funding was included in Chapter 662.

Provision of initial funding within the Governor's Budget should be reserved for those statutes which specify local reimbursement but whose potential cost is unknown at the time of enactment. In all other cases, the Legislature should not separately fund legislation which does not establish funding procedures or identify reimbursable costs within its provisions.

Prior Year Exemptions

The amounts requested for funding each of the following statutes are consistent with expected 1976-77 changes in program costs.

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 1467, Statutes of 1974	\$200,000	\$230,000

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

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 1405, Statutes of 1974	\$1,602,400	\$1,700,000

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

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 1010, Statutes of 1974	\$30,000	\$33,000

This statute exempts a camp trailer or house car from payment of the state and local use tax when the vehicle is ordered from a dealer located outside the state, and the vehicle is to be used outside the state.

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 456, Statutes of 1974	\$15,000	\$16,000

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

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 1169, Statutes of 1973	\$2,883,200	\$3,000,000

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

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 1165, Statutes of 1973	\$69,400	\$78,000

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

	<i>Estimated 1975-76</i>	<i>Requested 1976-77</i>
Chapter 16, Statutes of 1973	\$40,000	\$50,000

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

RENTERS' TAX RELIEF

Item 93 from the General Fund

Budget p. 169

Requested 1976-77	\$135,000,000
Estimated 1975-76	125,000,000
Actual 1974-75	110,248,379
Requested increase \$10,000,000 (8.0 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief Program provides annual payments or personal income tax credits to individual renters ranging from \$25 to \$45 depending upon incomes. Table 1 shows the history of this program for the first two years of its existence.

Table 1
History of Renters' Tax Relief Program
Distribution of Claimants and Expenditures

<i>Adjusted Gross Income</i>	<i>Relief Per Claimant</i>	<i>Number of Claimants</i>		<i>Percent Change</i>
		<i>1973-74</i>	<i>1974-75</i>	
\$0-5,000	\$25	676,000	832,000	23.0%
5-6,000	30	191,000	204,000	7.2
6-7,000	35	198,000	210,000	5.9
7-8,000	40	196,000	210,000	7.3
8,000 and up	45	1,281,000	1,424,000	11.2
Total claimants ^a		2,542,000	2,880,000	13.2%
Average amount claimed		\$37.09	\$38.47	3.7%
Total expenditures (millions)		\$92.3	\$110.2	17.4%

^aCalendar year claims, based upon Franchise Tax Board sample. Fiscal year claims paid amounted to 2,586,000 in 1973-74 and 2,968,000 in 1974-75.

Chapter 11, Statutes of 1975, revised accounting procedures for this

RENTERS' TAX RELIEF—Continued

program by appropriating the total amount from the General Fund rather than treating credit amounts as a reduction in personal income tax revenues.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The amount budgeted appears to provide sufficient funds to cover normal increases due to the combined growth in incomes and claimants. Table 2 compares current and budget year estimates of total program costs with actual 1974-75 expenditures.

Table 2
Renters' Tax Relief
Department of Finance Estimates
of Current and Budget Year Expenditures

Cost Element	1974-75		1975-76		1976-77	
	Actual	Percent Change	Estimated	Percent Change	Proposed	Percent Change
Number of claims (000).....	2,880	13.2%	3,190	10.0%	3,475	8.9%
Average claim	\$38.47	3.7	\$38.87	1.0	\$38.84	—
Total expenditures (millions).....	\$110.2	17.4	\$125.0	12.0	\$135.0	8.9%

Sustained High Growth in Current Year

The Department of Finance estimates that current year program costs will increase by about the same amount as occurred in 1974-75. The increase in renter claimants between 1973-74 and 1974-75 amounted to 336,000 and the total is expected to grow by another 312,000 claims in the current year. We had anticipated a significant increase in claims in 1974-75, especially from renters who are not required to file income tax returns and therefore, would not automatically be made aware of the program's existence. Table 1 reflects this analysis and shows that most of the 1974-75 increase resulted from claims filed by persons with incomes below \$5,000. While participation rates are expected to continue to grow as more renters become aware of the existence of rent relief, such increases should drop off sharply in the third and succeeding years of this new program.

Actual expenditures may not be significantly below current and budget years' estimates, however. The current and budget year estimates of average claim payments, the second factor determining total costs, do not reflect incomes growth resulting from the recent period of rising prices. The budget anticipates a \$0.40 increase in average payments during 1975-76 and expects 1976-77 claims to decline nominally from \$38.87 to \$38.84. More precise estimates of current and budget year costs can be made in May 1976, after the majority of personal income tax returns have been processed.