Fairfield Taxpayer

FOURTH, PLEASE, "DON'T DISMISS THE PRORATION PROBLEM"

PROPOSED CHANGES TO SENIOR & DISABLED TAX RELIEF (SDTR) PROGRAM – PART IV

Comments by SDTR Committee Chair Jill Vergara at the RTM All Committees meeting on Tuesday, January 22nd – comments to which none of the other three Committee members who were present took exception – indicate that **the Committee still fails to understand the single most important consequence of the changes they are proposing to our SDTR Program, which is that the number of participants is likely to surge**. If the number of participants increases significantly, total benefits will quickly exceed the $4.2 million cap on total program cost. If total benefits exceed the cap, the Tax Assessor is required to **"Prorate"** the credits. If the Assessor must prorate, the credits to current participants will have to be cut unless provisions are made to protect them, in which case new participants will get much lower credits than they would otherwise, resulting in a **"Two-Tier"** system in which seniors with identical incomes and identical homes would receive different credits. The Committee Chair continues to assert that the number of participants will not increase substantially and thus there is no need to worry about this **Proration Problem**.

- **Fairfield CFO Bob Mayer** believes the number of participants could increase substantially, which is why he recommended that the Committee reduce in the cap on total program costs from 2.5% to 1.6% of total taxes levied on real property (or, from ~$7 million to ~$4.2 million).
- [ ]
- **Fairfield Taxpayer** believes the number of participants could more than double.

Committee Chair Vergara, when questioned on January 22nd about the possible need for "proration" that could result in a two-tier system, asserted once again that there will be no significant increase in the number of participants as a result of replacing the $650,000 QTAV[1] test with a $750,000 Assessment limit because, in her own words:[2]

[At ~1:42:45] *"We're going to mirror exactly what they did in 2012, 2013, which is just ensuring that the current participants will receive as much as they're receiving now. It's only a stop valve measure and we really don't think that we're going to be hitting the cap at all. And, but the difference between what we are doing with these amendments from what they were doing with the 2012 amendments is that we are just layering on top of something that's pre-existing. So, we really don't have any risk of having someone get less than what they, or any kind of two-tier system, like what could have happened and did happen in 2012. With ours, the only risk is if something goes totally haywire and we exceed in a huge way all of these projections. Every single time that they've made amendments, these projections have been two, three, three times over, overblown and I think that that's the case with this as well honestly. And while we're giving in to the CFO's concerns, we want to be, you know, we're risk averse, I want to be conservative about it and listen to the CFO. I think that he's, I think that it's an exaggerated concern with eliminating the QTAV. Like I said, it has had no limiting impact on our program so far. It literally has kicked out four people. So, removing it is not going to impact it significantly. So, then you have to look at what does he*

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[1] Per the ordinance: Participants cannot have a Qualifying Total Asset Value (QTAV) exceeding $650,000. QTAV shall consist of any and all assets of the applicant excluding the value of his/her primary legal residence and all tangible personal property contained therein.

[2] FairTV's recording of the meeting: https://media.discovervideo.com/show?vg=cf4f1acc5b&vt=1&ch=051c179d79

really think is causing this jump that could cause the program to go haywire? Well, I guess he's saying that the increase of $15,000 in the income limit will make everything haywire and maybe the correlation between that $15,000 in income and some kind of asset level is different. But when you really scratch underneath the surface the income level that we have now around $75,000 would put someone in Fairfield around the 56th percentile and the QTAV that we had was you know close to the 80th, the 80th percentile. That's what was really happening. It was really just the income limit that was keeping everyone, that was limiting people in the program. When we raise it by $15,000, we're not opening up to the 80th percentile. That raises it to something like the 60th percentile on Fairfield seniors. So, I really, really don't think that it's going to be an issue hitting the cap. [At ~1:59:30] *It [proration] wouldn't be an issue for ours the way it was for 2012. Our program is the same exact program overlaid on, it's not different benefits or anything like that. There's no different percent credits, different caps. So, it's not an issue for ours. The two-tier problem is not a problem for ours.* [At 2:01:10] *RTM Moderator: "Is proration part of the current proposal?" Chairman Vergara: "We weren't including proration language."*

In short, the Committee Chair thinks that if only four seniors who applied for credits were rejected because their assets exceeded the $650,000 QTAV limit, then it must be true: (a) that the vast majority of all the other seniors with qualifying incomes who are not current participants must also have QTAV's under $650,000; and (b) that even though they qualify for tax credits, all these seniors simply don't want them for some unstated reason(s) that will not change if we replace the QTAV with an Assessment limit.

