

construction financing for the new San Jose Armory. The department's latest cash flow analysis of the Armory Fund, which projects income and expenditures through 1990-91, does not include the sale of another armory.

Thus, funding of working drawings for 1988-89 would be premature, because it is not clear when construction funds will be available.

Adequacy of Proposed Site. Finally, the department indicates that it will have to acquire two more acres adjacent to the six-acre site of the proposed new armory, in order to accommodate parking for military vehicles. The department is negotiating the purchase of more land, using the unexpended balance (\$18,000) of acquisition funds appropriated in the 1985 Budget Act. Department staff is not certain when or if the additional land will be purchased. Thus, it is not clear that working drawings could be developed in the budget year because the new site is not adequate for the proposed armory.

Under the circumstances, we recommend deletion of the \$350,000 requested for working drawings of a new San Jose Armory. A request for working drawings would merit legislative consideration closer to the time when federal construction funds will be available, after the department has negotiated the sale of the existing San Jose Armory, and after the department has reported to the Legislature concerning the adequacy of the proposed site.

Supplemental Report Language

For purpose 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 181

Requested 1988-89.....	\$4,800,000
Estimated 1987-88.....	4,836,000
Actual 1986-87.....	5,314,000
Requested decrease \$36,000 (-0.7 percent)	
Total recommended reduction.....	500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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- Funding Level. Reduce Item 9100-101-001 (a) by \$500,000.** 1224
Recommend reduction of \$500,000 to correct for over-budgeting.

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Assistance (SCPTA) 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

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

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 this 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 1988-89 will be based on taxes paid in 1987-88.

ANALYSIS AND RECOMMENDATIONS

We recommend a reduction of \$500,000 to correct for overbudgeting. (Reduce Item 9100-101-001 (a) by \$500,000.)

The budget proposes an appropriation of \$4,800,000 from the General Fund for this program in 1988-89, or \$36,000 less than estimated current year expenditures. The budget assumes that participation in the program will drop from 54,625 claimants in the current year to 54,000 claimants in the budget year.

The proposed expenditure level reflects the Department of Finance's estimate that program expenditures will decline 9 percent in the current year and 1 percent in the budget year. Our analysis indicates, however, that the department's estimate is likely to overstate budget year program expenditures.

Table 1 summarizes trends in program participation and expenditure levels from 1984-85 through 1987-88. This table indicates that SCPTA is subject to continuing declines in both program participation and benefit levels. According to a report prepared by the Franchise Tax Board in response to language in the *Supplemental Report of the 1987 Budget Act*, the decline in program participation is attributable to two primary factors:

- The pool of eligible participants declines each year due to the effects of inflation. In other words, rising income levels result in an increasing number of individuals exceeding the program's fixed maximum allowable income of \$12,000. The percentage of senior citizen households with incomes under \$12,000 has declined from 32 percent in 1980 to 21 percent in 1986.
- The average value of assistance provided by the program has declined steadily, both overall and as a proportion of property taxes, since the passage of Proposition 13. This is primarily due to the fact that as participants' income levels rise, the program provides a lower benefit. The decline is also attributable in part to lower benefit levels brought about by the sharp decline in property tax liabilities caused by Proposition 13. The lower benefit levels make the program less attractive to potentially eligible individuals.

Our analysis indicates that the department's estimate of 54,000 participants in the budget year is overstated because it does not take into account the continuing decline in program participation. Based on data from the Franchise Tax Board, we estimate that program participation will decline to 48,700 persons in the budget year, and that total program expenditures will be \$4.3 million. Accordingly, we recommend a reduction of \$500,000.

