SB 655 STAFF MEASURE SUMMARY

Senate Committee On Finance and Revenue

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Meeting Dates: 3/20

WHAT THE MEASURE DOES:
Freezes assessed value of homestead at the amount from the preceding year for purposes of property taxation under the homestead property tax deferral program, also known as the Senior and Disabled Property Tax Deferral Program. Freeze specifically applies to individuals at least 68 years of age or with disability that would be eligible if not for a reverse mortgage on the homestead. Creates a sunset date for the freeze and provides a grandfather clause. Takes effect on 91st day after sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:
No amendment.

BACKGROUND:
The Senior and Disabled Property Tax Deferral Program is not a property tax exemption. The Department of Revenue (DOR) administers a dedicated revolving fund and pays property taxes to counties on behalf of property owners that qualify for the program (less a 3% discount). DOR places a lien on the property that functions like a reverse mortgage; a homeowner relinquishes equity in their home in exchange for regular property tax payments. Simple 6% interest on the deferred property tax payments accrue annually. The program has a sunset date of July 1, 2032 and does not grandfather the deferral after sunset.

Applicants must be at least 62 years of age or be eligible to receive Social Security disability benefits. Income on an application must be less than $55,500 (for 2022 income) and is adjusted for inflation annually. Net worth on an application must be less than $500,000, not including the homestead in question. Applicants must have owned and lived in the homestead the past 5 years, unless absent for a health reason. There is also an exception to the 5-year requirement if a new homestead was purchased for purposes of downsizing and the following requirements are met:
- Previous homestead was in the deferral program
- New homestead has lower real market value (RMV)
- Previous homestead is sold within 1 year of purchasing new homestead
- No more than 80 percent of purchase price is financed
- Deferral balance of previous homestead is paid.

The program also has eligibility requirements for the homestead. A homestead with a reverse mortgage is not eligible unless it was executed prior to 2011 or the reverse mortgage was executed on or after July 1, 2011 and before January 1, 2017 and the individual had 40% equity or more in the homestead. The homestead must be insured against fire and other casualty. The RMV of the homestead must be less than the greater of $250,000 or a value determined by the county median RMV and the number of years the individual has lived in the homestead, as shown in the table below:

Continuously Owned and Occupied Homestead (years)	Homestead RMV Limitation (percent of county median RMV)
5 to less than 7	100%

7 to less than 9	110%
9 to less than 11	120%
11 to less than 13	130%
13 to less than 15	140%
15 to less than 17	150%
17 to less than 19	160%
19 to less than 21	170%
21 to less than 23	200%
23 to less than 25	225%
25 or more	250%

Applications are due to the county assessor January 1 - April 15. Deferral participants are mailed a notice by December 15 that provides a 'Do Not Pay' notice along with the current property tax amount, accrued interest, and total balance owed. The October property tax bill also notifies deferral participants that DOR is paying taxes on their behalf. Deferral participants must recertify their eligibility with DOR every two years. The number of new deferral participants for each property tax year, who have not previously been granted deferral, is capped at 105 percent of the number from the preceding year. To identify who the deferral is granted to If the number of applications exceeds the cap for new deferral participants, each applicant's ratio of RMV to county RMV is calculated and applicants are approved in ascending order up to the cap amount.

If the homestead is owned by multiple individuals, all owners must apply jointly for the senior deferral program and meet all the qualifications. For the disabled deferral program, only one owner must be disabled, but all joint owners must apply with the disabled applicant but do not need to meet age or disability requirements. For both programs, these requirements do not apply to joint owners who are married or registered domestic partners (RDP). The spouse or RDP is not required to apply but must qualify for the program if they do apply.

Those that are disqualified or do not recertify are inactivated from the program and given an "inactive" status. An inactivated account can be reinstated by reapplying for the program the following year or by paying a fee and filing a late application by December 1. Upon disqualification or cancellation from the program, the balance due (tax, interest and lien fees) must be paid in full to release the lien from the property. For example, full repayment of the deferred amount is due when:

- The deferral participant or surviving spouse dies (option for surviving spouse or disabled heir, if any, to continue deferral)
- Homestead sold or transferred to person other than deferral participant
- Property no longer homestead of deferral participant, with exception for a health reason
- Tax-deferred property is manufactured structure or floating home moved out of state. Total balance due five days prior to move

Payments against the balance owed (tax, interest and lien fees) can be made on an account at any time. Payments against the balance can be made while the account continues to defer current and future property taxes. Others, such as relatives or friends, may also make payments against the balance owed. Payments are applied first to accrued interest, then deferred taxes, and then fees.

