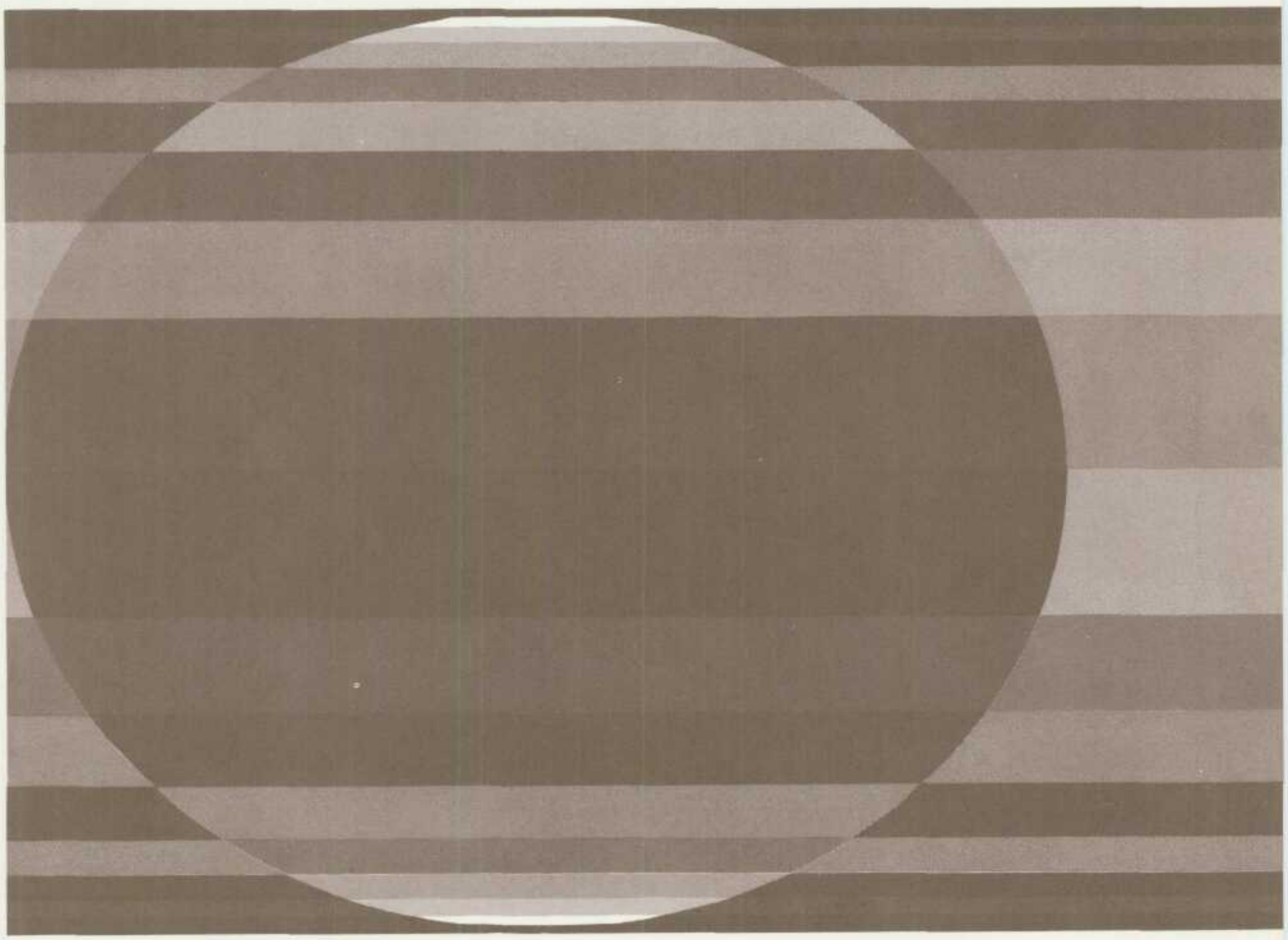
BACKGROUND PAPER

Proposition 13: Its Impact on the Nation's Economy, Federal Revenues, and Federal Expenditures

July 1978



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Director

ERRATA SHEET

PROPOSITION 13: ITS IMPACT ON THE NATION'S ECONOMY, FEDERAL REVENUES, AND FEDERAL EXPENDITURES

CHAPTER II.

Page 5, third line of second paragraph

"$7,044" should be "$7,044 million"

CHAPTER III.

Page 12, Table 5, column headed Federal Revenue Gain in FY 1980, entry for Rental-Occupied Residential should be

"179," not "175"

Page 14, line 13 of last paragraph

"$1,028," should be "$1,028 million"

"$1,311" should be "$1,311 million"

PROPOSITION 13: ITS IMPACT ON THE NATION'S ECONOMY, FEDERAL REVENUES, AND FEDERAL EXPENDITURES

The Congress of the United States
Congressional Budget Office

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PREFACE

Although limited to California, Proposition 13 has generated much interest in Washington and throughout the nation, and its implications have been the topic of considerable speculation. This report was written in response to a request from Chairman Robert N. Giaimo to provide the Committee on the Budget of the House of Representatives with an analysis of the likely effect of Proposition 13 on the nation's economy and the federal budget. The report was prepared by Peggy L. Cuciti, Peter Karpoff, Nancy B. Morawetz, Cornelia J. Motheral, and Robert D. Reischauer, with assistance from many program specialists at the Congressional Budget Office. Numerous individuals in the California government and in the Executive Branch provided valuable information and insights. The paper was typed by Janet L. Fain and Jill Bury and edited by Patricia H. Johnston. In keeping with the mandate of the Congressional Budget Office, the report contains no recommendations.

Alice M. Rivlin
Director

July 1978

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SUMMARY

Proposition 13, an amendment to the California Constitution that limits local property tax rates and makes it more difficult to increase other state and local taxes, will reduce the property tax revenues of California local governments by some $7,044 million in fiscal year 1978-1979. Spending cutbacks will not be as deep as implied by the revenue loss because the state has agreed to distribute $4,122 million of its accumulated surplus to its local governments; because some localities have surpluses of their own to tap; and because some jurisdictions will raise fees, users' charges, and nonproperty taxes.

In the near term, Proposition 13 will have an insignificant effect on the nation's economy. The property tax cut will stimulate economic activity, but only slowly because much of it will be retained by businesses. It will also lead to a lower price level because property taxes are a part of the housing component of the Consumer Price Index (CPI). The cutbacks in state and local spending resulting from Proposition 13, however, should depress the economy. On balance Proposition 13 will cause:

- Marginally lower levels of real economic activity through the first half of calendar year 1979 and marginally higher levels of real activity by mid-1980.

- An employment loss of about 60,000 by the end of 1978 that will gradually diminish in size.

- A reduction in the Consumer Price Index of 0.2 percent by the end of 1978 and 0.4 percent by mid-1980.

Federal revenues should increase by about $600 million in fiscal year 1979 and $900 million in fiscal year 1980 because of Proposition 13. These increases are the net result of two offsetting factors. First, because individual and business taxpayers will have smaller property tax deductions to claim on their federal tax returns, federal corporate and individual income tax collections will rise. Second, the impact of Proposition 13 on the price level and on the level of economic activity will lower the current dollar value of national income and this,

taken alone, will cause federal tax collections to be lower than they would have been in the absence of Proposition 13.