Table 1
Senior Citizens' Property Tax Assistance
1984-85 through 1987-88^a

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Estimated</i> 1987-88 ^b
Number of Claimants:				
Senior	79,323	66,203	55,167	51,098
Disabled	5,369	4,535	3,737	3,528
Totals	84,691	70,738	58,904	54,625
Total Assistance (in thousands)	\$7,839	\$6,377	\$5,314	\$4,836
Per Claimant Averages:				
Household income	\$7,113	\$7,210	\$7,200	\$7,219
Property taxes	\$273	\$277	\$284	\$289
Assistance:				
Amount	\$92.55	\$90.15	\$89.24	\$88.53
Percent of taxes	33.9%	32.6%	31.4%	30.6%

^a Source: Franchise Tax Board. Detail may not add to totals due to rounding.

^b Legislative Analyst's Office estimates.

SENIOR CITIZENS' PROPERTY TAX DEFERRAL

Item 9100-101 (b) from the
 General Fund

Budget p. GG 181

Requested 1988-89	\$6,000,000
Estimated 1987-88	6,100,000
Actual 1986-87	6,157,000
Requested decrease \$100,000 (-1.7 percent)	
Total recommended increase	500,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. **Funding Level. Increase Item 9100-101-001 (b) by \$500,000.** 1226
 Recommend augmentation of \$500,000 to correct for under-budgeting.

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Deferral (SCPTD) program allows eligible homeowners to postpone 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. The state essentially provides a loan to the eligible property owner, which is to be repaid when the property is sold. Interest is paid on amounts to be deferred at a rate tied to the yield on investments made by the Pooled Money Investment Account (PMIA). Interest rates for SCPTD are adjusted at the end of each fiscal year based on the PMIA yield for that year. Thus, there is a one-year lag between changes in the PMIA yield and the interest rate used for property tax deferrals. This Budget Bill item appropriates funds to the State Controller's Office (SCO), which admin-

SENIOR CITIZENS' PROPERTY TAX DEFERRAL—Continued

isters the program and pays local governments on behalf of the participating senior citizens.

ANALYSIS AND RECOMMENDATIONS

We recommend an augmentation of \$500,000 to offset the under-budgeting of 1988-89 program costs. (Increase Item 9100-101-001 (b) by \$500,000.)

The budget proposes the appropriation of \$6 million from the General Fund for the Senior Citizens' Property Tax Deferral program in 1988-89. The proposed appropriation is based on the assumption that program expenditures will decline 2 percent from the \$6.1 million projected current year cost of the program.

Table 1 summarizes past trends in SCPTD program participation and program expenditures. Two sets of factors have influenced the program's growth in recent years. First, eligibility for the program has been expanded to include mobilehome occupants (in 1984-85) and the blind and disabled (in 1985-86). This program expansion has been offset somewhat by two other changes in the program. Specifically, in 1983-84 the interest rate on deferred payments increased from 7 percent to 10 percent, and in 1984-85 the maximum allowable income for the program was reduced from \$36,000 to \$24,000. These changes appear to have limited eligibility for the program, and reduced its attractiveness to otherwise eligible persons.

Table 1
Property Tax Deferral Certificate Activity
1984-85 through 1987-88^a

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Estimated</i> 1987-88 ^b
Applications approved	9,979	10,256	9,276	9,635
Number of deferrals	9,141	8,966	8,339	8,658
Total approved deferral (in thousands)	\$6,517	\$6,500	\$6,157	\$6,500
Average deferral	\$713	\$725	\$745	\$754

^a Source: State Controller's Office.

^b Legislative Analyst's Office estimate.

The department's estimate of program costs assumes that program expenditures in the current year will remain at the 1986-87 level, and that the budget year expenditures will decline slightly. Our analysis indicates, however, that the department's estimate is likely to *understate* program expenditures in both the current and budget years.

Between 1983-84 and 1985-86, SCPTD expenditure levels remained relatively stable. In 1986-87, however, program expenditures unexpectedly declined to \$6.2 million (6 percent). According to the SCO, the 1986-87 decline in participation is probably due to the fact that the 10 percent interest rate charged under SCPTD in that year was high relative to general interest rate levels, which were trending downwards. This may have deterred otherwise eligible individuals from participating in the SCPTD.

