Fairfield Taxpayer

FIRST, PLEASE, "DO NO HARM"

PROPOSED CHANGES TO SENIOR & DISABLED TAX RELIEF PROGRAM

Fairfield's Senior & Disabled Tax Relief (SDTR) Program offers benefits subject to **certain eligibility restrictions** (on age, income and wealth), and subject to **certain caps** (on maximum benefits measured both in dollars and as a percent-of-total-taxes due). There are three options:

- **TAX CREDIT** that lowers tax bills for 1,336 current participants by an average of **$2,541** (or ~23% of the ~$11,000 taxes on a ~$600,000 median home) at a total annual cost of **$3.4 million** (down from a FY15 peak of $3.9 million);
- **TAX DEFERRAL** that allows eligible participants to defer half of their taxes subject to a lien and payback requirement (7 participants at a cost of only $30,000; and
- **TAX FREEZE** that allows eligible participants to avoid any increase in their taxes for six years subject to a lien and payback requirement (zero participants).

The RTM's SDTR Committee ("the Committee") has proposed several changes that are designed to:

1. **increase tax-credit benefits** by increasing by ~10% both the "absolute dollar" and "percent-of-total-taxes" caps;
2. **expand the number of tax-credit participants** by **raising** the income limit from $75,000 to $90,000 and **replacing** the $650,000 maximum-wealth limit (a.k.a., Qualifying Total Asset Value, or QTAV) with a $750,000 maximum-assessed-home-value limit;
3. **update the qualifying income threshold for tax deferral** participants;
4. **eliminate the tax freeze option**; and
5. **lower the overall cap on the total cost of the Town's SDTR programs** from 2.5% to 1.6% of the prior year's taxes levied on real property.

There is also a State tax-relief program ("H.E.A.R.T." – Help Elderly Against Rising Taxes), that provides very low-income participants with an additional credit of **$1,250**, the **$0.4 million** annual cost of which was reimbursed by the State until FY17 but has since then been borne by the Town. Thus, Fairfield's total annual cost for SDTR is currently (FY19) **$3.8 million** (1.25% of its current $305 million budget).

Adoption of all the proposed changes could raise the cost of the Town's programs (not including H.E.A.R.T.) next year by **23%**, or **~$774,000**, from $3.4 million to $4.2 million. Including the $0.4 million cost of the H.E.A.R.T. program, total SDTR costs in FY20 could be **$4.6 million**.

RECOMMENDATION: The SDTR Program assists some homeowners with their property taxes, but it is not clear exactly what we are trying to accomplish, how well it is working, or what the return has been on the **$40 million** we have invested over the past ten years. **If the primary objective is to keep seniors in their homes longer than they would otherwise stay, there may be better, more cost-effective ways to do this, even if that means spending more money.** Therefore, beyond making COLA adjustments to program eligibility and benefit limits, **no changes to the SDTR Program should be approved until the Committee demonstrates that the program works well, that it will work even better as a result of any proposed changes, that rational metrics have been established to assess its effectiveness, and MOST IMPORTANT, that current participants will not be hurt.** ***Replacing the QTAV Test with an Assessment Limit combined with a lower (1.6%) cap on total SDTR spending is likely to result in substantial cuts for current participants, among whom are probably the people who need it most*****.**

Introduction

For many good reasons, **Fairfield Taxpayer (FT) is in favor of programs that benefit seniors**, and therefore we appreciate the Committee's efforts to update and expand the tax-relief benefits available to senior homeowners. For many of the same reasons, particularly given FT's mission of "keeping Fairfield affordable and desirable for all residents," and particularly at a time when our Town faces many challenges to its ability to continue to prosper, FT is also in favor of spending the taxpayers' money based on a clear understanding of the intended purpose and its cost-effectiveness.

