

SENIOR CITIZENS' PROPERTY TAX ASSISTANCEItem 9100-101 (a) from the
General Fund

Budget p. GG 176

Requested 1990-91	\$3,770,000
Estimated 1989-90	4,286,000
Actual 1988-89	3,828,000
Requested decrease \$516,000 (-12 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Senior Citizens' Property Tax Assistance (SCPTA) program provides partial reimbursement for property taxes paid by low-income homeowners who are (1) at least 62 years old or (2) totally disabled or blind regardless of age. Assistance varies inversely with income and is calculated as a percentage of the tax on the first \$34,000 of property value, after taking into account the \$7,000 homeowners' property tax exemption. Assistance provided in 1990-91 will be based on taxes paid in 1989-90.

Chapter 1231, Statutes of 1988 (AB 3165, Klehs), increased by 10 percent the allowable income for each percentage level of assistance, effective with payments in 1989-90. Assistance varies from 96 percent of the tax for homeowners with incomes of \$3,300 or less to 4 percent of the tax for those with incomes between \$12,650 and \$13,200.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$3.8 million for the SCPTA program in 1990-91, which is \$516,000, or 12.0 percent, less than the \$4.3 million that the budget estimates will be spent on the program in the current year. The reduction reflects the anticipated resumption of the past downward trend in the annual cost of this program and the similarly structured Senior Citizen Renters' Tax Assistance (SCRTA) Program. The annual reductions occur for two reasons. First, rising income levels result in fewer elderly and disabled people remaining within the program's fixed maximum allowable income level (\$13,200). Second, fewer eligible persons apply for assistance as their incomes approach the maximum level and benefits decrease to a minimal amount (about \$12 at the maximum income level). The current year is an exception to this trend. Estimated costs for 1989-90 rise 12 percent compared with 1988-89, due to the expansion of eligibility and higher benefit amounts resulting from Chapter 1231.

The budget request is based on cost estimates provided by the Franchise Tax Board, which administers the program. The board projects that about 213,000 claimants will participate in the combined SCPTA and SCRTA programs in 1990-91 and that the average benefit will be \$104. These projections compare with the board's estimate that 233,000 claim-

SENIOR CITIZENS' PROPERTY TAX ASSISTANCE—Continued

ants will receive benefits averaging \$108 in the current year.

The budget request appears reasonable and we recommend approval.

SENIOR CITIZENS' PROPERTY TAX DEFERRAL

Item 9100-101 (b) from the
General Fund

Budget p. GG 176

Requested 1990-91	\$8,200,000
Estimated 1989-90	8,000,000
Actual 1988-89	7,441,000
Requested increase \$200,000 (+2.5 percent)	
Total recommended reduction	None

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 residence, with the state paying local governments on their behalf. The state places a lien on the property to assure repayment when the property is sold or transferred. In effect, the state loans the property tax payments to the homeowner until the property is sold. Interest is charged on the amount of deferred taxes at the rate earned by the Pooled Money Investment Account during the year preceding the tax deferral. Eligible homeowners must be at least 62 years old or blind or totally disabled. The appropriation in this item is to the State Controller's Office (SCO), which administers the program and uses these funds to pay property taxes to local governments on behalf of the program's participants.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of \$8.2 million for the SCPTD program in 1990-91. This amount is \$200,000, or 2.5 percent, more than estimated current-year expenditures of \$8 million. The request is based on projections of program needs in 1990-91 by the SCO and appears reasonable.

SENIOR CITIZEN RENTERS' TAX ASSISTANCEItem 9100-101 (c) from the
General Fund

Budget p. GG 177

Requested 1990-91	\$17,527,000
Estimated 1989-90	19,930,000
Actual 1988-89	17,839,000
Requested decrease \$2,403,000 (-12.1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Senior Citizen Renters' Tax Assistance (SCRTA) program provides tax relief in the form of payments to low-income renters who are (1) at least 62 years old or (2) totally disabled or blind regardless of age. Assistance varies inversely with income and assumes that all renters pay the equivalent of \$250 in annual property taxes. Payments are calculated as a percentage of this \$250 amount.

Chapter 1231, Statutes of 1988 (AB 3165, Klehs), increased by 10 percent the allowable income level for each percentage level of assistance, effective with payments in 1989-90. Assistance varies from \$240 (96 percent of \$250) for persons with incomes of \$3,300 or less, to \$10 (4 percent of \$250) for persons with incomes between \$12,600 and \$13,200.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes an appropriation of \$17.5 million for the SCRTA program in 1989-90. This is \$2.4 million, or 12.1 percent, less than the \$19.9 million that the budget estimates will be spent on the program in the current year. Between 1984-85 and 1988-89, spending for the SCRTA program decreased by about 13 percent annually, primarily because the number of participants declined as inflation raised incomes and reduced both the number of people who could qualify and the amount of the average payment.

