MEASURE: HB 2543
EXHIBIT: B
HOUSE REVENUE COMMITTEE
DATE: 2/11/2011 PAGES: 10
SUBMITTED BY: JOHN PHILLIPS

HB 2543 Senior Property Tax Deferral Program
Presentation to the House Revenue Committee

Short term options

1. Cap tax payment; pay lowest to highest from available funds
   - The revolving account is projected to have a positive balance of $7.2 million on November 15, 2011 before the tax payment to counties.
   - This is projected to be $16 million short of the funds necessary to fully pay all accounts.
   - If the state pays taxes on accounts beginning with the smallest tax due to the highest tax due until available funds are exhausted all accounts with taxes due above $2000 will go unpaid assuming no other changes to the program. **See pages 4 and 5.**
   - Accounts unpaid will remain in the program, will not be disqualified and will simply be inactivated. DOR will notify the "accounts unpaid" program participants that they will need to pay their taxes for the 2011 tax year by November 15th with discount or in three payments to avoid delinquent interest accrual.

Long term options (program viability)

1. Close program to new applicants?
- There is projected to be 1400 new applicant per year for the next 5 years.
- On average the tax for a participant is $2,000.
- Freezing participation is projected to reduce the demand on the deferral revolving account as shown on **See page 6.**
- Closing the program to new applicants would deny low income seniors access to the program benefits.

2. Is the current income threshold too high? Should it be based in disposable income?
- The income threshold will be at $39,500 FAGI for the 2011 tax year
- Is this threshold appropriate for achieving the objective of the "low income" target population?
- Idaho and Washington 40K household income limit.
- Federal poverty = $11,000. Oregon Median income = $50K
- Temporary suspension of index? **See page 7**.

3. Risk to state's lien? Residency/equity requirements
- Impose a residency requirement. To prevent seniors from purchasing property by factoring in the deferral and to match the program objective of "allowing seniors to remain in their homes", institute a **5 year residency requirement** for new

applicants. This provision in many cases would indicate owner equity which will help secure the lien.

- Additionally, to further secure the lien institute a 20% equity requirement in property for new applicants. This would not prevent participants from refinancing or obtaining a home equity loan but would retain the state's lien position ahead of those loans.
- These two conditions would be self certified by the applicant one time up front so there would be little impact on program administration.

4. Should there be a cap on the asset value of the home?

- Currently the program has 1390 accounts (13% of accounts) with a market value in excess of $300,000 and of those 215 are in excess of $500,000. **See page 8.**
- The market value of the homestead to some extent is not within the control of the participant because it is market driven. Owning a valuable property does not necessarily mean the senior has the liquid assets to make a yearly property tax payment.
- It can be difficult to reconcile the target population being low income when owners of multi million dollar homes qualify.
- Recognizing that property values fluctuate with the market a one time market value threshold could be imposed at the point of initial application.
- Setting the amount of the value threshold might seem arbitrary but having it only come into play at the time of application would tend to protect program for all participants from the fluctuations of the market over time. **See page 9**.
- If imposed should it apply to all existing participants as well as new applicants?

5. Should there be a cap on the amount of taxes paid?

- There are 10 accounts for which the taxes are in excess of $10,000 and the highest is in excess of $24,000. Workgroup discussed $7000.

6. Should the interest rate charged on the deferred tax be increased?

- The current interest rate is 6% simple.
- This rate has been seen as reasonable over the decades in light of the fluctuation of market rates.
- Simple interest is easy to explain to seniors who are considering the program or who want to know their balance and how it is calculated.
- From an administrative standpoint a set (non fluctuating) rate is more efficient.
- **See comparison chart: page10**.

7. Should the age threshold be changed from 62 to 65?

- Age for other state deferral programs range from 60 to 65.

Program fine tuning

1. Eliminate proration of tax payment for participants with excess income. (efficiency)

- The law allows for participants whose FAGI exceeds the threshold to have a portion of their tax paid on a pro rata basis. This provision creates an additional demand on the revolving account and, more importantly it is administratively inefficient.
- The elimination of prorating accounts above the annual income threshold would save work for both the counties and the DOR. The calculation is often done by hand, and results in multiple mailings being sent to the taxpayer from both the county and state.
- The actual number of accounts serviced by this allowance is relatively small.