This paper focuses on the proposed changes to the SDTR Program, with which we believe there are two major problems:

1. We have no idea whether the SDTR Program is cost-effective or optimal because its **purpose** and **objectives** are not clear and because there are no direct measures of its performance, which means that there could be far better ways for the Town to spend **$4.2 million** (not including the mandatory **$0.4 million** cost of the State's H.E.A.R.T. program); and

2. The proposed change from a "$650,000 QTAV Test" to a "$750,000 Assessment Limit" is likely to result in a substantial increase in the number of participants, which means benefit entitlements are likely to increase substantially more than the 23% increase in funds available under the proposed new 1.6% cap on overall program costs, ***which means benefits for current participants will be cut, which could result in hardships that force more seniors to sell their homes than would otherwise have done so***.

Is the SDTR Program Cost-Effective and Optimal?

"*Cost-effective*" means a program generates benefits that are greater than its costs; and "*Optimal*" means there is no more cost-effective way to achieve the same objective(s).

In support of its proposed changes and purportedly to estimate the cost of those changes, the Committee provides extensive commentary, much data and some elaborate models in a 52-page Memorandum dated November 12, 2018 and a 5-page Supplemental Memorandum dated December 2, 2018.[1] However, the Committee never addresses: (a) whether the SDTR Program is cost-effective and optimal; (b) whether the changes it is proposing will improve the Program's effectiveness; or (c) whether there might be a better way to achieve the Program's [unstated] objective(s).

Purpose? . . . Objective(s)?

We can evaluate a program's effectiveness only if we know **BOTH** its **purpose** and its **objective(s)**.

According to the Committee's November Memorandum, the original (1982) **Purpose** of the SDTR Program was to "*assist elderly homeowners with a portion of the costs of property taxation*." (Disabled homeowners were added in 1989.) If the purpose was and is simply to "***assist elderly and disabled homeowners***," the next obvious questions are: **how much money should we redistribute each year from taxpayers who are not elderly or disabled to those who are; and how should that money be distributed** among the participants?

[1] https://www.fairfieldct.org/filestorage/79/193/22994/62143/Backup_December_2018_2nd_supplemental.pdf

The Committee offers no direct, evidence-based approach for deciding how much money should be redistributed. Instead, it merely argues indirectly that spending \$0.8 million more should be acceptable and/or desirable: (a) because an \$0.8 million increase would be less than some of the increases approved in the past by the RTM; (b) because \$4.6 million would represent "only" 1.49% of the Town's total budget of \$305 million, which is close to the 1.41% spent in FY2015; (c) because the required increase in the mill rate is only 0.25%-0.31% (\$0.6-\$0.8 million divided by the \$262 million total tax levy on real property (i.e., excluding motor vehicles and personal property); and (d) because the \$0.8 million increase in spending will increase the number of participants, and thus the actual cost will be mitigated by ~\$0.3 million in "savings" because "*every senior who otherwise would have left Fairfield but stays because of the relief program saves the town \$10,000*."

The Committee also offers no direct basis for deciding how best to divide up the \$4.6 million it wants us to redistribute. Instead, it merely <u>modifies</u> the existing eligibility restrictions on income and wealth (by raising the income limit from \$75,000 to \$90,000 and replacing the \$650,000 asset limit with a \$750,000 assessment limit) and <u>raises</u> the existing caps on maximum benefits (both in dollars and as a percent-of-total-taxes due), which means the Committee, without explaining why, must think that the historical distribution structure is working fine.

In summary: On the issue of **Purpose**, the Committee is implicitly assuming that the purpose of SDTR is simply, as it has been, to assist <u>all</u> lower-income and lower-wealth seniors with their property taxes. On the issue of **Quantum** (i.e., how much money should be redistributed), the Committee is implicitly assuming that the amount should be determined relative to historical precedent. On the issue of **Distribution** (i.e., how best to divide up the money), the Committee is implicitly assuming that the funds should continue to be distributed in the same rough proportions to income as they have been.

Since the Committee never states clearly the Program's objective(s), we don't know how to measure whether the Program is cost-effective, let alone optimal, or whether the changes the Committee is proposing will make things better or worse.

