

Senate Office of Research

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Established and directed by the Senate Rules Committee, the Senate Office of Research (SOR) serves as the bipartisan strategic research and planning unit for the Senate. SOR produces major policy reports, issues briefs, generates background information on legislation, and occasionally sponsors symposia and conferences.

Any Senator or Senate committee may request SOR's research, briefing, or consulting services. Resulting reports are not always released to the public.

MAJOR PROJECTS:

Low-Cost Auto Insurance

Actuarial Report on Low-Cost Auto Insurance Options (August 1999) is an SOR-commissioned report analyzing the cost implications of various low-cost auto insurance options. SOR commissioned the report, written by independent actuary Donald Bashline, FCAS, MAAA, during legislative consideration of SB 171 (Escutia) and SB 527 (Speier), which sought to establish a new "low-cost/low-coverage" auto insurance policy for low-income motorists with good driving records without imposing subsidies on other drivers. The report presents Bashline's preliminary estimates of actuarially sound prices for a basic low-cost or lifeline policy (LCP) and prices for versions of the LCP including various options. Among other things, the report includes the following findings:

- The rate for a basic LCP, with coverage limits of \$10,000 for liability for bodily injury or death to one person, subject to a cumulative limit of \$20,000 for all persons, and \$3,000 for liability for damage to property ("10/20/3"), excluding good driver limitations or other savings features, is \$312.

- Restricting LCP availability to good drivers, as defined by Proposition 103, reduces the basic LCP rate of \$312 to \$271. For the "very good" driver category (no violation points in three years), the rate drops to \$260.

- When limiting the Proposition 103 good driver LCP to good drivers with incomes below 150% of the poverty level and to good drivers with incomes below 200% of the poverty level, the report finds that the otherwise applicable rate increases by approximately 6.5%.

- Restricting coverage for a "named insured" only (instead for any person using the vehicle) reduces the cost of the LCP by about 7% overall.

- Limiting coverage under the LCP to vehicles driven 14,000 miles per year or less would reduce the overall rate by

about 2%; however, this threshold would eliminate only 7% of drivers.

- The basic LCP rate specifically for Los Angeles County is \$421, reduced to \$353 when the Proposition 103 good driver restriction is added. The basic LCP rate specifically for the City of Los Angeles is \$568, reduced to \$464 for Proposition 103 good drivers.

Bashline's report also stated that it is reasonable to project that 35% of currently uninsured drivers would become insured if a LCP were available. If 35% of uninsured motorists become insured, roughly 30% of uninsured motorist losses are eliminated. In other words, the availability of a LCP could result in \$260 million in savings to insured drivers by lowering uninsured motorist premiums.

Based on Bashline's report, the legislature passed and the Governor signed both SB 171 (Escutia) and SB 527 (Speier), which—effective July 1, 2000—establish four-year

pilot projects in Los Angeles (SB 171) and San Francisco (SB 527) under which insurers must write policies with 10/20/3 coverage to qualified low-income drivers with good driving records. The bills also provide that the low-cost policy satisfies the state's financial responsibility laws. The bills specify an initial \$450 annual rate for Los Angeles and an initial

\$410 rate for San Francisco (see agency report on DEPARTMENT OF INSURANCE for related discussion).

Electronic Commerce: To Tax or Not to Tax

In *E-Commerce: Taxing Internet Sales and Access* (September 1999), SOR looks at tax and equity issues involving electronic commerce, or e-commerce, and the phenomenal growth of commercial transactions on the Internet; explores actions state policymakers may wish to consider in matching taxation methods with the rapidly evolving world of online transactions; notes areas where the federal government may first need to act; and includes information about state and federal studies and recommendations on Internet tax issues.

The report cites a Yankee Group survey which estimates that 96% of U.S. consumer spending online in 1998 occurred in seven categories: travel (27%), computer wares (22%), gifts and flowers (13%), books/music (10%), entertainment (10%), groceries and food (8%), and clothing (6%). According to SOR, a portion of these sales would not necessarily involve sales taxes if made over the counter in California—such as airline tickets, concert tickets, and some food items—but well

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over half could be subject to use taxes if they dealt with tangible property.