Excess Income Totals

Year	FAGI	Totals
2002	32,000	111
2003	32,500	55
2004	33,000	26
2005	34,000	39
2006	35,000	74
2007	36,500	72
2008	37.500	85
2009	39,000	65
2010	38.500	61

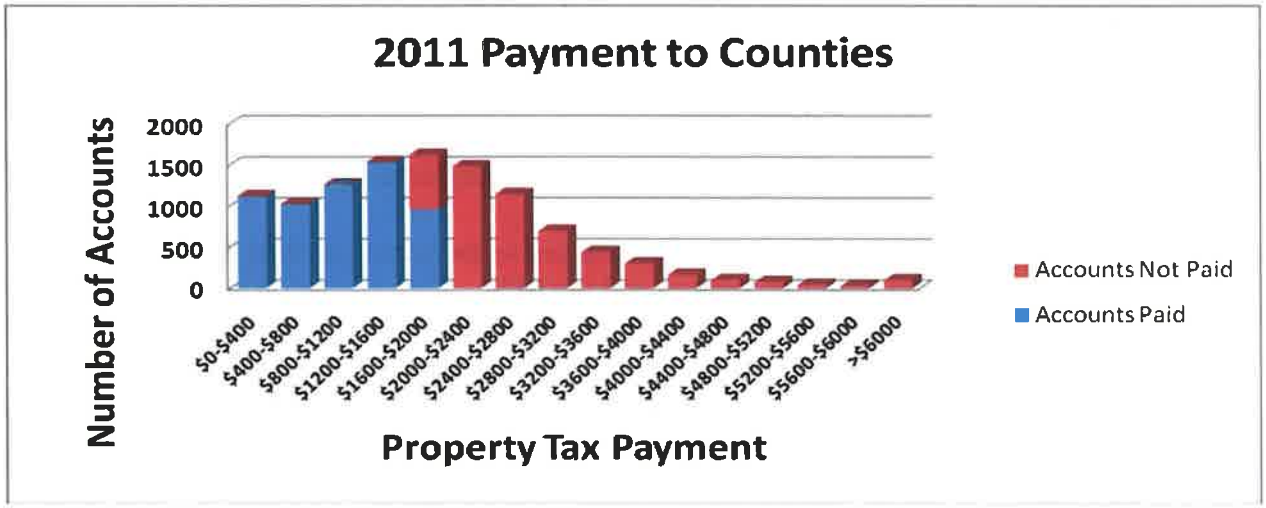
2. Clarify that the state pays taxes "only up to available funds".