Recent data from the Controller indicate, however, that current year SCPTD expenditures are making a modest recovery from their 1986-87 decline. This recovery relates to the fact that the interest rate charged

under the program has dropped to 7 percent and, consequently, is more in line with interest rate levels generally. Based on 1987-88 claims received and processed to date, we estimate that SCPTD will cost approximately \$6.5 million in the current year, which is consistent with the program's expenditure level in 1984-85 and 1985-86. Because there does not appear to be any basis to project any change in expenditures for the budget year, we anticipate that 1988-89 expenditures will also amount to \$6.5 million. On this basis, we recommend an augmentation of \$500,000 in order to fund the level of expenditures provided for under current law.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE

Item 9100-101 (c) from the
General Fund

Budget p. GG 182

Requested 1988-89.....	\$18,600,000
Estimated 1987-88	21,414,000
Actual 1986-87	24,696,000
Requested decrease \$2,814,000 (-13.1 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The Senior Citizen Renters' Tax Assistance (SCRTA) 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 tax relief provided to all renters as a personal income tax credit under Item 9100-101 (f).

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$18.6 million from the General Fund for the SCRTA in 1988-89, which is \$2.8 million (13 percent) less than the administration's estimate of current year expenditures. This proposal assumes that participation in the program will drop from 197,000 persons in the current year to 180,000 persons in the budget year.

The proposed appropriation is based on an analysis of trends in program expenditure levels since 1981-82. According to this analysis, program expenditures will decline by 13 percent in the current and budget years, consistent with historical trends in program expenditures. Specifically, the SCRTA has shown marked declines in both program participation and total expenditure levels since the passage of Proposition 13. Table I summarizes trends in program participation from 1984-85 through 1987-88.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE—Continued

Table 1

**Senior Citizen Renters' Tax Assistance
1984-85 through 1987-88^a**

	<i>Actual 1984-85</i>	<i>Actual 1985-86</i>	<i>Actual 1986-87</i>	<i>Estimated 1987-88^b</i>
Number of Claimants:				
Senior	177,592	164,269	151,591	140,292
Disabled.....	70,513	65,423	60,923	56,382
Totals	248,104	229,691	212,514	196,675
Total Assistance (in thousands)	\$33,237	\$28,876	\$24,696	\$21,414
Per Claimant Averages:				
Household income.....	\$6,152	\$6,338	\$6,523	\$6,688
Assistance	\$134	\$126	\$116	\$109

^a Source: Franchise Tax Board. Detail may not add to totals due to rounding.

^b Legislative Analyst's Office estimates.

Our analysis indicates that the estimated expenditures are consistent with historical trends.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 9100-101 (d) from the
General Fund

Budget p. GG 182

Requested 1988-89.....	\$350,713,000
Estimated 1987-88	344,748,000
Actual 1986-87	338,885,000
Requested increase \$5,965,000 (+1.7 percent)	
Total recommended reduction.....	None

GENERAL PROGRAM STATEMENT

The State 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. The state also reimburses local agencies for property tax revenue losses which result from homeowners' exemptions granted on supplemental property tax assessments. This item provides the funds for these constitutionally required reimbursements.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$350.7 million from the General Fund for Homeowners' Property Tax Relief in 1988-89. This is an increase of \$6.0 million, or 1.7 percent, above the \$344.7 million current year estimate of expenditures contained in the budget.

Table 1 displays information on the costs and level of participation in the Homeowners' Tax Relief Program for the years 1984-85 through 1987-88. The estimate shown for the current year is based on data from

the Board of Equalization and the Controller's Office. According to this information, an estimated 4,466,000 claimants will participate in 1987-88, suggesting a 1.7 percent increase in participation over the number of participants in 1986-87. Since 1984-85, the number of claims filed has increased at an average annual rate of 1.2 percent. The increased participation rates for 1986-87 and 1987-88 are due in part to improved conditions for homeownership. In recent years, reduced mortgage interest rates and increased personal income have combined to make homeownership more affordable. Given the high volume of new construction and housing resale activity experienced during 1987, it is anticipated that the increased rate of growth in program participation will continue, or accelerate, in the budget year.