Both the SCRTA program funded in this item and the Senior Citizens' Property Tax Assistance (SCPTA) program discussed above (please see Item 9100-101 (a)) have the same income limitations and share the same schedule that provides a decreasing percentage payment with increasing income levels. Chapter 1231 made identical changes in the income limitation and payment schedule for both programs by (1) increasing the percentage payments to currently eligible persons and (2) expanding the pool of eligible persons through raising the income limitation from \$12,000 to \$13,200. These changes affected program costs starting in the current year. For that reason, the budget estimates that current-year costs will be 12 percent greater than in 1988-89. For 1990-91, however, the past trend of declining annual cost should resume.

SENIOR CITIZEN RENTERS' TAX ASSISTANCE—Continued

The amount requested for 1990-91 appears reasonable. It is based on estimates by the Franchise Tax Board, which administers both the SCRTA and SCPTA programs.

HOMEOWNERS' PROPERTY TAX RELIEF

Item 9100-101 (d) from the
General Fund

Budget p. GG 177

Requested 1990-91	\$358,923,000
Estimated 1989-90	353,619,000
Actual 1988-89	348,393,000
Requested increase \$5,304,000 (+1.5 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The State Constitution grants a \$7,000 property tax exemption on the assessed value of owner-occupied dwellings, and requires the state to reimburse local governments for the resulting tax loss. This item provides funds for these constitutionally required reimbursements.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget proposes expenditures of \$359 million for Homeowners' Property Tax Relief in 1990-91. This is an increase of \$5.3 million, or 1.5 percent, above estimated current-year expenditures of \$353.7 million. Information reported to the State Board of Equalization by county assessors indicates that there are 4.6 million properties on the 1989 regular tax roll which received the homeowners' exemption in the current year, an increase of 1.1 percent over the previous year. During the prior three-year period, the annual increase in the number of exemptions ranged from 1.6 percent to 1.8 percent, so that the growth in the number of owner-occupied residences has slowed recently. The budget request presumes that the annual growth rate will return to about 1.5 percent.

The exemption reduces the average homeowner's taxes by about \$75 annually. This is the amount that otherwise would be owed on the \$7,000 exemption at the statewide average tax rate of 1.07 percent (including bond levies). The budget request appears reasonable and we recommend approval.

OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS

Item 9100-101 (e) from the
General Fund

Budget p. GG 177

Requested 1990-91	\$19,600,000
Estimated 1989-90	19,600,000
Actual 1988-89	14,468,000
Requested increase — None	
Total recommended reduction	None
Recommendation pending	19,600,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

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1. Program Revisions. Withhold recommendation on \$19.6 million requested for open-space subventions pending completion of a program review and recommendations for program revisions by the Resources Agency and its advisory committee. 1180

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 subject to certain restricted-use contracts. The Secretary of the Resources Agency, through the Department of Conservation, administers this subvention program.

Under the California Land Conservation Act of 1965 (the Williamson Act), cities and counties may enter into contracts with landowners to restrict the use of property to open-space or agricultural purposes. In return for the restriction, the landowner pays a reduced amount of property tax because the land is assessed at less than its market value. The amount of the state subvention is based on the amount and type of land under contract, rather than the actual reduction in property tax revenues. The subvention ranges from a maximum of \$8 per acre, for "prime" land located in or within three miles of an incorporated city with a population of at least 25,000, down to a minimum of 40 cents per acre for "nonprime" land (generally marginal rangeland) regardless of location.

Each contract runs for 10 years and is automatically renewed each year unless the landowner or local government objects. There is no state subvention for contracts that are not renewed, and the tax on nonrenewed land gradually returns, over a 10-year period, to the level at which comparable unrestricted land would be taxed. Local governments also may grant a landowner's request to cancel a contract. If granted, cancellation requires the landowner to make a substantial payment to the state, generally about 13 percent of the full market value. Although some cities participate in the program, counties receive more than 99 percent of the subventions.

**OPEN-SPACE PAYMENTS TO LOCAL GOVERNMENTS—Continued
ANALYSIS AND RECOMMENDATIONS**

We withhold recommendation on \$19.6 million requested for open-space subventions, pending receipt and analysis of a program evaluation and the recommendations of the Resources Agency and its advisory committee for revisions to the subvention program.