<u>Exactly What Are We Trying to Accomplish?</u>

The Committee does not specify exactly what we are trying to accomplish by helping <u>all</u> lower-income-lower-wealth (LILW) seniors pay their tax bills – *rather than, say, all seniors irrespective of their income or wealth,*[2] *or only seniors who actually need assistance, or <u>all</u> LILW taxpayers whether they are seniors or not* – or why we should ideally spend ~\$4.6 million next year to do so – *rather than, say, half or twice that amount*. Based on the arguments the Committee offers in support of its proposed changes, it appears the Committee believes that **<u>the primary objective is to keep seniors in their homes longer than they would otherwise stay in them</u>**. The arguments from which this inference is drawn are these:

- On pages 10 and 13 of its November Memorandum, the Committee argues that **it is good to keep seniors in their homes** based primarily (per the November Memorandum's Attachment 9) on the simple and valid proposition that senior homeowners generally contribute more in taxes than they consume in public services, primarily because, although they may have done so in the past, they generally no longer put children in our public schools (where the >\$20,000 average cost/student is now almost twice the ~\$11,000 taxes on the median ~\$600,000 home).

[2] For example, Redding and Ridgefield provide tax credits to all seniors, with no income or wealth restrictions.

- ❖ This logic is sound, but it would apply equally well to <u>any</u> Fairfield homeowner, not just seniors, who does not put children in our public schools, including any owner-occupied households that are home to the 18% of total school-age children who send their children to private schools.

- On page 11, the Committee expresses concern that **the number of senior-owner-occupied (SOO) households in Fairfield declined 3.2% between 2010 and 2016** (from 4,617 to 4,471, down 146), within the context of a 1% overall decline in the number of owner-occupied (OO) households (from 16,783 to 16,623, down 160).

  - ❖ The Committee fails to note that these changes lie well within the margins of error (MOE) for the data they are using, and thus it is quite possible that both the number of OO households (MOE of 429) and SOO households (MOE of 487) were unchanged or even increased.
  - ❖ Even if the number of SOO households has declined, it is possible that we have fewer senior homeowners for reasons that have little or nothing to do with their property tax burden, and if so, perhaps we could and should be addressing those other reasons with programs that would be more cost effective than the SDTR program.
  - ❖ <u>***The Committee does not explain how we can determine whether even one SDTR participant will stay, or for that matter, has ever stayed, in their home longer than s/he would have due to their SDTR benefits, and if so, how much longer they stayed than they would have.***</u>[3]

To support its concerns about a declining number of <u>**senior-occupied households**</u>, the Committee also raises concerns about the size of Fairfield's <u>**senior population**</u>, even though that population could rise or fall without affecting the number of senior homeowners.

- On page 10, the Committee asserts that "*historical shifts in demographics [are] important*" because they "*provide a metric for evaluating the effectiveness of our tax relief program*," and that "*our programs are performing poorly*" because they claim, "*Fairfield is losing seniors*."

  - ❖ There is no explanation for why the number of seniors, as opposed to the number of senior homeowners, is a "*metric for evaluating the effectiveness of our tax relief program*."
  - ❖ The Committee fails to note that, based on its own data, the number of seniors in 2016 (9,375) is actually up 2.4% since 1990 (9,155) and up 5.1% since 2010 (8,920).

- On page 11, the Committee claims that "*the percentage of seniors in Fairfield has declined since 1990*," when seniors were 17.1% of the total population to 15.3% in 2016.

  - ❖ The Committee does not consider alternative explanations for this outcome, and the data upon which it is relying are subject to both error and interpretation.
  - ❖ Postcensal estimates (in this case, estimates of what has happened since 2010) are particularly subject to error because, unlike intercensal data (e.g., for the years between census years 2000 and 2010), they are not bounded by two census numbers.
  - ❖ However, even intercensal data are subject to error. For example, it is quite possible that a change in census rules in 2010, which directed college students (Fairfield has ~14,000 of them) for the first time to report their residence as their college town rather than their home town,

[3] However, the Committee does claim (on page 10) that ~10% of the estimated 260-308 new participants it expects (page 9) would otherwise leave Fairfield each year resulting in an annual savings, at ~$10,000 each, of ~$300,000.

has artificially inflated Fairfield's population along with any reported decline in seniors as a percent of our total population.