Total federal expenditures will not be significantly affected by Proposition 13. Expenditure cutbacks by California and its localities will lead to layoffs that could increase spending for transfer programs such as unemployment compensation and food stamps. On the other hand, the impact of the property tax cut on the price level will lower anticipated federal spending for social security, civil service retirement, and other programs whose spending levels are tied directly or indirectly to the CPI.

Expenditure cutbacks could lead to lower federal spending by reducing California's participation in federal grant programs that have matching requirements. For example, an expected denial of the cost-of-living increase in welfare benefits will simultaneously reduce federal as well as state and local expenditures. Budget cuts could also lead to California governments violating the maintenance of effort provisions contained in many federal grant programs. The employment and training, education, and transit areas appear to be the most susceptible to this situation occuring. Overall, however, these provisions are not expected to pose serious problems. Moreover, while California may lose some federal aid, much of this money would be reallocated to other states at a later date. Thus, while the level of federal spending in the near term might be lower than would be the case if Proposition 13 had not been adopted, it could be higher after the funds are reallocated.

Many of the factors thought to be responsible for the passage of Proposition 13--the high tax rates, rapid rate of tax increases, and presence of surpluses--are not conditions unique to California. Thus similar taxpayer revolts could occur else where or public officials could attempt to preempt such revolts by providing tax relief before required to do so by the voters. Such relief is likely to be financed by slowing the rate of increase in expenditures and by spending down surpluses rather than by cutting back real service levels. If such actions spread to a significant number of states, the impact on the nation's economy and the federal budget could become significant. Unless the reductions in taxes are at least twice as large as the accompanying slowdown or cut in expenditures, the net effect is likely to be a slowdown in economic activity and employment growth.

CHAPTER I. INTRODUCTION

On June 6, 1978 California voters approved Proposition 13, an amendment to the State Constitution that limits effective local property tax rates and makes it more difficult for the State of California and its local governments to increase other taxes. The immediate impact of Proposition 13 will be to reduce the property tax receipts of local governments during Calfornia fiscal year 1978-1979 by about $7,044 million or 57 percent. 1/ The extent to which this reduction will result in lower expenditures and reduced public services is not yet known. Much will depend upon how much of their accumulated surpluses California and its local governments decide to spend and how much new revenue local governments decide to raise from nonproperty taxes, fees, and users' charges.

While Proposition 13 applies only to California, the amounts involved are large enough to have nationwide effects on the economy and on the federal budget. Proposition 13 may also affect the behavior of other states and localities. This report describes the main elements of Proposition 13 and then examines its probable effects on the national economy, federal revenues, and federal expenditures. The final chapter speculates on the possible effect of similar actions in other states.

Description of Proposition 13

Proposition 13 places restrictions on property tax rates, assessment practices, and increases in state taxes and local special taxes. Specifically:

1/ The fiscal year in California runs from July 1 to June 30 and is indicated in this paper by "fiscal year" followed by two hyphenated years. "Fiscal year" followed by a single year refers to the federal fiscal year, which runs from October 1 to September 30.

- Property tax rates will be limited to 1 percent of full cash value plus the rate needed to service bonded indebtedness approved by the voters before the beginning of fiscal year 1978-1979. The one percent rate will be levied by each county and divided in proportion to past property tax collections among the county government and the municipalities, school districts, and special districts within the county. 2/

- Assessed values--which are supposed to be 25 percent of full value--will be rolled back to the levels on the 1975-1976 assessment rolls; where these levels do not reflect a property's 1975 value, the assessment will be increased to this level. Assessed values will be increased annually to reflect inflation, but by no more than 2 percent per year. Upon sale a property will be reassessed at its market value if that value exceeds the 1975-1976 assessment adjusted by 2 percent per year. Newly constructed properties will be assessed at market value.

- Statutes to increase state taxes will have to be approved by two-thirds of the elected members of each of the Legislature's two houses and no new state ad-valorem, sales, or transaction tax on real property will be permitted.

- Special taxes, except for taxes on real property, can be imposed by local governments only after approval by two-thirds of the jurisdiction's voters and only if such taxes conform to the powers granted to the locality under the state's statutes and constitution. The two-thirds restriction presumably would not apply to taxes proposed for general purposes (for example, local sales tax) by a general local government (that is, a city or county).

2/ The rate required to service voter-approved bonded indebtedness is estimated to average about 0.25 percent. Under a recently enacted law, the pro-rata distribution of the receipts from the county-wide one percent tax will be allocated in proportion to the three-year average of tax collections by the county government, each municipality and special district, and the tax collections for fiscal year 1978-1979 for each school district.

Initially, Proposition 13 will reduce the total revenues of local governments by 23 percent. School districts, which rely heavily on property taxes, would be most affected; cities and nonenterprise special districts, the least (see Table 1). 3/

TABLE 1. REVENUE LOSS RESULTING FROM PROPOSITION 13, BY TYPE OF GOVERNMENT, FISCAL YEAR 1978-1979

	Revenue Loss (in millions of dollars)	As a Percent of:	
		Property Tax Receipts	Total Revenues
Cities a/	806	60.0	15.2
Counties b/	2,236	58.8	28.9
School Districts	3,539	54.7	29.2
Special Districts (Enterprise)	216	55.7	22.4
Special Districts (Nonenterprise)	247	55.8	5.6
Total	7,044	56.6	23.4

SOURCE: Summary of the California Legislature Conference Report on SB 154 Relative to Implementation of Proposition 13 and State Assistance to Local Governments, June 23, 1978.

a/ Excludes San Francisco.

b/ Includes San Francisco.

3/ Enterprise special districts run such activities as electric and water utilities, waste disposal, transit, hospitals, and airports. Nonenterprise special districts provide such services as fire protection, flood control, local and regional planning, recreation, parks, and streets and roads.

Of the $7,044 million reduction in property tax payments, about one-third will accrue initially to homeowners and 17 percent to owners of rental units (see Table 2). Commercial, industrial, and agricultural property owners will receive 41 percent of the reduction. The remainder will represent savings to the state government in the form of reduced state tax relief subventions that replace local revenues lost because of homeowner and business inventory exemptions.

TABLE 2. DISTRIBUTION OF INITIAL TAX RELIEF, BY TYPE OF PROPERTY, FISCAL YEAR 1978-1979

	Initial Tax Relief (millions of dollars)	As a Percent of Total Relief
Owner-Occupied Residential	2,341	33.2
Rental-Occupied Residential	1,200	17.0
Commercial and Industrial	1,916	27.2
Agricultural	944	13.4
State	643	9.1
Total	7,044	100.0

SOURCE: Legislative Analyst, An Analysis of Proposition 13, The Jarvis-Gann Property Tax Initiative, May 1978, California Legislature, Sacremento, California.

CHAPTER II. THE IMPACT OF PROPOSITION 13 ON THE NATIONAL ECONOMY

The impact of Proposition 13 on the nation's economy will depend largely upon the degree to which public sector spending is reduced in California, the composition of these spending cuts, and the size of the property tax reduction.

ASSUMPTIONS

The state and its localities have accumulated substantial surpluses over the past few years that could be used to cushion the impact of the $7,044 reduction in property tax receipts on public spending. The state has enacted a program that will provide $4,122 million in additional aid to localities over the next fiscal year, offsetting 59 percent of their revenue loss (see Table 3). No decision has been made concerning the amount that the state will distribute in subsequent years, although estimates suggest that the state's surplus will be sufficient to provide substantial continued aid. 1/ The size of the surpluses and reserves held by local governments and the extent to which localities might use these funds to mitigate the impact of the property tax reduction is unknown.