Table 1
Homeowners' Property Tax Relief
1984-85 through 1987-88 ^a

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Estimated</i> 1987-88 ^b
Claimants (in thousands)	4,262	4,319	4,390	4,466
Percent change from prior year	0.1%	1.3%	1.6%	1.7%
Tax reimbursement (in millions)	\$331.9	\$333.8	\$338.9	\$344.3
Percent change from prior year	-0.6%	0.6%	1.5%	1.6%
Average tax benefit	\$77.91	\$77.29	\$77.20	\$77.11
Percent change from prior year	-0.7%	-0.8%	-0.1%	-0.1%
Property tax rate ^c	1.113%	1.096%	1.083%	1.073%
Percent change from prior year	-1.2%	-1.5%	-1.2%	-0.9%

^a Source: State Controller's Office, Department of Finance, and Board of Equalization.

^b Legislative Analyst's Office estimates.

^c Including debt service.

For 1988-89, the budget proposes an appropriation of \$350.7 million, which represents an increase of \$5.1 million over estimated current year expenditures. This estimate assumes, in effect, that expenditures will rise in direct proportion to the projected growth in the number of claimants—1.7 percent. Our analysis indicates that this estimate is consistent with recent trends.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS

Item 9100-101 (e) from the
General Fund

Budget p. GG 182

Requested 1988-89	\$14,500,000
Estimated 1987-88	14,500,000
Actual 1986-87	14,899,000
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 PAYMENTS TO LOCAL GOVERNMENTS—Continued

open-space and agricultural land. The Secretary of the Resources Agency, through the Department of Conservation (DOC), administers the subvention program.

Under the California Land Conservation Act of 1965 (commonly 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 costs for holding 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, and each provides a different rate of reimbursement. The reimbursement categories are as follows:

- "\$8 Per Acre 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 Per Acre 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 Per Acre Other Prime"—for all other prime agricultural land.
- "40 cents Per Acre 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 unrestricted 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 pay a substantial cancellation fee to the state, generally about 13 percent of the full-market valuation.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$14.5 million from the General Fund for open-space payments to local governments in 1988-89, which is the same as the estimated current year expenditures.

Table 1 details the cost and number of acres under Williamson Act contracts from 1984-85 through 1987-88. The data shown for 1987-88 represent the DOC's estimate, based on information from individual cities and counties. On the basis of historical trends, the DOC estimates that expenditures will amount to \$14.5 million in the current year, representing a 4 percent increase over 1984-85. It should be noted that annual expenditures may differ from continuing costs, due to one-time deductions or supplemental payments made to correct prior year claims.

Table 1
Acres Under Williamson Act Contracts and
Open-Space Payments to Local Governments
1984-85 through 1987-88^a

<i>Land Category</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Estimated</i>
	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1987-88</i>
\$8 Urban Prime	615,141	623,229	661,198	708,610
\$5 Urban Prime	110,146	94,776	93,714	9,467
\$1 Other Prime	4,521,283	4,622,224	4,686,700	4,576,135
\$0.40 Nonprime	<u>9,952,283</u>	<u>9,985,273</u>	<u>10,014,156</u>	<u>15,247,970</u>
Totals				
Acres	15,198,853	15,325,502	15,331,632	15,247,970
Expenditures:				
Continuing costs	\$13,974,054	\$14,076,045	\$14,233,782	\$14,274,000
Adjustments	—	—254,045	448,689	226,000
Budget expenditures	<u>\$13,974,054</u>	<u>\$13,822,000</u>	<u>\$14,899,000</u>	<u>\$14,500,000</u>

^a Source: Department of Conservation.