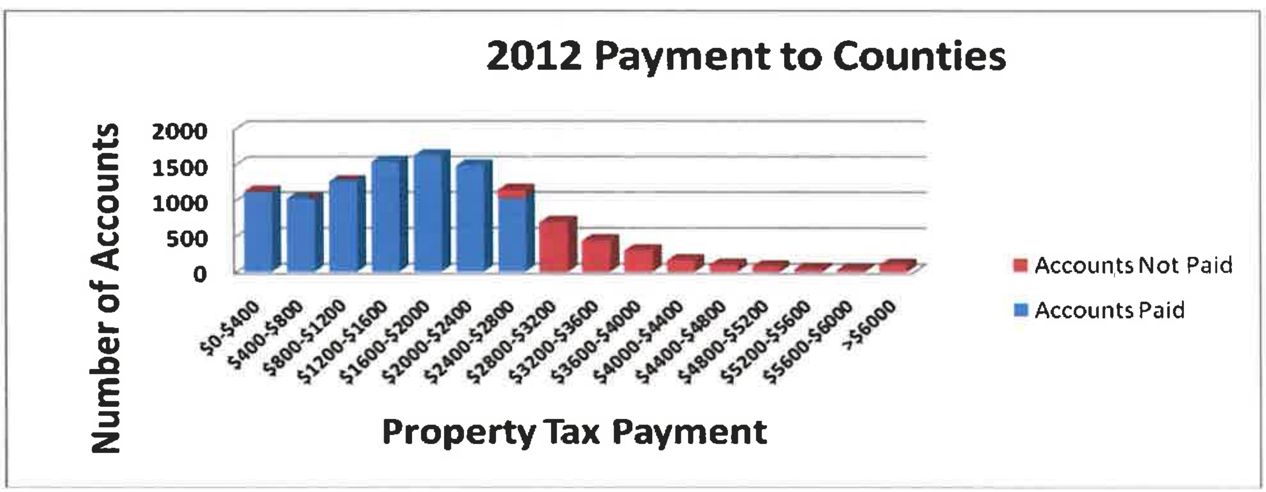
- This past November the revolving account did not have sufficient funds to pay all of the taxes due on November 15th.
- This was the first time since the 1984-85 tax year where the account lacked sufficient funds.
- The department paid out 2/3rds of the total due and when sufficient revenues are available the final 1/3 of taxes will be paid.
- There was talk of suing the state for the immediate payment of all taxes due.