In addition to using state and local surpluses, spending cuts can be avoided by raising other taxes, fees, and users' charges. While increased state taxes seem unlikely in the next

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1/ The simulations in this chapter assume that the state will provide $3,750 million in additional aid to localities in fiscal year 1979-1980.

TABLE 3. REVENUE LOSS REMAINING AFTER DISTRIBUTION OF INCREASED STATE AID TO LOCAL GOVERNMENTS, FISCAL YEAR 1978-1979

	Increased State Aid (millions of dollars)	Net Revenue Loss a/ (millions of dollars)	(as a percent of revenues)
Cities b/	250	556	10.5
Counties c/	1,480	756	9.8
School Districts	2,267	1,272	10.5
Special Districts (Nonenterprise)	125	91	9.5
Special Districts (Enterprise)	0 d/	247	5.6
Total	4,122	2,922	9.7

SOURCE: Summary of the California Legislature Conference Report on SB 154 Relative to Implementation of Proposition 13 and State Assistance to Local Governments, June 23, 1978.

a/ Loss of property tax revenues resulting from Proposition 13 minus increased state aid.

b/ Excludes San Francisco.

c/ Includes San Francisco.

d/ While most of the $125 million would go to nonenterprise special districts, a small but unknown portion will be received by enterprise special districts.

year, some localities that are empowered to do so may impose or raise payroll, business, or other taxes. Increased fees and users' charges are more likely; a number of jurisdictions have already indicated an intention to raise transit fares and impose or raise charges for services such as trash collection.

If, in addition to the increased state aid, $350 million a year from local surpluses are used to offset the property tax revenue loss and if other local taxes, fees, and users' charges are increased by $250 million in fiscal year 1978-1979 and by $750 million in fiscal year 1979-1980, then local services will have to be reduced by about $2,322 million in fiscal year 1978-1979 and $3,068 million in 1979-1980. 2/ To these reductions must be added the expenditure cuts of about $500 million that are expected to be instituted by the state through a wage and hiring freezes, an elimination of scheduled cost-of-living increases for welfare recipients, and other cutbacks. In addition, it is logical to presume that bond-financed capital spending by local governments will be cut back. This could occur because the tax rate limitation could raise the risk, and hence interest rates, of new bonds and because new debt must be serviced from revenues subject to the tax rate limitation and therefore will compete directly for funds with existing services. In total, state and local expenditure cutbacks are assumed to be $3,072 million in fiscal year 1978-1979 and $3,818 million in fiscal year 1979-1980. For local governments this would represent a cutback of about 10 percent from spending levels that were expected before the passage of Proposition 13.

EFFECTS ON THE ECONOMY

A portion of these spending cuts will take the form of reduced purchases and services by California governments. This will depress the economy and reduce aggregate output and incomes. The cuts derived from denying cost-of-living increases to state and local employees and welfare recipients will, however, first reduce incomes without reducing real aggregate output. In fact, lower salary rates will reduce the GNP deflator (a broad measure of inflation) by lowering the component that measures the price of state and local government output.

2/ It should be noted that these and other references to reductions mean reductions from the levels that would have existed in the absence of Proposition 13 and not reductions from current expenditure, tax, or service levels.

While very small relative to the size of the national economy, the $6,401 million reduction in property taxes paid by individuals and businesses will have a stimulative economic effect. 3/ The after-tax incomes of California's homeowners and owners of business property will rise, leading to increases in consumption expenditures and business investment spending. Renter's incomes, after paying taxes and housing costs, could rise if the property tax reductions on rental property are passed through reduced rents.

In general the spending cuts of the State of California and its localities can be expected to have a more depressing effect on the economy per dollar than the stimulative effect the tax cut will provide. This is the case because individuals will save some of their tax reduction. In addition, the tax cut that is initially received by business--some two-thirds of the total --is estimated to have a relatively small stimulative effect per dollar, since in the short run a substantial portion of changes in business after-tax revenues typically is not spent on consumption or fixed investment or passed on as price reductions.

The property tax cut will also lower the price level. The reduction in homeowner's tax payments will directly lower the Consumer Price Index (CPI) through its housing component. Further reductions in the CPI will occur if lower taxes on business properties are passed on to consumers in the form of reduced rents and prices. These deflationary effects will be partially offset by increases in fees and users' charges.

Taking account of these complex and partially offsetting effects, Proposition 13 should have very minor--if not insignificant--near-term effects on the economy. Specifically:

- o Real economic activity should be slightly depressed through the first half of calendar year 1979 because the spending cuts will have a more immediate impact than the tax reduction. By mid-1980 real economic activity may be marginally higher because of Proposition 13.

3/ This would be partially offset by the increases in federal and state tax liabilities, discussed in Chapter 3, and any increases in local taxes, fees, or users' charges.

- By the end of 1978 total employment could be 60,000 less than would be the case without Proposition 13, representing a negligible effect on the unemployment rate. The expenditure cutback in the labor-intensive public sector is the main reason for this result. By mid-1980 employment will have recovered somewhat as the stimulative effects create jobs in the private sector, but still may be slightly lower than the level that could be expected in the absence of Proposition 13.

- The Consumer Price Index may be 0.2 percent lower by the end of 1978 and 0.4 percent lower by mid-1980.

- With real GNP little changed and prices lower, nominal or current-dollar GNP will be lower (see Table 4).

TABLE 4. ESTIMATED CHANGES IN ECONOMIC ACTIVITY CAUSED BY PROPOSITION 13: BY CALENDAR YEAR AND QUARTER

	1979:1	1980:2
GNP (billions of 1972 dollars)	- 1	1
GNP (billions of current dollars)	- 6	- 8
Employment (thousands)	-60	-30
Consumer Price Index (percent)	- 0.2	- 0.4

Over a longer term, tax reductions of the sort provided by Proposition 13 may also affect incentives to work and to invest in such a way as to stimulate output. Tax reductions in a single state may affect the distribution of investment by attracting economic development from other states. This effect could benefit California at the expense of other states without having much impact on the national economy.

Some economists think that tax reductions in a single state could also increase national output through net increases in work effort or capital spending. Property tax reductions, however, seem unlikely to have much effect on work effort, and a property tax reduction of the type embodied in Proposition 13 is not well designed to increase the supply of new business capital. Its greater impact is on the rate of return on existing property. New construction will not benefit from the assessment rollback, although it will receive the benefit of the 2 percent limitation on annual assessment increases which will build up slowly over the years. Moreover, there is a good deal of uncertainty as to whether some of the reduction in property taxes on businesses might be offset by increased local charges and business taxes or rescinded by subsequent legislation or amendment. In sum, there might eventually be a further net increase in nonresidential investment resulting from the California business property tax cuts, but both the increase and its size and timing are highly uncertain.

The stimulus to residential investment is also uncertain. The benefit is greatest to present owners, and should induce them to hold on to present properties longer than would otherwise have been the case. Properties held by their current owners might rent more cheaply than newly built properties because of the assessment rollback; competition from existing properties thus could hold down the return on new residential investment.