A request for retroactive deferral can be filed for an account that has an inactive status because a recertification deadline was missed. All eligibility criteria must be met for every year from the last time taxes were deferred to the present. If all eligibility criteria are met, property taxes are paid for the years the account was in inactive status.

"Homestead" means the owner occupied principal dwelling, either real or personal property, owned by the taxpayer and the tax lot upon which it is located. If the homestead is located in a multiunit building, the homestead is the portion of the building actually used as the principal dwelling and its percentage of the value of the common elements and of the value of the tax lot upon which it is built. The percentage is the value of the unit consisting of the homestead compared to the total value of the building exclusive of the common elements, if any.

The Senior and Disabled Property Tax Deferral is a long-standing program that benefits thousands of homesteads in the state. In 2022, there was 3,891 active accounts (3,422 senior and 469 disabled). Property taxes of $11,491,309 were paid out to counties. The senior deferral program was enacted in 1963. In 1999 the deferral program was opened to the disabled community. Other recent legislative changes to the program are described below:

2009 - HB 3199

- Removed continuing appropriation from state General Fund to deferral revolving account in times of insufficient funds to make deferral payments
- Established authority of State Treasurer to lend moneys to DOR in amounts needed to make deferral payments. Required repayment of funds to Treasury within five years with interest.

2011 - HB 2543

- Limited net worth (excluding value of home) for new and existing participants to $500,000
- Adjusted continuing qualification income criteria to household income rather than adjusted gross income
- Instituted home occupancy requirement of owning and living in home for at least five years prior to applying for program
- Required proof of homeowner's insurance
- Limited qualifying properties to those at a certain percentage of the county median RMV of residential properties. Limit depends in part on number of years a participant (or applicant) has owned and lived in the home
- Changed interest rate from 6 percent simple to 6 percent compound for deferred amounts on or after November 2011
- Required participant re-certification every two years
- Properties with reverse mortgages no longer allowed to participate
- Eliminated five-year extension for heirs to repay deferred taxes
- New special assessment deferrals no longer accepted
- Eliminated transfer of excess funds to Oregon Project Independence

2012 - HB 4039

- Allowed participants removed from program solely because of reverse mortgage disqualification stemming from HB 2543 (2011) changes to receive deferral in 2011 and 2012
- Changed recertification requirement to "not less than once every three years" allowing for a staggered recertification process
- Refined definition of county median RMV

2013 - HB 2510, HB 2489

- HB 2510 allowed reverse mortgage participants brought back into deferral program by HB 4039 (2012) to remain in program in perpetuity so long as they meet all other qualification criteria
- HB 2489 created ability for participants that participated in program in 2011 and no longer qualify because of reverse mortgage or five-year property requirements to reapply for deferral beginning in 2014. Limited re-approval of participants to first 700 that reapply.

2014 – HB 4148

- Changed interest rate back to 6 percent simple rather than 6 percent compound. Applies interest retroactively for program participants that pay balances on or after July 1, 2016

2015 – HB 2083

- Created exception to five-year ownership requirement for certain homesteads
- Required homesteads to be insured for fire and other casualty while allowing DOR to purchase insurance for uninsured homesteads
- Increased county median RMV qualification limits for taxpayers that have continuously owned and lived in homestead at least 21 years
- Required DOR increase outreach to senior community if recertification is not received within 35 days following notification to homeowner

2019 – HB 2587

- Allowed homeowners with a reverse mortgage into the senior deferral program if reverse mortgage was executed on or after July 1, 2011 and before January 1, 2017

2021 – HB 2634

- Sunset date moved to 2032
- Application late filing, April 16-December 1. Application late fee to county required
- RMV minimum cap. 2-part homestead RMV test
- Disabled heir continue deferral like a surviving spouse