The budget proposes an appropriation of \$19.6 million for open-space payments to local governments in 1990-91, which is the same as current-year estimated expenditures. Current-year expenditures consist of two components. The 1989 Budget Act appropriated \$14.6 million, which is the estimated amount required for these subventions based on the acreage under contract and the statutory per-acre subvention payments. In addition, Ch 1087/89 (AB 284, Hannigan) appropriated \$5 million from the General Fund to augment these subventions proportionately in 1989-90. Thus, in the current year, the per-acre subventions are 34 percent larger than the statutory amounts. The budget proposes to continue the \$5 million augmentation in 1990-91, and to allocate it in the same proportionate manner.

Legislative Intent to Revise Program. In enacting Chapter 1087, the Legislature responded on a one-year basis to county requests for additional state aid to offset their revenue losses under this program. At the same time, however, the Legislature recognized that this program may require changes. Chapter 1087 states that, if a comprehensive review of the open-space program by a state agency recommends changes, then "it is the intent of the Legislature to further revise this program after considering the recommendations by the study."

Review Currently Underway. The Department of Conservation has contracted with the Agricultural Issues Center of the University of California for an analysis of the open-space program, including its costs and benefits and options for program revisions. Furthermore, the department and the Resources Agency have established an advisory committee to recommend changes in the open-space program to the Secretary for Resources. At the time that the budget was presented, both the University's study and the advisory committee recommendations were being finalized. The Resources Agency indicates that it expects to receive the study and the recommendations shortly and, based on them, determine whether to propose program changes.

State Bears Most of the Cost of Open-Space Program. The state has a much larger stake in the open-space program than the amount provided for subventions. Work done as part of the University's study indicates that landowners in the open-space program paid about \$120.5 million less in property taxes statewide in 1988-89 than they would have paid if their properties had been assessed normally. Counties, school districts, and community college districts would have received most of these tax revenues. Of the total revenue loss, \$44.5 million would have been allocated to counties. However, after accounting for state subventions of \$14.5 million, the net revenue loss to counties was reduced to \$30 million. The revenue loss to school districts and community college districts,

however, was even larger — \$59.5 million, but under existing school funding programs essentially all of this loss was made up by increased state aid. Thus, the total state cost of the open-space program was about \$74 million in 1988-89, or five times the amount of the subventions alone and more than twice the net revenue loss to counties.

Subvention Mechanism in Need of Revision. In its current form, the open-space program serves several purposes: (1) preserving open-space, (2) providing a subsidy in the form of a tax reduction to owners of agricultural and other open-space lands, and (3) providing local financial assistance. The existing per-acre subvention formulas do not effectively target any of these purposes. For example, while the subvention amounts are the largest for *prime* lands in or near cities (for which the threat of development presumably is greatest), rangeland may be just as valuable for urban open-space. Rangeland, however, receives the smallest subvention, regardless of location. Furthermore, there is little relationship between the amount of the state subvention to individual counties and the amount of revenue loss to those counties.

Conclusion. The Legislature has expressed its intent to reexamine the open-space subvention program. Furthermore, an evaluation of the program and recommendations for changes should be available in time for budget hearings. Accordingly, we withhold recommendation on \$19.6 million requested for open-space subventions in 1990-91 pending receipt and analysis of the University's program evaluation and the report and recommendations of the advisory committee and the Resources Agency.

RENTERS' TAX RELIEF

Item 9100-101 (f) from the
General Fund

Budget p. GG 177

Requested 1990-91	\$516,445,000
Estimated 1989-90	506,319,000
Actual 1988-89	487,233,000
Requested increase \$10,126,000 (+2 percent)	
Total recommended reduction	None
Recommendation pending	516,445,000

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

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1. Updated Estimate Needed. Withhold recommendation on the requested \$516 million pending an updated estimate of costs based on 1989 return data. 1182

GENERAL PROGRAM STATEMENT

The Renters' Tax Relief Program provides a "refundable" tax credit to Californians who rent their principal place of residence as of March 1.

RENTERS' TAX RELIEF—Continued

The credit is applied first to any income taxes due, with any balance paid directly to the renter. Persons with no income tax liability must file a return to receive the tax relief payment. The amount of the credit is \$60 for single renters; \$137 for married couples, heads of households, and surviving spouses; and \$69 for married persons filing separately. The annual budget appropriation for this program funds both the revenue loss due to the reduction of tax liability and the payments in excess of tax liability.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the requested \$516 million for renters' tax relief in 1990-91 pending receipt of updated cost estimates from the Franchise Tax Board based on information available from 1989 tax and claim forms.

The budget estimates that the cost of the Renters' Tax Relief Program will be \$516 million in 1990-91, an increase of 2.0 percent over the estimated current-year cost of \$506 million. The estimate of current-year cost, most of which will be incurred when 1989 tax returns are processed, reflects a growth of 3.9 percent over the actual cost of the program in 1988-89. Historically, however, the cost of renters' assistance has grown at an annual rate of only 2.3 percent since 1980-81.