The report estimates that by the middle of the 1990s, California residents were saving an estimated \$180–\$200 million yearly by avoiding use taxes on out-of-state mail-order purchases. Internet sales in the United States were \$200 million in 1994, at least \$8 billion in 1998, and are projected to be \$350 billion by 2002. In March 1999, the Board of Equalization estimated an annual sales and use tax revenue loss in California of \$18.5 million based on its best estimate of 1998 e-commerce.

In its report, SOR notes that the following policy issues are posed by these trends of Internet growth and tax revenues:

- California sales taxes vary by county, from 7.25 cents to 8.5 cents per dollar. The state's share is 5 cents; the remainder goes to local government based on place of sale and statutory formulas. Local government reliance on sales tax revenue has grown significantly since property-tax-cutting Proposition 13 of 1978. If untaxed sales by out-of-state companies continue mushrooming at the expense of taxed, in-state sales, public budgeting at all levels would be affected.

- Buyers who lack access to the Internet may have to pay sales taxes on the same products that online consumers can buy tax-free.

- Online merchandise, even with fees added for shipping and handling, sometimes offers a pricing advantage over conventional retail goods if buyers can avoid sales taxes. (When firms minimize the use of commercial space and employees by doing business electronically, they also save property and payroll taxes.)

- Retailers, who provide jobs and keep dollars within a community, are disadvantaged by competitors who can sell goods without adding sales or use taxes.

- As Internet commerce grows, public services now financed by sales taxes may increasingly be funded by revenues from other sources. Conversely, if states could more effectively collect use taxes on Internet purchases, growth in those revenues might permit a reduction in rates as total sales increase.

The report includes the findings of various state and national organizations analyzing these and related issues, and recommends that California policymakers work with those organizations to develop a collective strategy for levying and collecting taxes on Internet and mail-order purchases that would be taxed if made over the counter.

SOR Investigates Housing Issues

In *The Right Home In the Right Place At the Right Price: California's Regional and Statewide Challenges: Housing Availability, Jobs-Housing Balance, and Housing Costs and Some Options to Meet Them* (October 1999), SOR

identifies challenges concerning three key aspects of California housing (availability, location, and cost) and particular problems concerning housing crowding and conditions, farmworker housing, and homelessness. The report examines these issues from both statewide and regional perspectives, and also analyzes 1999 legislation attacking the problems it identifies, further legislation pending in 2000, and promising ideas that could lead to further legislation.

In the area of availability, the report finds indications that housing growth has lagged behind population growth in the state as a whole and in all counties except some small and rural ones. SOR expects this trend to continue—by one projection method, the number of occupied housing units will grow by just 3.4% from 1998 to 2002, well below the projected population growth rate of 5.3% and projected job growth rate of 8.2%. The highest projected growth rates in all three categories are in the inland areas. According to SOR, there are indications that the worst shortages are developing in the apartment

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rental market. One recent study identified the shortage of production of multifamily rental housing as the most critical housing gap in the state, and another found that apartments are the residential segment least likely to be overbuilt, accounting for only 20% of the growth in housing stock in 1998.

Regarding location, the report finds indications to support the widely-observed geographical gap between where California has generated jobs and where it has built housing. The report notes that each of California's major regions included some counties in which jobs increased at a faster rate than housing, and neighboring counties in which occupied housing units increased at a faster rate than jobs, during 1990–97. SOR also expects this trend to continue, finding indications that this workforce-housing gap will continue to widen.

In the area of cost, the report finds differing recent interpretations of overall state trends in housing affordability for homeowners. However, even the most optimistic analysis found reason for pessimism concerning housing affordability for middle-income Californians in high-cost areas, and for low-income Californians in all areas. For homeowners, one study indicated that housing affordability rebounded from a low of 17% (of households who could afford to buy a median-priced house) in 1990 to almost 40% in 1998. However, a second study looked at many of the same data and said affordability had been stagnant since 1993, adding that the 40% affordability figure was 15% behind the national level. A third study found that, in 1997, nearly one-third of California homeowners spent more than 30% of their incomes on housing, which is the standard definition of households with "unaffordable" housing and of households that are "housing-cost-burdened." Yet another study found that large gains in total employment and population in California in 1998 boosted median home prices, pushing the limit of affordability for

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middle-income households, while reportedly spurring an increase in illegal housing units.