In sum, the effects on the national economy of the tax and spending cuts resulting from Proposition 13 are likely to be insignificant. A good deal of uncertainly surrounds such estimates, however, because there is no prior experience from which to gauge the effects of large, localized reductions in taxes and services.

CHAPTER III. THE IMPACT OF PROPOSITION 13 ON FEDERAL REVENUES

Proposition 13 will have both a direct and an indirect effect on federal revenues. The direct effect of the property tax reductions in California arises because individual and business taxpayers will have smaller property tax deductions to claim on their federal returns and hence higher tax liabilities. The indirect effect derives from Proposition 13's effect on the economy and, taken alone, reduces federal revenue. In total, federal revenues are projected to increase by $600 million in fiscal year 1979 and by $900 million in fiscal year 1980 as a result of Proposition 13.

DIRECT EFFECTS

For individuals the amount of added federal tax liability resulting from smaller property tax deductions will depend upon the timing of property tax payments and the federal tax rates facing property owners. Because California real property taxes are paid in December and April, only half of the reduced property tax deductions of homeowners are likely to appear in the April 1979 tax returns that largely determine fiscal year 1979 individual income tax collections. Based on the income distribution of California homeowners (including those who take the standard deductions and thus do not benefit from itemized property tax deductions), about 20 percent of the reduced property tax payments will be offset by higher federal tax liabilities. Thus in fiscal year 1979 federal individual income tax receipts will rise by about $230 million because of the fall in property tax payments caused by Proposition 13; in 1980 the increase will be $490 million (see Table 5). 1/

1/ Reduced property tax payments will, through the same mechanism, increase taxpayer liabilities on the California income tax. In turn, this will decrease federal revenues by increasing the amount of state taxes Californians will be able to take as an itemized deductions on the federal income tax. This effect is small and has not been included in these estimates.

TABLE 5. TAX SAVINGS FROM PROPOSITION 13 AND THEIR EFFECTS ON FEDERAL REVENUES: IN MILLIONS OF DOLLARS

	California Fiscal Year 1978-1979 Tax Saving	Federal Revenue Gain Federal Fiscal Year 1979	1980
Direct Effects	6,401 a/	1,028	1,311
Owner-Occupied Residential	2,341	230	490
Rental-Occupied Residential	1,200	200	175
Commerical & Industrial	1,916	329	281
Agricultural	944	269	361
Indirect Effects		- 400	- 400
Total		628	911

a/ This entry, plus $643 million in reduced state costs for property tax relief, represents the $7,044 million reduction in California property taxes for 1978-1979.

The direct increase in federal revenues attributable to the property tax cuts on rental, commercial, industrial, and agricultural property will depend not only on the timing of the tax payments and the marginal federal rates faced by the taxpayers, but also on the degree to which the tax savings accruing to businesses are shifted--that is, passed on to consumers. Rental property owners and businesses probably will take their deductions for property taxes more quickly than home owners; on the average they also face higher marginal federal tax rates (see Table 6).

TABLE 6. ASSUMPTIONS FOR CALCULATING FEDERAL REVENUE GAIN: IN PERCENTS

	Proportion Shifted		Fiscal Year Claimed	
	First Year	Later Years	1979	1980
Owner-Occupied Residential	0	0	50	50
Rental-Occupied Residential	33	67	75	25
Commercial & Industrial	20	45	75	25
Agricultural	0	10	75	25

Property tax reductions for businesses and landlords, like any cost reduction, could be kept as added profit or shifted to consumers in the form of reduced prices. The extent to which such shifting occurs depends upon market structures and competitive pressures; little is known about the specific degree of shifting to expect. The estimates presented in Table 5 assume that:

- Tenants eventually receive about two-thirds of the property tax reductions on rental property in the form of lower rents.

- About 45 percent of the reduction on commercial and industrial property is passed on to consumers in the form of lower prices. This shifting occurs primarily among commercial firms that largely compete in a localized market area. Substantial shifting should also occur among regulated public utilities that may be required to pass on their savings from reduced property taxes. Industrial firms will face less competitive pressure to reduce prices because they often compete with out-of-state firms not receiving property tax relief.

- o A very small fraction of the reduced property taxes on agricultural land will be reflected in lower prices because agricultural products are usually sold in national or world markets where production costs have little impact on prices in the short run (see Table 6).

Based on these assumptions, federal revenues from rental, commercial, industrial, and agricultural firms should rise by $798 million in fiscal year 1979 and $817 million in 1980 (see Table 5). Together with the increases from homeowners, federal revenues should rise by $1,028 million and $1,311 million, respectively, in fiscal years 1979 and 1980 because of the direct effects of Proposition 13. But these gains will be partially offset by the indirect effects of Proposition 13 on federal revenues.

INDIRECT EFFECTS

The indirect effects of Proposition 13 on federal revenues will be felt through two channels of change in the economy. The first of these is through prices. As was mentioned before, the California action has a deflationary effect, since property taxes are a component of the Consumer Price Index (CPI). Even though property taxes elsewhere will be unaffected, the expected rise in the cost of living, as measured by the national Consumer Price Index, will be dampened and with it wage and price increases. As current dollar incomes grow less rapidly, federal revenues will also grow less rapidly.

The second channel through which Proposition 13 will affect federal revenues is its overall effect on economic activity. Lower property taxes increase the after-tax incomes of consumers. Some of this goes into savings and some into the purchase of imports; but much will be spent stimulating U.S. business activity and profits. The resultant growth of incomes will raise federal tax revenues. Working in the opposite direction, of course, will be the cutback in state and local spending which will have a depressing effect on economic activity, incomes, and federal revenues. The net indirect effect of Proposition 13 on the economy will be a loss of federal revenues of $400 million in both fiscal years 1979 and 1980. When balanced against the direct gains of $1,028 in fiscal year 1979 and $1,311 in fiscal year 1980, the net federal revenue gain should be about $600 million in fiscal year 1979 and $900 million in 1980 (see Table 5).

CHAPTER IV. THE IMPACT OF PROPOSITION 13 ON FEDERAL SPENDING

INTRODUCTION

Proposition 13 could affect federal expenditures in numerous ways. Overall, however, it appears that federal expenditures will be little affected by Proposition 13, in part because of offsetting effects in different programs.

The nature and direction of the changes in federal expenditures will depend on decisions--many of which are yet to be made--by the state legislature, local government officials, and voters in California. First, the impact on federal expenditures will depend on the amount of surpluses spent and revenues raised to replace lost property tax receipts. Second, for the state and local budget reductions that are required, the impact on federal expenditures will depend on how they are accomplished. For example, freezing the wages of public employees would have less of an impact on federal expenditures than would laying off employees and having them receive unemployment compensation; cutting back library services, which receive little federal aid, would have less of an impact on the federal budget than would reducing welfare grants, which are heavily aided.

There are three major mechanisms through which federal expenditures could change as a result of Proposition 13:

- <u>State and local expenditure cutbacks could violate the maintenance of effort or nondisplacement requirements of federal grant-in-aid programs</u>. Since a major objective of many federal grant programs is to stimulate additional state and local activity in support of national priorities, maintenance of effort provisions appear in many of the statutes and regulations governing these programs. Some of these provisions are written in general terms and require that federal funds be used to supplement and not supplant state and local funds. Other maintenance of effort provisions are more specific--requiring the recipient to maintain the same level of effort (for example, spend as many dollars) on a supported activity as it did in a prior period. Budget reductions in California could cause a loss of all or part of the grants from programs governed by the latter type of maintenance of effort provision. Roughly half of the largest grant programs have maintenance of effort requirements (see Appendix Table).