- This concept would clarify what we already believe to be the case that the state cannot expend more money for this program than it has in the revolving account.

3. Reverse mortgage trigger an automatic inactive status?
   - Accounts could be inactivated if the participant obtains a reverse mortgage.

Attachment # 1

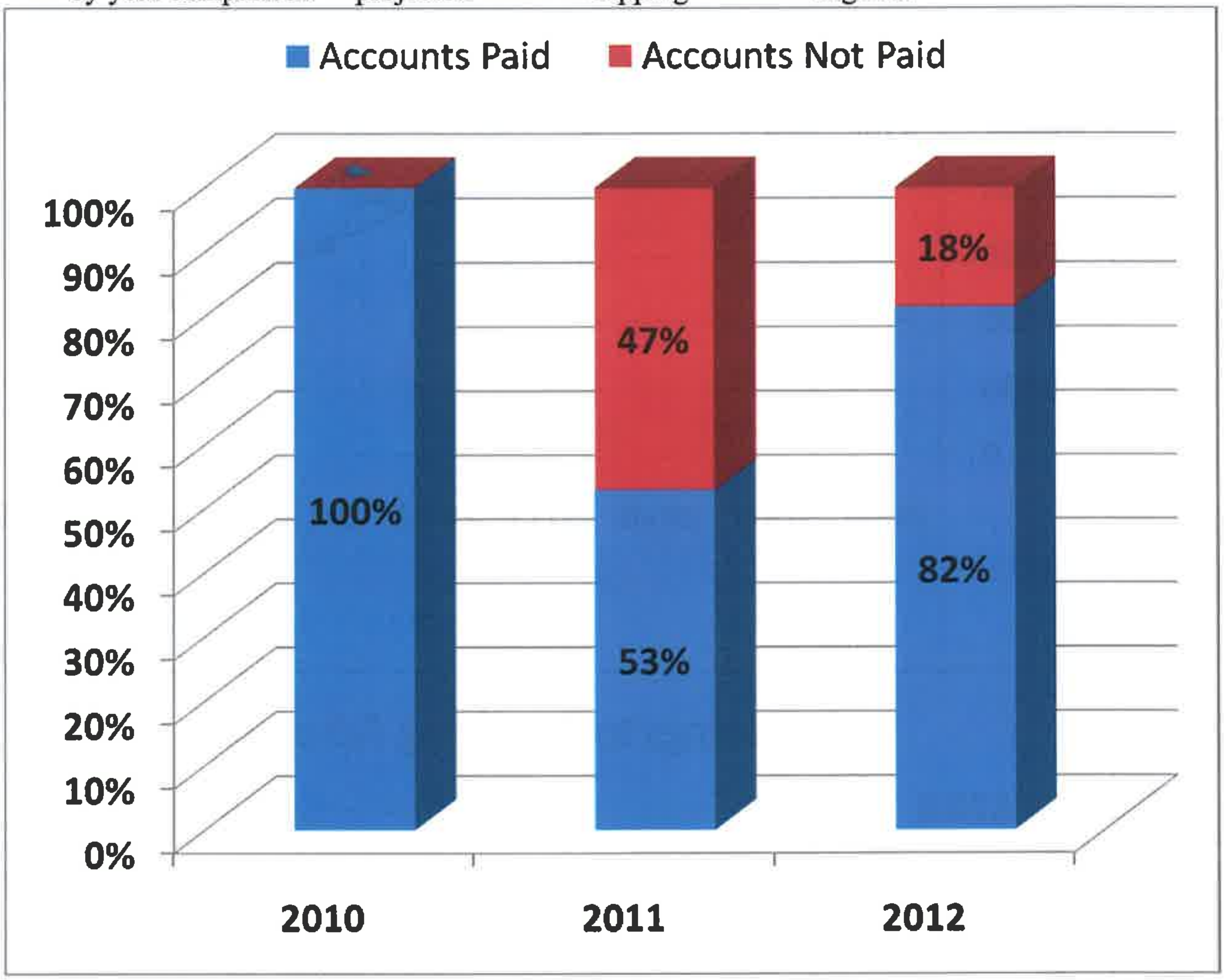
If taxes are paid on accounts from the lowest tax amount to the highest tax amount only using available funds the charts below illustrate the projected results.