- ❖ It is also possible that the population data are distorted by the increasing number of Fairfield seniors who report their official residence as somewhere other than Fairfield but continue to own homes in Town on which they pay taxes, but as non-residents are no longer eligible for SDTR benefits.

- On page 11, the Committee claims that towns that spend more on SDTR relative to their total budgets are losing fewer seniors relative to their total populations.

  - ❖ The Committee claims that Newtown and Redding have "*nearly DOUBLED*" their senior populations since 2000 (based on those error-prone 2016 postcensal estimates), and attributes this "*success*" to spending the highest percentages of their total budgets on SDTR, including benefits in Redding that are provided to any senior, regardless of income or wealth, who has lived in the town for at least three years.
  - ❖ The Committee does not consider the possibility that other towns are retaining more seniors primarily for reasons unrelated to their tax-relief programs, and that some of those reasons might have very negative implications for their future, as is true, for example, for many rural towns in America that are aging themselves out of existence.
  - ❖ Among the many reasons why senior populations may be growing faster in other towns are the following: their tax burdens may be lower; they may be attracting fewer new residents; their seniors may be even less able to sell their homes; they may provide other services for seniors that are more important to keeping them from moving; they may offer more and better senior rental and other housing options; they may have fewer tax emigrants; they may be imprudently funding SDTR at the expense of other essential public services; and last but not least, they may be retaining more of their seniors but losing more of their senior homeowners.

- On page 12, the Committee claims that there is some "*Optimum Ratio of Seniors to Families* [that] *is Important for the Town's Long-term Health and Sustainability*."

  - ❖ The Committee does not explain how such an "Optimum Ratio" would be calculated.

- On pages 7 and 12, the Committee also expresses great concern that there has been "***a precipitous drop*" in the number of SDTR participants** over the past four years (down 17% from 1,611 to 1,343 in the credit program), and that "*51 participants were KICKED OUT of the program this year due to excess income*."

  - ❖ The Committee never explains why or how an increase or decrease in the number of SDTR participants *per se* should affect our judgment about how well the Program is working. It merely assumes that fewer participants is bad, even though, for all we know, despite fewer participants, we are losing fewer senior-owned homeowners than we did in the past.
  - ❖ The Committee does not address the possibility that there are fewer participants because fewer seniors need tax relief because their incomes and wealth are rising, which sounds like a good thing. Indeed, paradoxically, the Committee argues (on Page 8) that we must expand eligibility because seniors are working longer and making more money, and notes that "*workers over 65 saw their monthly earnings increase 80% between 1994 and 2015 when adjusted for inflation*."

In summary, the Committee believes the objective of the Program is **to keep seniors in their homes longer than they would otherwise stay, and that unless the number of seniors in Fairfield is stable or growing in absolute terms and/or relative to total population, AND unless the number of SDTR participants is stable or growing, the SDTR Program must be failing, and therefore we should spend more money**. The Committee therefore proposes changes designed to "expand relief," "improve participation," and "assist more seniors." The core questions the Committee should address are these: If we did not have a SDTR program and wanted to consider spending some taxpayer money to retain senior homeowners longer than they would otherwise stay, what options would we consider to accomplish that objective, how would we measure the benefits and costs for each option, and how would those options compare to one another in terms of their cost effectiveness?

How Would a Change from QTAV to Assessment Affect the Program?

The Committee claims that the change from QTAV to Assessment Limit will not result in any significant increase the number of participants (page 5). However, to the contrary, it appears likely that the number of participants would actually increase substantially, and that current participants will consequently end up with much lower benefits, perhaps forcing some of them by virtue of this hardship to sell their homes sooner than they otherwise would have.