The report also finds that many Californians live in overcrowded or substandard conditions, or both. By 1990, more than 1.2 million California households met the standard definition of overcrowded. Hispanic households experienced the greatest rates of overcrowding, accounting for three-quarters of severely overcrowded households and 68% of all overcrowded households. An estimated 12% of all California housing was in need of rehabilitation, although the proportion varied widely from region to region, with rehabilitation needs most concentrated in the rental housing stock.

The report also finds that farmworkers and their families face unique and often extreme housing problems. SOR attributes a worsening farm-labor housing shortage to two main factors: there are more farm workers due to increased farm production (particularly production of labor-intensive crops), and many employers have stopped providing housing.

The report finds that the number of homeless Californians is hard to estimate, but appears to have remained high. Estimates range from 360,000, almost certainly low, to 972,000, probably high.

Finally, the report suggests principles to use to address California's multiple housing problems, and examines 1999 legislative accomplishments, bills pending in 2000, and promising ideas to help address the issues identified.

Key 1999 Legislation

Highlights of the Legislative Accomplishments of 1999 (October 1999) summarizes significant legislation that was approved by the legislature and sent to the Governor for his approval in 1999. According to SOR, the list illustrates the range of issues considered and actions taken by the legislature prior to its year-end recess on September 10, 1999. The list includes legislation in the areas of agriculture, animals, bonds, civil rights, consumers, domestic violence, economic and small business development, education, early childhood through twelfth grade, higher education, elections and political reform, family law, gambling, general government, health care, housing and urban growth, human services, information technology and communications, insurance, labor and employment, local government, natural resources and wildlife, privacy, public employment and retirement, public safety

and the judiciary, revenue and taxation, transportation, utilities, veterans, and water.

In the consumer arena, bills featured by SOR include SB 850 (Torlakson) (Chapter 585, Statutes of 1999), which requires annual state inspections and oversight of permanent amusement parks; SB 1131 (Burton) (Chapter 956, Statutes of 1999), which appropriates \$1 million to the state Department of Justice to investigate gasoline prices and oil company mergers; SB 419 (Speier) (Chapter 682, Statutes of 1999), which directs the California Department of Food and Agriculture to conduct monthly statewide price surveys on the cost of milk at supermarkets and convenience stores, and to post price results on its web site and record them on its toll-free milk hotline; AB 1290 (Davis) (Chapter 448, Statutes of 1999), which revises the "lemon law" to apply its presumptions for eighteen months or 18,000 miles rather than one year or 12,000 miles, lengthening the period that consumers can obtain remedies for replacing faulty cars that cannot be satisfactorily repaired; AB 406 (Knox) (Chapter 809, Statutes of 1999), which requires the California Public Utilities Commission (PUC) to develop and implement any available measures to efficiently allocate telephone numbers to California's citizens, given that the number of area codes in California has doubled since 1991; AB 535 (Reyes) (Chapter 384, Statutes of 1999), which requires telephone service providers to give customers information about pay-per-use features and blocking options, and states that customers are entitled to a one-time waiver of charges for the inadvertent use of such services; SB 531 (Baca) (Chapter 327, Statutes of 1999), which requires the PUC to establish a website by July 1, 2001 enabling consumers to submit informal complaints about their utility services online, and requires the PUC to annually report on the effectiveness of the complaint program; SB 926 (Speier) (Chapter 586, Statutes of 1999), which enacts the Supermarket Club Card Disclosure Act of 1999, prohibiting a store from requiring an applicant for a supermarket card to provide a driver's license or Social Security number, and prohibiting a card issuer from selling or sharing personal identification information about cardholders; and AB 1231 (Machado) (Chapter 907, Statutes of 1999), which prohibits offering a false or misleading coupon or characterizing a coupon as a gift or prize if the recipient must pay for any goods or services to use it.