Diaz Decision Increases Program Costs. The primary reason for the rapid growth in current-year costs is the need to pay claims for additional benefits in past years as a result of the State Board of Equalization's decision in the Diaz Case. The Diaz Case involved the appeal by several recipients of Aid to Families with Dependent Children (AFDC) of a policy of the Franchise Tax Board (FTB).

The FTB, which administers the renters' credit as part of the personal income tax, did not allow AFDC recipients to receive the larger renters' credit allowed for heads of households because the assistance received by these persons disqualifies them from head-of-household treatment under federal tax provisions. The FTB generally follows federal practice where California law does not specify different treatment. Consequently, AFDC recipients have received only the \$60 individual renters' credit rather than the \$137 credit allowed for heads of households. In August 1989, the Board of Equalization, which decides appeals of FTB decisions, ruled that AFDC recipients are entitled to the higher credit for heads of households. The decision applies retroactively back to 1985.

Budget Estimate Should be Refined. The Department of Finance developed its *current-year* cost estimate by adding the \$9.8 million for the estimated cost of Diaz claims to the actual cost of renters' credits in 1988-89 (\$487.2 million) and then applying a 2 percent growth factor to the total. The budget-year amount results from a second application of the 2 percent growth factor. This methodology, however, treats all of the Diaz claims as if they were an ongoing part of the base, whereas most of the estimated cost (\$6.9 million) is for back-year claims. Other factors, however, could work to increase costs compared with the budget

estimate. The FTB indicates that many AFDC recipients have not applied for any credit in the past. The availability of the larger payment may increase the number of these persons who apply for the credit. Finally, the 2 percent annual growth rate assumed in the budget appears too low in light of historical trends. For all of these reasons, the budget estimate is uncertain. Other reasonable assumptions could result in estimates differing by \$10 million or more.

Better Information Will be Available. As the FTB processes tax returns and renters' credit claims this winter and spring, trends in renters' credit payments will become more certain. Accordingly, we withhold recommendation at this time, pending an updated cost estimate using 1989 return data.

SUBSTANDARD HOUSING

Item 9100-101 (g) from the
General Fund

Budget p. GG 178

Requested 1990-91	\$196,000
Estimated 1989-90	278,000
Actual 1988-89	212,000
Requested decrease \$82,000 (-29 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

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1. Budget request is underfunded. An additional \$97,000 of revenue is available and statutorily designated for this program in 1990-91. 1184

GENERAL PROGRAM STATEMENT

The Substandard Housing program provides funds to local agencies to augment housing code enforcement and rehabilitation activities.

Existing law disallows certain income tax deductions for rental housing that is found to violate housing codes. The additional tax revenues generated by these disallowances are transferred from the General Fund to the Local Agency Code Enforcement and Rehabilitation Fund (LAC-ERF). Existing law requires the State Controller to distribute these funds to the cities and counties in which the code violations occurred, to be used for code enforcement, 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.

**SUBSTANDARD HOUSING—Continued
ANALYSIS AND RECOMMENDATIONS**

Budget Amount Underfunded

The budget request is underfunded by \$97,000 compared with the amount of revenue that is available in 1990-91 and is statutorily allocated to this program.

The budget requests \$196,000 from the General Fund for transfer to the Substandard Housing program in 1990-91, a decrease of 29 percent from the current year. The requested amount, however, is based on preliminary estimates by the Department of Finance of the amount of revenue from disallowed tax deductions that was collected in 1988-89. The Franchise Tax Board now reports that actual 1988-89 collections totaled \$346,000. After subtracting the board's administrative costs of the program (\$53,000), the amount remaining available for transfer to local governments is \$293,000 — or \$97,000 more than the budget request. Accordingly, this appropriation would require an augmentation of \$97,000 in order to reflect the amount actually available and designated by statute for this program.

LOCAL GOVERNMENT FINANCING

Item 9210 from the General
Fund

Budget p. GG 178

Requested 1990-91	\$15,000,000
Estimated 1989-90	15,000,000
Actual 1988-89	15,300,000
Requested increase: None	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

Chapter 1286, Statutes of 1987 (AB 650, Costa), 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.

For 1990-91, payments will be made to offset “disproportionate” county costs that were incurred in 1988-89. Specifically, if a county's ratio of costs for the four programs to its GPR was higher in 1988-89 than it was in 1981-82, the state will provide assistance to offset the difference. Thus, state assistance is offered on a “lagged” basis. The county program costs eligible for reimbursement under this program include the Aid to Families with Dependent Children programs (exclusive of Foster Care), the In-Home Supportive Services program, the Community Mental Health program, and the Food Stamps program.