In the past, the SDTR tax credits have been targeted at seniors with low incomes and low assets (i.e., presumably the seniors for whom the SDTR Program's "need and efficacy" were greatest). According to the Committee, only 47% of income-qualified seniors qualified for benefits. **The other 53% of senior homeowners who met the income limit must therefore not be current participants because: they were not aware of the program (not likely); they thought or knew the value of their assets exceeded the $650,000 limit; or they simply didn't want to go through the ordeal of the application process and of disclosing and/or documenting their assets**. The vast majority of those 53% would now qualify for benefits because the assessed value on their homes is no more than $750,000 (88% of all Fairfield homes, and probably 98%-99% of all Fairfield homes owned and occupied by seniors with incomes below $90,000).[4]

This means **there is likely to be a much greater increase in the number of participants than the ~23% increase in authorized funds** (from $3.4 million in FY2019 to a cap of $4.2 million in FY2020). **Indeed, including the effect of raising the income limit to $90,000, the number of participants could more than double.** This means the Tax Assessor would be forced to pro-rate everyone's credit to stay under the cap. **This means most current participants would see a significant drop in their credit, which could mean – in a classic example of counterproductivity – that more seniors would decide to sell their homes and leave Fairfield than would have left if there had been no change.**

Average Credit as a Function of Increase in Participants

	No. of Participants	Funds (mil.)	Average Credit	Credit Change
FY2019	**1,343**	**$3.412**	**$2,541**	na
+20%	**1,612**	**$4.187**	**$2,597**	2%
+40%	**1,880**	**$4.187**	**$2,227**	**-12%**
+60%	**2,149**	**$4.187**	**$1,948**	**-23%**
+80%	**2,417**	**$4.187**	**$1,732**	**-32%**
+100%	**2,686**	**$4.187**	**$1,559**	**-39%**
+120%	**2,955**	**$4.187**	**$1,417**	**-44%**

[4] It is relevant to note that, according to the Committee, all but 1.2% (17/1,343) of current participants have homes assessed at $750,000 or less.

How Can We Do Better?

In order to manage effectively any efforts to keep senior homeowners in their homes longer than they would otherwise stay, we need better information. It may be relatively simple to acquire better information by asking the real estate broker and/or attorney representing the seller in any residential sale to fill out a simple form that explains why the residence was sold. Regular, annual town-wide senior surveys may also be helpful. In any case, the question of how best to address the issue of SDTR should also be addressed by the Town's Strategic Plan Committee.

One Final Drafting Detail

If, contrary to FT's recommendation, the proposed change from a QTAV Test to a maximum assessment is approved by the RTM and the Board of Finance, the proposed new language at §95-8(3) that is designed to grandfather the eligibility of the 17 current participants[5] whose home assessments are greater than $750,000 should be revised because it is currently ambiguous. The final sentence in 95-8.C.(3) currently reads: "*Current program participants will not be affected by any change made to the maximum assessed value*."

The words "*any change made to the maximum assessed value*" clearly refers to possible future changes in the $750,000 limit rather than (as it should) to "the change from a QTAV test to an assessment test." Thus, as written, this clause can be interpreted as saying that all present and future program participants, once they qualify under the new assessment test, will be allowed to continue in the program irrespective of: (a) any future change in the program's maximum assessment; and/or (b) any change in the assessed values of their homes. In short, once any participant becomes a "current" participant by meeting the assessment test (i.e., not merely the 17 who should be grandfathered), s/he is immune from any future change in either the limit or the value of their home.

This clause should say: *Any program participant in FY2019 who qualified under the "QTAV test" and whose home is assessed as of June 30, 2019 at more than the maximum assessed value ($750,000) will continue to be eligible for benefits subject to his/her ability to continue to meet all other eligibility requirements.*

December 15, 2018

[5] There is no explanation for the apparent inconsistency between the statement on page 5 of the December Memorandum that there are "*38 properties with a value over $850,000 currently in the program*," and the statement on page 3 of the December Memorandum that "*17 current applicants would fall outside of the established [$750,000] limit*; *whereas 6 applicants would have fallen outside of the [$880,000] limit originally set.*"