- <u>Expenditure cutbacks could jeopardize the funds necessary to meet the matching requirements of federal grant programs</u>. Nearly two-thirds of federal grant programs accounting for nearly four-fifths of federal aid dollars include some nonfederal matching requirements. 1/ If federal grant programs support services on which the recipients place a relatively low priority or if other items in local budgets are mandated by state law, California governments might choose to withdraw their matching amount even though, with the loss of federal money, the cutback in services would far exceed their own budgetary savings. Such actions are more likely to occur if the program requires a relatively large match, if the match comes from local governments rather than the state, and if property taxes are used to support the local contribution.

  If California fails to meet either maintenance of effort or matching requirements and thus loses some amount of its federal grant money, there may or may not be a corresponding reduction in total federal expenditures. In most grant programs, funds unused by California would be redistributed to other eligible recipients. Reallocations may be delayed to give California an opportunity to make use of its funding; this could result in lower than expected federal spending in the next few years and increased levels of spending later on. It is possible, however, that budget authority may lapse before reallocations are made. In certain cost-sharing entitlement programs, such as Aid to Families with Dependent Children (AFDC) and medicaid, a reduction in California's grant would necessarily imply a reduction in overall spending.

1/ Advisory Commission on Intergovernmental Relations, <u>Categorical Grants: Their Role and Design an Assessment and Proposed Policies</u>, Report A-52, Washington, 1978.

- <u>The impact of the expenditure cutbacks on individuals and on the economy will affect federal expenditures.</u> Public and private sector employees who are laid off because of Proposition 13 could receive unemployment compensation, food stamps or other transfer program benefits. The elimination of the cost-of-living increase in the AFDC programs will entitle AFDC recipients to larger food stamp benefits. If tuition is imposed on community college students to replace lost property tax revenue support, spending in the Basic Education Opportunity Grant program could rise.

  The small decrease in the Consumer Price Index arising from the reduction in property taxes will reduce benefit increases in the social security, civil service retirement, and other programs that are tied to the CPI.

The following sections point out the manner in which federal spending in some major federal programs might be affected by Proposition 13 through one or more of the mechanisms just described.

POSSIBLE EFFECTS ON MAJOR FEDERAL PROGRAMS

Mass Transit Assistance

Of all the transportation modes, mass transit is most likely to be affected by the passage of Proposition 13. Several major California transit operators run the risk of violating the maintenance of effort requirement incorporated in the Section 5 formula grant program of the Urban Mass Transportation Act (UMTA). In order to qualify for Section 5 funds, transit operating assistance from state and local governments must be greater than the average of the two previous years. If state and local financial resources are reduced and increases in fares are substituted for state and local operating subsidies, federal grant payments of up to $50 million, out of a total allocation to the state of $120 million, could be jeopardized.

Only those operators that rely heavily on the property tax are likely to face difficulties in qualifying for continued federal operating assistance. Even they may avoid noncompliance because UMTA allows the maintenance of effort calculation to be made either on an operator-by-operator basis or on the basis of a combined financial statement for all transit operators in an urbanized area. On a pooled basis, operators in Los Angeles and San Francisco, which otherwise might have difficulty, could probably meet the maintenance of effort requirement since both areas have at least one major operator (RTD and BART, respectively) that is largely independent of property taxes. Other systems dependent on property taxes, for which pooling is not an option, receive roughly $10 million in formula grants. Loss of this amount could also be avoided if the state decides to allow a portion of the proceeds of a one-quarter percent sales tax, currently earmarked for capital improvements, to be used for operations instead.

Participation in the UMTA capital grant program could also be affected by Proposition 13 if local governments divert funds to operations and, therefore, find it difficult to fund the 20 percent match that is required. Overall, federal spending on mass transit capital grant programs would not be affected, because monies not used by California will be allocated to other states.

Highway Aid

The federal-aid highway program provides funds covering between 70 and 90 percent of the costs of construction, reconstruction, and rehabilitation of highways on the federal-aid highway system. Federal obligations for highway projects in California will be roughly $500 million in fiscal year 1978.

Projects on state-administered highways (constituting 42 percent of mileage on the federal-aid system in California) are unlikely to be affected by Proposition 13 since the state matching contribution derives largely from earmarked state highway user taxes. Federal funding for locally administered highways could be affected since about half of local matching dollars come from property taxes or general fund appropriations. About $200 million in federal funds would appear to be at stake. However, even with local financial difficulties, federal-aid highway funds are unlikely to go unused in California since the State Department of Transportation has indicated that it will provide extra funds to localities if needed for major highway projects and will itself make use of any federal contract authority freed up by Proposition 13.

Airport Aid

Under the Airport Development Aid Program (ADAP) the federal government provides between 50 and 90 percent of the cost of capital improvements. In fiscal year 1977 $29.8 million was obligated for projects in California. Roughly 80 percent of this amount went to air carrier and commuter airports. Since these airports tend to rely on revenue bonds rather than local taxes to raise matching funds, their participation in the ADAP program is unlikely to be affected by the passage of Proposition 13. General aviation airports, however, could have difficulty securing federal funds since they do rely on local taxes to raise the nonfederal share of project costs. Thus Proposition 13 could result in a reduction of a few million dollars per year in ADAP funds going to California.

Education

As a result of the passage of Proposition 13, local education agencies may be forced to make budget cuts that place them in violation of the maintenance of effort requirements that are included in most education laws. Generally, in order to qualify for aid, a local education agency must have spent as much on the aided activity in the preceding year as it did in the year before that. Noncompliance with the maintenance of effort requirements generally disqualifies the recipient for the full amount of the grant in question. However, three programs, Elementary and Secondary Education Act (ESEA) Title I, ESEA Title IV, and Adult Education, allow a 5 percent reduction in expenditures without violation of maintenance of effort and provide for a waiver of the requirement under certain circumstances. Under "exceptional" circumstances, an applicant's grant is reduced by the percentage by which it is out of compliance. Under "very exceptional" circumstances, no penalty is assessed. These waivers can be used only once and spending levels during the waiver year cannot be used in the computation of a new base to determine maintenance of effort in future years. Reauthorization legislation pending in both the House and the Senate would remove the "very exceptional" option. Thus spending cuts in fiscal year

1979, the first after Proposition 13, could affect grants totaling as much as $385 million in fiscal year 1980. 2/

While several of the programs providing aid to postsecondary educational institutions also have maintenance of effort requirements, compliance by California is less in doubt since recipient institutions tend not to be dependent on property tax revenues. Only community colleges in California rely very heavily on the property tax for support. If tuitions are imposed to offset part or all of the revenue loss, federal expenditures in the Basic Education Opportunity Grant (BEOG) program could rise.

Employment and Training Programs

If in response to Proposition 13 local governments lay off regular employees or impose a hiring freeze, Comprehensive Employment and Training Act (CETA) program regulations require that CETA public service employees engaged in substantially similar work must either be laid off or transferred to other unaffected departments or nonprofit organizations. There is nothing in the law that precludes laid-off regular employees from obtaining unaffected CETA Title VI positions if they meet the eligibility criteria. On the other hand, deliberate attempts by prime sponsors to transfer large numbers of regular employees to CETA jobs through layoffs would probably be a violation of law. Whether or not there are acceptable ways of accomplishing the same thing is uncertain. Several years ago New York and Detroit were able to rehire laid-off regular employees under a somewhat weaker set of maintenance of effort regulations.