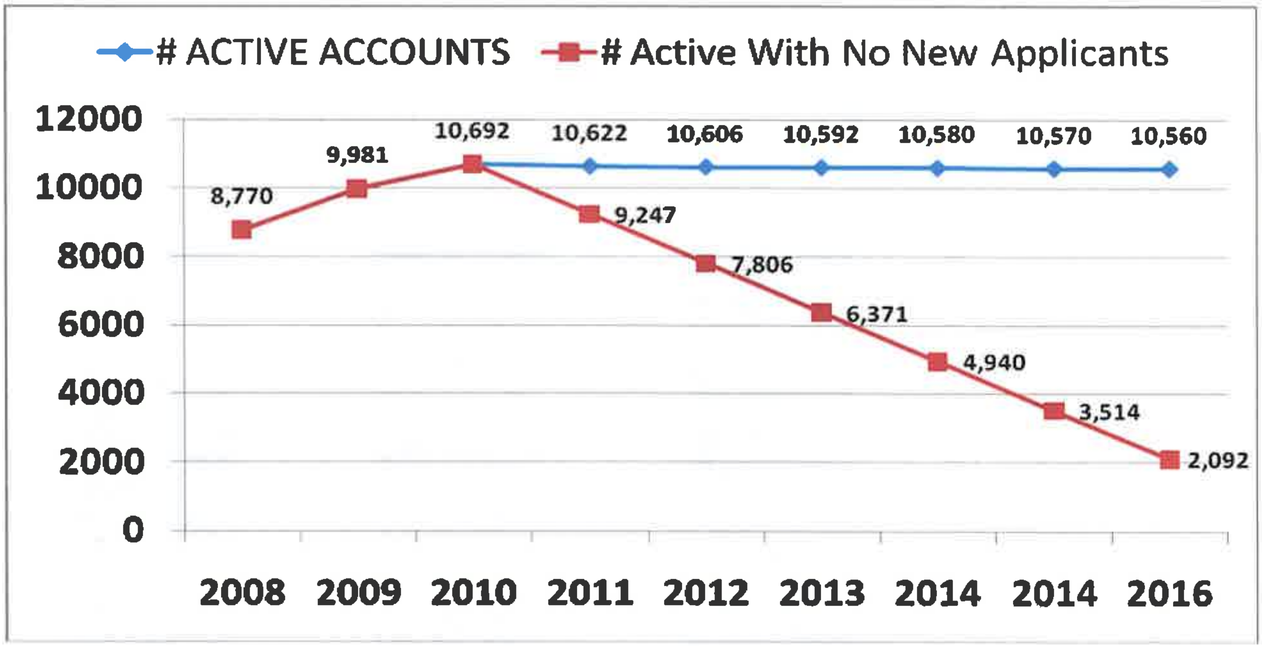


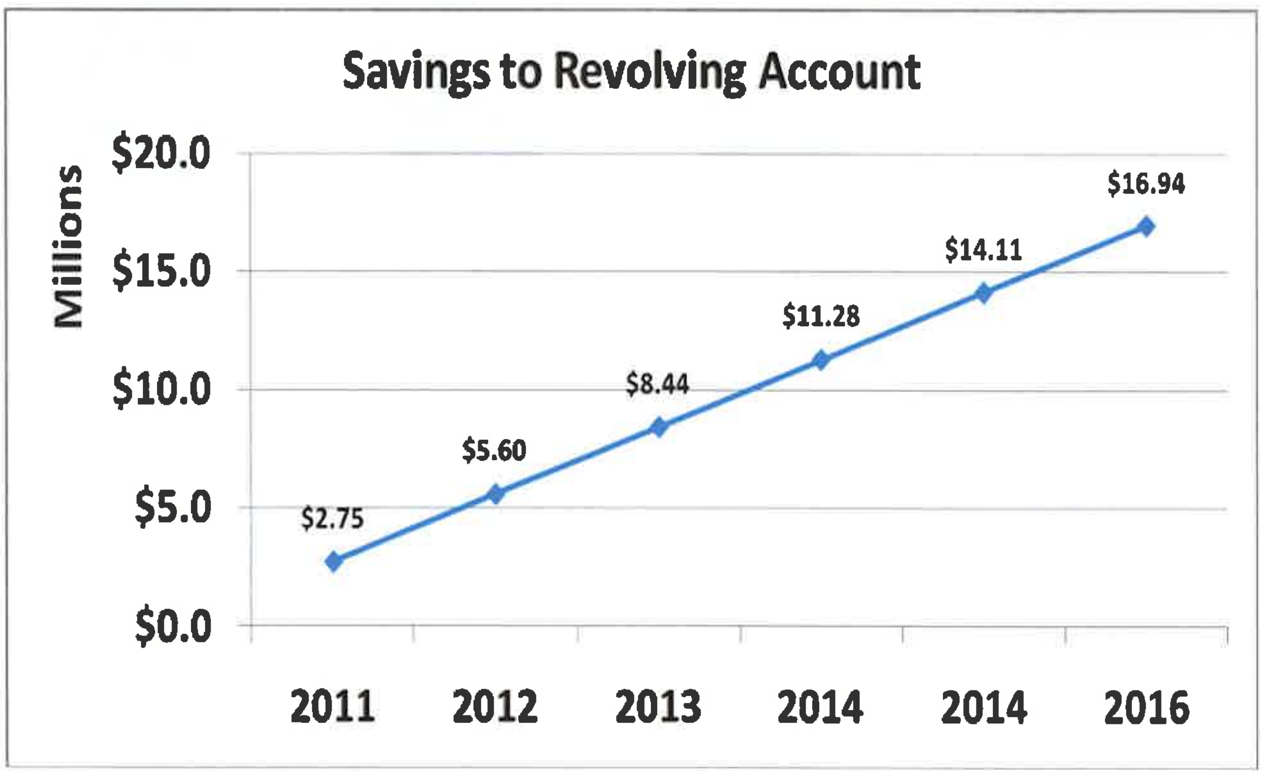
Attachment # 2

Year by year comparison of projected affect of capping lowest to highest.