Why will replacing the $650,000 QTAV with an Assessment Limit of $750,000 probably result in a substantial increase in the number of participants?

As explained in FT's first paper on this subject:[3]

1. According to the Committee, only 47 out of every 100 income-qualified senior homeowners are currently participants, and thus the key question to be answered is **why the other 53 are NOT?**
2. The Committee Chair apparently thinks those 53 simply don't want credits, but it is far more likely that: (a) those seniors believe they have more than $650,000 in QTAV assets, OR (b) they don't want to go through the administrative hassle of disclosing and documenting their assets, and signing a sworn statement that their QTAV does not exceed $650,000, at risk of committing a fraud if it's not true.
3. Either way, if the QTAV test is replaced with an assessment limit that allows 98%-99% of them to qualify based solely on their income (which, according to the Committee, is true for the 47), then the vast majority of the other 53 are likely to become participants, which could more than double (100/47 = 2.13x) the current number of 1,336 by adding 1,509 more for a total of 2,845.
4. Included in this total are some small number who have not previously applied for credits, even though they were qualified, but will do so now because they are subject to the $10,000 limitation on the deductibility of State and Local taxes for Federal income tax purposes.
5. Meanwhile, according to the Committee, another ~500-600 senior homeowners will qualify for credits because they are raising the SDTR Program's income limit from $75,000 to $90,000.
6. So, in total, we could theoretically have 2,845 + 550 = 3,395 total participants, which would represent an increase of 154%.

[3] *First, Please, "Do No Harm"* at www.FairfieldTaxpayer.com

What happens if the number of participants does increase substantially?

The Committee Chair is so confident that proration will not be a problem that there is no language in the proposed ordinance to guide the Tax Assessor if proration is necessary (per her final comments in the transcript above). However, she has stated repeatedly that if proration were necessary, current participants would be protected from any cuts, even though ***there is currently no language to that effect in the proposed ordinance***.

If proration is necessary and current participants are protected from cuts, then at least **$3.4 million** (the total cost of current credits) of the **$4.2 million** available under the 1.6% cap must be set aside for the 1,336 current participants. If instead the intent is to protect current participants from any cuts to the credits they would receive next year if the proposed increases are approved, then **~$4 million** must be set aside for current participants.

Therefore, if proration is necessary, only the remaining **$0.8 million** ($4.2m minus $3.6m) or **$0.2 million** ($4.2m minus $4.0m) of the funding would be available for new participants. If the mix of actual new participants is similar to the mix of potential new participants (based on the data provided by the Committee), then the average credit for new participants is likely to be ~$2,200 versus the average for current participants of $2,545 before the proposed increases and ~$3,000 after the proposed increases.[4] If so, **the threshold increase in participants that would trigger the need for proration would be as low as 7%** ($0.2 million / $2,200 = 91 / 1,336 = 7%) **and no higher than 27%** ($0.8 million / $2,200 = 364 / 1,336 = 27%). Fairfield Taxpayer therefore believes it is highly probable that proration will be necessary.

Since there is currently no proration language in the proposed ordinance to guide the Assessor should proration be necessary, we have no idea how questions like the following will be answered if necessary.

- Should current participants be protected at their current level of credits or at the level to which they would be entitled if the new higher "percentage" and "dollar" limits are approved?
- If we end up with a two-tier system, should all new participants in the bottom tier, whatever their incomes and home values, be subject to the same percentage cut?
- What happens in each subsequent SDTR cycle when more new participants join the program and others drop out?
- Over time, do we end up with a multiple-tier system?
- Is this proration a manageable administrative burden for the Tax Assessor's office?
- If it is necessary to cut the funds available for tax credits in some future year due to budget pressures, are both old and new participants to be treated equally?

Needless to say, the answers to these and other related questions should be carefully considered and should be subject to public comment, not bolted on to the ordinance at the last minute.

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[4] The expected average credit for new participants is lower because a higher percentage (~60%) of new participants are likely to be in the two highest income brackets for which credits are lower.