Because California officials will attempt to minimize the loss of funds and because the law reauthorizing the CETA program for 1979 has not yet been passed, it is difficult to estimate

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2/ Since many of the education programs are forward funded, this amount represents California's share of funds expected to be appropriated in 1979 and spent in 1980 in the following programs: compensatory education (ESEA Title I); vocational education; adult education; grant for libraries, learning resources, education innovation, and support (ESEA Title IV); Indian education; education of the handicapped; and emergency school aid (desegregation assistance).

how much of this or the next year's allocation will be lost if maintenance of effort provisions are violated. The Department of Labor estimates that California will be allocated roughly $500 million in fiscal year 1978 under Titles II and VI to support 55,000 public service employment jobs in state and local government agencies.

Work experience and public service employment funded under other titles of the Comprehensive Employment and Training Act could also be affected by the passage of Proposition 13. Funding for these programs could be lost either because agency layoffs result in violation of maintenance of effort requirements or because supervisory personnel, equipment, and other overhead (such as classrooms and transportation) usually provided by state and local government agencies might no longer be available. The Summer Youth and Youth Employment and Demonstration Projects Act programs, accounting for grants of $80 million and $67 million, respectively, in fiscal year 1978, are most likely to be affected.

Unemployment Insurance

As part of the transition provisions of the Unemployment Compensation Amendments of 1976 (Public Law 94-566), which mandated the extention of unemployment insurance to state and local government employees, the federal government will pay part of any benefits based on employment prior to the full implementation of the law. In California the transition provisions apply through April 1979. Thus the federal government can be expected to share the cost of benefits paid to public employees laid off as a result of the passage of Proposition 13. For public employees laid off before the end of July, the federal government will pay all of the benefits, thus creating a significant incentive to cut the payroll quickly. In each succeeding three-month period, the federal share is reduced by 25 percent so that benefits accruing to any public employee laid off after April 1979 would be paid entirely from the state trust fund and the financial burden would fall on the former employing jurisdiction.

Based on the past experience of covered unemployed workers in California, an average laid-off public employee might be expected to receive unemployment benefits totaling $1,445 over a 17-week period. The federal budget impact would depend on the timing of layoffs but could total as much as $14.5 million for every 10,000 public employees laid off before August 1978.

The depressing effect that the expenditure cuts will have on the economy in the short run could lead to a small decline in the number of jobs in the private sector. This could lead to an increase in regular unemployment insurance benefits of $4 to $6 million.

Social Services

The Title XX Social Services program of the Social Security Act requires a 25 percent state-local match in order to qualify for federal funds. Proposition 13 is not expected to affect California's participation in this program since current spending from state-local sources for social services is far in excess of the amount required to match California's federal grant allocation.

Health

Proposition 13 is expected to have little budgetary effect in the health area; neither total federal spending nor the amount going to California is expected to be affected. Few of the categorial health programs have matching requirements and, of those that do, the burden falls primarily on the state. The California state government has agreed to pay, at least for one year, the local share of medicaid costs, which previously was paid by county governments partially out of property tax revenues.

Welfare

Under the Aid to Families with Dependent Children (AFDC) program, the federal government pays a portion of the cost of providing benefits to eligible families. Since the program is open-ended and the state determines benefit levels and eligibility standards, the state, to a large extent, determines total program costs and hence federal expenditures. In a move necessitated by Proposition 13, California reduced costs in its AFDC program by eliminating a scheduled cost-of-living increase. The state expects this to result in total budget savings of about

$144 million in fiscal year 1978-1979, of which $71 million will accrue to the federal government. Recently passed state legislation calls for the local share of welfare costs to be paid for by the state in fiscal year 1978-1979.

Food Stamps

As a result of the decision to withhold cost-of-living increases in the AFDC program in California, food stamp benefits might be expected to increase by roughly $25 million. These benefits are paid fully by the federal government. Expenditures in the food stamp program could also increase if layoffs of public employees reduce some family incomes enough to qualify for food stamps. If California decides to deny the cost-of-living increase for the state supplement portion of Supplemental Security Income payments, it could endanger the state's cash-out status in the food stamp program. Should this occur, food stamp expenditures could increase by $35 to $70 million.

Child Nutrition Programs

Even though the National School Lunch program includes both a matching and maintenance of effort requirement, California is unlikely to have difficulty qualifying for continued assistance. State spending, both from general tax sources and charges to participating students, is so far in excess of the amounts required by the federal grant program that spending cuts could take place without jeopardizing federal assistance.

A number of summer schools and public and private non-profit summer day care camps may not operate this summer as a result of local government budget cuts. Approximately $18.7 million in federal funds has been allocated to California for summer food programs. Decisions already taken to abandon programs will result in the return of at least $4 million in federal funds.

Proposition 13 could cause a decrease in federally funded school breakfast programs. Most of these programs operate before normal school hours and thus involve additional expenditures for janitorial and supervisory personnel. If budget cutbacks force reduced working hours for these personnel, schools could terminate their breakfast programs.

Housing Programs

Under the Section 8 housing assistance programs, the federal government makes payments to landlords equal to the difference between the rental charge--set at or below a government established maximum fair market rent--and 25 percent of tenant income. Reductions in property taxes should slow the rate of rent increases and may even result in absolute rent reductions. So long as these changes are reflected in maximum rent schedules, which are determined administratively by HUD, Proposition 13 might be expected to reduce slightly federal outlays in the Section 8 programs. This effect, however, could be offset by state actions denying a cost-of-living increases to AFDC recipients. For the 25 percent of Section 8 tenants that are welfare recipients, this would mean lower tenant contributions towards rent than otherwise would have been expected. At least in the short run, the income and rental effect should cancel each other out, resulting in little or no change in federal outlays.

Because public housing projects are government-owned, and hence pay no property taxes, the reduction in property taxes resulting from Proposition 13 will have no effect on operating expenses. However, the freeze on welfare benefits under AFDC will reduce tenant incomes below anticipated levels, thus reducing rent collections and ultimately increasing federal operating subsidy payments. Because tenant incomes are only recertified once a year, the effect of the AFDC benefit freeze is likely to be delayed. Operating subsidy requirements during fiscal year 1979 could increase by $0.4 million and, if the freeze were extended into 1980, by $1.3 million in that fiscal year.

Social Security and Government Retirement Programs

Proposition 13 will cause a slight reduction in the Consumer Price Index and thus federal budget savings in programs such as social security and the government retirement programs in which benefits are indexed to price changes. Because of this, federal outlays could be reduced by $100 million in fiscal year 1979 and $330 million in fiscal year 1980.

General Revenue Sharing

Proposition 13 could result in a reduced share of federal revenue sharing funds going to California since tax effort is a key factor in the formula used for distributing funds. Since there is a lag in data collection, however, no impact would be expected in either fiscal year 1979 or 1980. If the program is reauthorized without change and without an increase in the funding level, then California governments could suffer a reduction of under $100 million in their revenue sharing payments in fiscal years 1981 or 1982. State and localities elsewhere would receive correspondingly higher payments.