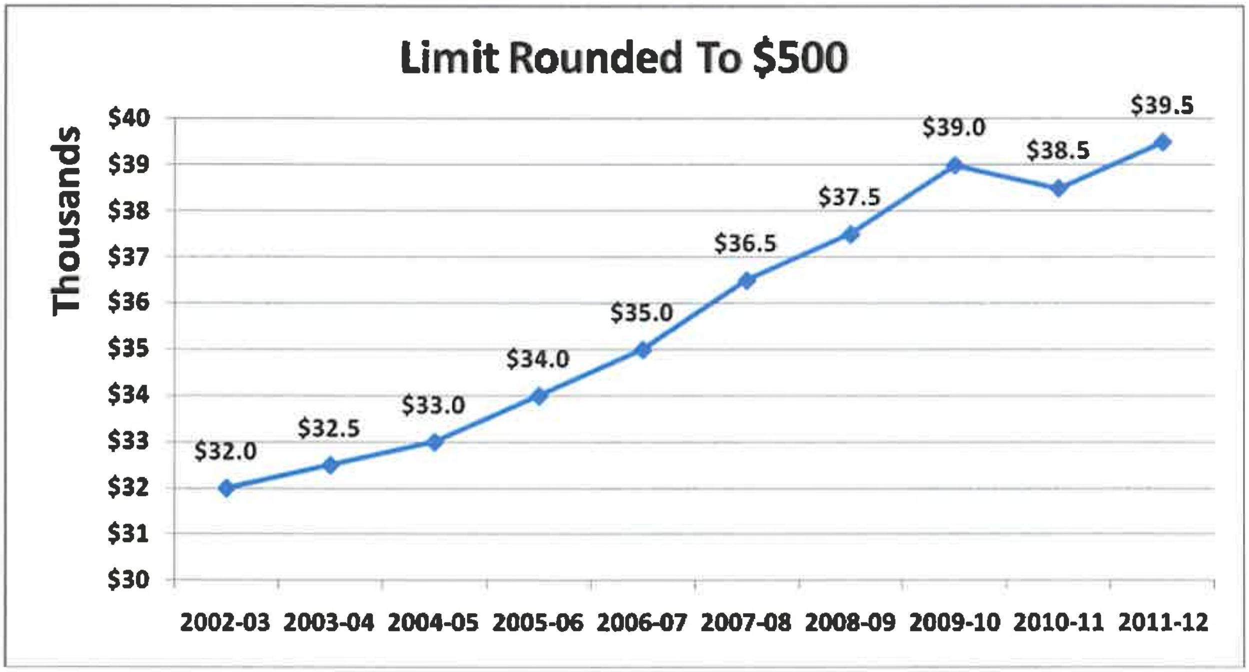
Attachment # 3





Attachment #4

Effect of indexing on the income threshold.