As shown in Table 1, although the costs of the program increased slightly between 1984-85 and 1986-87, program participation remained relatively stable during the same period. The increase in program expenditures is primarily due to the shift in land to the \$8 Urban Prime category, due to population growth in cities. When a city's population rises above 25,000, land previously categorized as \$5 Urban Prime is reclassified to the \$8 Urban Prime category. For example, in the current year, approximately 88,000 acres in Kings and Madera Counties were reclassified as \$8 Urban Prime due to population growth in those counties. Similar shifts are not likely to occur in the budget year, however, because only 9,000 acres remain in the \$5 Urban Prime category. Given this, program expenditures should remain relatively stable in 1988-89.

RENTERS' TAX RELIEF

Item 9100-101 (f) from the
 General Fund

Budget p. GG 182

Requested 1988-89	\$490,000,000
Estimated 1987-88	480,000,000
Actual 1986-87	472,400,000
Requested increase \$10,000,000 (+2.1 percent)	
Total recommended reduction	None

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,

RENTERS' TAX RELIEF—Continued

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.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of \$490 million from the General Fund for the Renters' Tax Relief program in 1988-89. This is an increase of 2.1 percent over estimated current year expenditures. The Department of Finance (DOF) estimates that five million renters will participate in the program in the budget year. The estimates are consistent with historical program growth trends and appear reasonable.

SUBSTANDARD HOUSING

Item 9100-101 (g) from the
General Fund

Budget p. GG 182

Requested 1988-89.....	\$132,000
Estimated 1987-88	126,000
Actual 1986-87	120,000
Requested increase \$6,000 (+4.8 percent)	
Total recommended reduction.....	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Funding Discrepancy. We recommend that the Department of Finance comment at the time of budget hearings on the amount of funding required by current law for this program.

1233

GENERAL PROGRAM STATEMENT

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

Existing law disallows certain income tax deductions for rental housing that is found to be in violation of state or local housing codes. The additional tax revenues generated by this program are 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 1984-85 and 1986-87.

Table 1
Substandard Housing Program Activity
1984-85 through 1986-87^a

	<i>Actual</i> 1984-85	<i>Actual</i> 1985-86	<i>Actual</i> 1986-87	<i>Percent</i> <i>Change</i>
Number of noncompliance notices received....	747	965	1,505	56.0%
Number of local agencies submitting notices...	16	10	12	20.0
Revenue collected	\$160,531	\$146,339	\$268,165	83.2

^a Source: Franchise Tax Board and Department of Finance.

ANALYSIS AND RECOMMENDATIONS

We recommend that the Department of Finance comment at the time of budget hearings as to the amount of funding required by current law for this program.

The Governor's Budget requests a total of \$132,000 from the General Fund for the Substandard Housing Program in 1988-89, an increase of 4.8 percent over the current year.

Our analysis indicates that the department has understated the amount of revenues which must be transferred from the General Fund to the LACERF in 1988-89. Current law appears to require that this transfer be based on actual revenue collected in 1986-87 under the Substandard Housing Program, minus Franchise Tax Board's (FTB's) projected costs for administering the program. According to FTB, in 1986-87 the disallowed claims equaled \$268,000, while administrative costs equaled \$56,000. Thus, the total amount required to be transferred is \$212,000. We recommend that the department comment at the time of budget hearings regarding this discrepancy.

LOCAL GOVERNMENT FINANCING

Item 9210 from the General Fund

Budget p. GG 183

Requested 1988-89.....	\$15,300,000
Estimated 1987-88	None
Actual 1986-87	None
Requested increase \$15,300,000	
Recommendation pending	15,300,000

GENERAL PROGRAM STATEMENT

Chapter 1286, Statutes of 1987 (AB 650) established a new program — the County Revenue Stabilization Program — to provide fiscal relief to “distressed” county governments. Specifically, the program is intended to stabilize the percentage of county general purpose revenues (GPR) which must be expended for the county share of costs associated with four state programs, beginning in 1988-89.