Wastewater Treatment Facility Construction Grants

Under the Environmental Protection Administration's construction grant program, the federal government provides 75 percent of the cost of approved projects. In California, remaining costs are split equally by the state and the responsible local government. California's participation in this program could be reduced if Proposition 13 makes it difficult for California governments to raise their share of project costs.

The state's ability to finance its share is relatively assured; it recently received voter approval for the issuance of $300 million in bonds to support the construction of wastewater treatment plants and the state's access to money markets is not in doubt. At the local level, however, there is greater concern. Traditionally funds have been raised by issuing general obligation bonds. With the limitation on local property taxes imposed by Proposition 13, these bonds are likely to be considered by the market to be a relatively risky investment. At a minimum, local governments will face higher borrowing charges and may in some instances have difficulty gaining access to the market. Local governments might substitute revenue bonds, but these bonds generally have higher interest costs. Increases in interest charges would increase total project costs, perhaps reducing local public support for wastewater treatment facilities, and imperiling local bond approval.

Under federal legislation, California has a two-year time period to secure federal obligation of funds allocated for its use. Funds unobligated after two years can be reallocated to other states. Assuming a fiscal year 1979 appropriation of $4.2 billion for the construction program, approximately $340 million would be allocated to California. If California had a program slowdown of 50 percent, $170 million would be reallocated to other states in fiscal year 1981. Since treatment plants take a long time to design and build, the spendout of federal funds is relatively slow; outlays would be reduced by $5 million in 1979 and $30 million in fiscal year 1980. In later years, outlays would increase as the states receiving California's unused funds got their projects underway.

CONCLUSION

Total federal spending should not change much as a result of Proposition 13. There may be a small reduction largely as a result of price changes. Maintenance of effort and matching requirements could endanger California's participation in some grant programs. Even so, the impact on total federal spending should be small since funds can generally be reallocated to other eligible states and localities. California faces the greatest likelihood of losing federal funds for public service employment, UMTA operating and capital assistance, and various education programs, although in the last instance the effect would not be felt until fiscal year 1980.

CHAPTER V. REPERCUSSIONS ELSEWHERE

The conclusion that Proposition 13 will have relatively minor effects on the economy and on federal revenues and expenditures is predicated on the assumption that the property tax and expenditure cuts will be limited to California. California's actions could, however, be the forerunner of similar steps in other states, thus magnifying the impact on the economy, the federal budget, and the federal system. California-like initiatives might occur elsewhere because some of the conditions believed to have contributed to taxpayer dissatisfaction in California are also present in other states:

- While the burden of state and local revenues and property taxes in California is high, both in per capita terms and in relation to personal income, there are several states with heavier burdens (see Table 7).

- The increase in California's tax burdens, another of the factors commonly cited as responsible for the voter appeal of Proposition 13, does not appear to be much different from the national average. Between fiscal years 1972 and 1977 per capita revenue burdens in California increased by 64 percent, slightly faster than the national average. Burdens, measured as a fraction of personal income, increased by 5.5 percent, or 2.2 percent faster than the national average. During the same period, property tax collections, measured as a percent of personal income decreased both in California (-8.6 percent) and in the nation (-7.3 percent). 1/ In active real estate markets in California and elsewhere, however, assessments and property tax burdens have been rising faster than the state-wide averages imply and for a significant number of taxpayers, tax liabilities may have risen much faster than incomes. In such situations dissatisfaction with a tax system that does not distinguish real from current dollar increases in income and wealth is strong.

1/ Firm data for last year are unavailable; however, rough estimates of the California and national situations suggest that property tax collections per capita increased slightly faster in California than than they did in the nation as a whole.

TABLE 7. OWN SOURCE REVENUES AND PROPERTY TAX BURDENS AND PERCENT CHANGE IN BURDENS FOR CALIFORNIA COMPARED TO SELECTED STATES, a/ FISCAL YEAR 1972 TO FISCAL YEAR 1977

	Property Tax Collections				Own Source Revenue Collections b/			
	Per Capita		As a Percent of Personal Income		Per Capita		As a Percent of Personal Income	
	Fiscal Year 1977 Dollars	Percent Change 1972-77	Fiscal Year 1977 Dollars	Percent Change 1972-77	Fiscal Year 1977 Dollars	Percent Change 1972-77	Fiscal Year 1977 Dollars	Percent Change 1972-77
California	465	42.2	6.5	-8.6	1,360	64.2	19.0	5.5
U.S. Average	292	44.1	4.6	-7.3	1,041	60.5	16.3	3.3
Alabama	60	41.8	1.2	-15.1	743	68.4	14.5	0.8
Arkansas	111	48.5	2.3	- 8.3	671	60.4	13.6	-1.0
Georgia	191	59.9	3.5	2.8	865	62.9	15.6	4.6
Indiana	242	10.0	3.9	-29.3	863	51.1	13.9	-2.9
Louisiana	100	30.0	1.9	-21.6	906	57.1	16.9	-5.4
Massachusetts	490	51.4	7.4	4.0	1,166	59.9	17.6	9.9
Minnesota	272	17.4	4.4	-24.3	1,214	62.5	19.6	4.7
New Jersey	465	50.0	6.3	-3.0	1,119	68.0	15.2	8.6
New York	446	53.7	6.3	9.2	1,493	59.3	21.2	13.1
Oregon	362	62.5	5.8	0.6	1,140	87.4	18.2	16.1
Wisconsin	294	13.7	4.8	-28.0	1,100	52.3	18.0	-3.6

SOURCE: U.S. Bureau of the Census, Governmental Finances, Vol. 1971-72 and unpublished data.

a/ States were selected because they were among the highest or lowest ranked states on the basis of property tax collections per capita or changes in property tax collections per capita.

b/ Includes all revenue collected by state and local governments from taxes, charges, fees, etc. Excluded are federal grant payments, utility revenues, liquor store revenues, and insurance-trust revenues.

- The large public sector surpluses accumulated in California may be paralleled by smaller surpluses elsewhere. Such surpluses could have contributed to the revolt by angering taxpayers who saw their taxes rise without commensurate service increases; the surpluses also allowed voters to support Proposition 13, comfortable in the knowledge that major service cutbacks could be avoided by spending accumulated funds. In the National Income and Product Accounts, the aggregate state and local sector surplus, exclusive of social insurance funds, was $13.7 billion in 1977. While these data are not broken down geographically, information collected by the National Association of State Budget Officers suggests that few state governments have accumulated surpluses of the magnitude of California (see Table 8).

If, as appears to be the case, the situation in California is not sharply different from that in other states, similar budget and tax reductions might be undertaken elsewhere. Tax and expenditure limitation proposals are already under consideration in several states, but few are as extreme as Proposition 13. Most would limit the rate of future expenditure or revenue growth, but would not reduce revenues or expenditures below current levels.

It is probable that state and local officials will respond to the signal sent by California taxpayers, even if not required to do so by their own voters. In most instances their response will not involve service cutbacks; rather they are more likely to provide tax relief by slowing down the rate of increase in expenditures or by spending down surpluses. If governments reduce taxes without changing spending plans, the net effect on the economy would be stimulative. Price reductions would also result if property or sales taxes were cut. If tax relief is financed by holding down the growth in expenditures, however, rather than by using up accumulated surpluses, the stimulative effect of the tax cuts on the economy will be offset. The previous analysis of the California situation suggests that unless the magnitude of the tax cut is significantly larger than the accompanying reduction in expenditures--in other words, unless roughly half of the tax reduction is financed through a spending of accumulated surpluses--tax and spending cuts would tend to reduce near-term aggregate economic activity and employment.