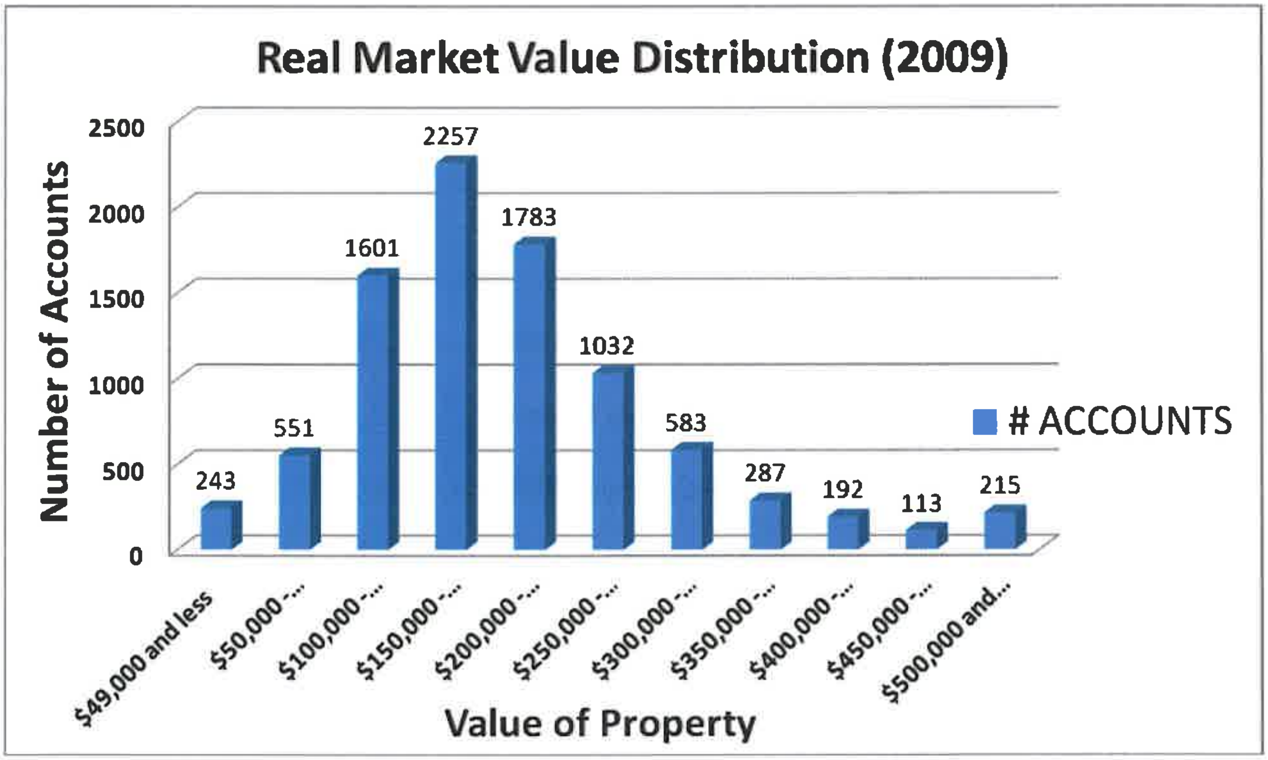


Attachment #5

25 Highest Taxes Paid – Homestead Market Value
Senior Deferral Accounts

	County	Real Market Value	Tax Paid by State
1	Clackamas	$2,310,595	$24,334
2	Clackamas	$ 946,508	$12,770
3	Clackamas	$1,178,126	$12,235
4	Deschutes	$1,508,900	$11,414
5	Clackamas	$1,247,864	$10,229
6	Multnomah	$ 716,640	$10,073
7	Clackamas	$ 919,649	$10,070
8	Multnomah	$ 852,650	$10,010
9	Jackson	$1,357,640	$ 9,940
10	Multnomah	$ 808,730	$ 9,820
11	Clackamas	$1,112,087	$ 9,388
12	Multnomah	$ 858,710	$ 9,277
13	Yamhill	$ 912,085	$ 9,107
14	Clackamas	$ 904,969	$ 8,767
15	Multnomah	$ 691,790	$ 8,729
16	Multnomah	$ 789,140	$ 8,663
17	Multnomah	$ 793,900	$ 8,359
18	Multnomah	$ 750,340	$ 8,311
19	Clackamas	$ 631,382	$ 8,208
20	Clackamas	$ 771,188	$ 8,202
21	Multnomah	$ 545,930	$ 8,177
22	Multnomah	$ 595,820	$ 8,088
23	Multnomah	$ 873,990	$ 7,928
24	Lane	$ 1, 73,517	$ 7,776
25	Multnomah	$ 715,320	$ 7,735

Attachment # 6



Attachment # 7

Sample Deferral account - 20 years

Date	Tax Balance
11/15/90	893
11/15/91	1,917
11/15/92	2,997
11/15/93	4,190
11/15/94	5,493
11/15/95	6,750
11/15/96	8,145
11/15/97	9,537
11/15/98	11,009
11/15/99	12,590
11/15/00	14,467
11/15/01	16,556
11/15/02	18,756
11/17/03	21,106
11/15/04	23,619
11/15/05	26,291
11/15/06	28,998
11/15/07	31,868
11/17/08	34,914
11/16/09	38,177

6% Simple Interest $12,580

8% Simple Interest.............................. $16,733

6% Compound Interest..........................$18,076

Compound Personal Income Tax Interest ... $27,821

- Assume no payments made during the life of the account.
- The account is active and assessed tax each tax year.
- Compound rates are calculated annually.
- Personal income tax interest is pursuant to ORS 305.220, then compounded.