TABLE 8. STATE GOVERNMENTS WITH OPERATING SURPLUSES IN FISCAL YEAR 1978 IN EXCESS OF 6 PERCENT OF EXPENDITURES a/

State	Projected Surplus (in millions of dollars)	Projected Surplus (percent of 1978 expenditures)
Alaska	570.1	66.5
North Dakota	157.4	57.2
Arkansas	189.3	27.9
Utah	53.9	20.1
Texas	622.6	20.0
California	2,157.0	17.6
Nevada	36.9	16.9
Wisconsin	271.1	13.8
Kansas	117.8	13.8
South Dakota	21.3	12.9
Montana	24.1	11.3
Oregon	107.0	10.5
Nebraska	50.8	10.5
Vermont	17.5	9.6
Indiana	110.8	7.3
New Mexico	40.9	7.0

SOURCE: National Association of State Budget Officers and National Governors Association, Fiscal Survey of the States, Fall 1977, as updated by the National Conference of State Legislatures.

a/ These figures represent Fall 1977 projections of what budget positions would be several months later. As such, they differ from actual outcomes. For example, the surplus shown for California is substantially less than that currently reported by the state.

APPENDIX

APPENDIX TABLE. MATCHING AND MAINTENANCE OF EFFORT REQUIREMENTS FOR SELECTED LARGE FEDERAL GRANT PROGRAMS a/

CFDA Reference Number b/	Agency and Program	California's Share of 1977 Program (in thousands of dollars)	Requirement for State and Local Match	Maintenance of Effort Requirement
Department of Agriculture				
10.418	Water & Waste Disposal Grants for Rural Communities	26,387	None	None
10.500	Cooperative Extension Service	6,261	55 percent	None
10.561	Administration of Food Stamps	33,629	50 percent	None
10.555	National School Lunch	32,739	75 percent for paid-lunch program except less in states with per capita incomes below the national average. Ten percent of matching funds must come from state and local revenues other than those raised from student charges.	State spending for administration must exceed fiscal year 1977 levels to qualify for federal funding of administrative costs.
10.557	WIC--Special Supplemental Feeding for Women, Infants and Children	17,340	No; but state and local agencies bear administrative costs in excess of 20 percent of the total grant.	None

(Continued)

APPENDIX TABLE (Continued)

CFDA Reference Number b/	Agency and Program	California's Share of 1977 Program (in thousands of dollars)	Requirement for State and Local Match	Maintenance of Effort Requirement
Department of Health, Education, and Welfare				
13.224	Community Health Centers	20,101	Yes; determined on a case-by-case basis	None
13.232	Maternal & Child Health	11,493	Part A formula grants have a 50 percent match	None
13.428	Title I Compensatory Education	139,880	None	Fixed Base: Combined fiscal effort per student or aggregate expenditures for preceding year must equal 95 percent of second preceding year. (Waivers are allowed.)
13.449	Education for the Handicapped	18,609	None	Fixed Base: Level of expenditures for handicapped from state and local sources for application year must equal preceding year. (No waiver allowed.)
13.478	School Assistance in Federally Affected Areas (Impact Aid)	98,546	None	None

(Continued)

CFDA Reference Number b/	Agency and Program	California's Share of 1977 Program (in thousands of dollars)	Requirement for State and Local Match	Maintenance of Effort Requirement
(HEW, continued)				
13.493	Vocational Education	38,803	50 percent	Fixed Base: Per pupil or aggregate spending for preceding year must equal second preceding year.
13.600	Headstart	32,042	20 percent; can be waived for low-income communities and those hit by natural disaster.	General non-supplantation requirement.
13.624	Rehabilitation Services and Facilities--Basic Support	55,996	20 percent	Fixed Base: State spending must equal fiscal year 1972 level.
13.635	Nutrition Programs for the Elderly	17,725	10 percent	Fixed Base: Regulations require continued support at prior year levels.
13.642	Title XX Social Services	262,060	25 percent	Fixed Base: state and local spending must equal fiscal year 1973 or 1974 levels.
13.714	Medicaid	1,217,425	Varies by state between 27 and 50 percent	None
13.808	Aid to Families With Dependent Children	1,005,944	Varies by state between 27 and 50 percent	None

(Continued)

APPENDIX TABLE (Continued)

CFDA Reference Number b/	Agency and Program	California's Share of 1977 Program (in thousands of dollars)	Requirement for State and Local Match	Maintenance of Effort Requirement
Department of Housing and Urban Development				
14.146	Low-Income Housing Assistance	30,659	None	None
14.218 and 14.219	Community Development Block Grants	308,898	None	General non-supplantation requirement.
Department of Justice				
16.502	Law Enforcement Assistance Block Grants	34,951	50 percent for construction; 10 percent all other activity	General non-supplantation requirement.
Department of Labor				
17.207	Grants for Employment Service	67,210	None	None
17.226	Work Incentives Program (WIN)	36,922	10 percent	Public service employment funded through WIN cannot be used to displace regular employees.

(Continued)

APPENDIX TABLE (Continued)

CFDA Reference Number b/	Agency and Program	California's Share of 1977 Program (in thousands of dollars)	Requirement for State and Local Match	Maintenance of Effort Requirement
(Labor, continued)				
17.232	Comprehensive Employment and Training Grants	899,147	None	Statute includes general non-supplantation requirement. Regulations prohibit public service employees from remaining in jobs that are substantially similar to those from which regular employees are laid off.
Department of Transportation				
20.102	Airport Development Aid	30,118	Varies between 10 percent and 25 percent depending on project.	None
20.205	Highway Aid	638,888	Varies between 10 percent and 30 percent depending on project.	None
20.500 and 20.507	Urban Mass Transportation Assistance	165,320	20 percent on capital projects; 50 percent if used for operating expenses.	Operating subsidies must equal the average of the prior two years to qualify for formula grant component.
Community Services Administration				
49.002	Community Action	30,945	30 to 40 percent depending on size of program; can be waived.	General non-supplantation requirement

(Continued)

APPENDIX TABLE (Continued)

CFDA Reference Number b/	Agency and Program	California's Share of 1977 Program (in thousands of dollars)	Requirement for State and Local Match	Maintenance of Effort Requirement
<u>Environmental Protection Administration</u>				
66.418	Construction of Wastewater Treatment Facilities	791,171	25 percent	None
<u>Department of the Treasury</u>				
No number assigned	General Revenue Sharing	709,018	None	If state government reduces aid to local governments below average of preceding two years, part of state government entitlement is redistributed to local governments.

SOURCE: Information on matching requirements from Office of Management and Budget, <u>1977 Catalogue of Federal Domestic Assistance</u>; information on obligations in California from Community Services Administration, <u>Geographic Distribution of Federal Funds in California, Fiscal Year 1977</u>; information on maintenance of effort requirements from unpublished General Accounting Office materials and other telephone contacts.

<u>a</u>/ Programs were selected if total obligations nationally reported in the <u>Catalogue of Federal Domestic Assistance</u> were greater than $200 million in fiscal year 1977.

<u>b</u>/ <u>Catalogue of Federal Domestic Assistance</u>.