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The Oregon Senior Tax Deferral Program: Effects on Low-Income, Long-term Homeowners

Conor Wall

Introduction

The Oregon Property Tax Deferral Program for Senior and Disabled Citizens was created to defer property taxes of seniors and disabled homeowners so that they could more easily afford to remain in their homes. Under the program, the State of Oregon pays property taxes on behalf of participating households, and the property taxes are to be paid back with six percent compound interest after the participant dies, moves, or sells the home.

Though the interest charged on the deferrals is meant to make the program revenue-neutral in the long term, a spike in enrollments and drop in repayments after the 2008 housing market crash has caused large deficits. The unexpected deficits, combined with an earlier decision to use surpluses to support other senior initiatives, nearly left the program without funds to defer taxes in 2010 and 2011.

These difficulties prompted several changes to the program, as well as an Oregon State University survey to gather more information on the people the program serves. This brief summarizes the recent difficulties in the program, subsequent legislative responses, and the results of the survey.

Program Background

Created in 1963, the deferral program began with forty-two participants and less than $13,000 in deferred taxes. The deferral program grew slowly in its first decade before expanding from 262 participants and just over $144,000 in deferrals in FY 1975-76 to a peak of 13,165 cases and $19.9 million in deferrals in FY 1989-1990. The expanding caseloads of the 1980s led to large gaps between deferred taxes and repayments, but these disappeared in the early 1990s as people exiting the program and repaying their taxes began to outnumber new deferrals. The period from 1999 to 2007 saw steady surpluses around $7.5 million per year, and a drop from 9,200 to 8,500 cases. After receiving $108.8 million in appropriations between 1977 and 1995, the subsequent decade saw the deferral program's revolving account return $78.7 million to the state's General Fund.[i]

The consistent surpluses, combined with budget shortfalls elsewhere, led the legislature, in 2005, to have the deferral programs no longer repay loans to the General Fund, but to pay surpluses above a given threshold to Oregon Project Independence (OPI), a program aimed at helping seniors with housekeeping, shopping, medications management, and other basic needs. An initial payment of $250,000 was made to OPI in 2006, followed by a payment of $14.3 million in January 2008.[ii]

The housing market crash and subsequent recession, however, reversed the trend of high surpluses. Repayments dropped 20% between FY 2006-07 and FY2007-08, while payments to counties increased by more than 5%.[iii] Over the next three years, the number of cases rose by more than 25%.[iv] The unforeseen increase in deferral payments, along with the $14.3 million payment to OPI, undermined the financial viability of the program, and nearly left the state unable to make its full $21 million in property tax payments for November 2010. Although the state made all payments after a six month delay, the program remained in the red, with projections at the time showing it $27 million short of having necessary funding through 2013.[v]

The funding difficulties prompted increased media scrutiny of the program and the small number of high-priced homes on its rolls. In April 2011, *The Oregonian* reported that the state was covering property taxes on nearly 200 homes worth more than $500,000, including eight with values in excess of $1 million.[vi]

Legislative Responses

In 2011, these concerns led the Oregon Legislature to unanimously pass HB 2543, which made a number of changes designed to filter out wealthy participants and reduce outlays. The law limited individual net worth to $500,000, not including the property on which the deferral was paid, life insurance policies, or personal property such as appliances or motor vehicles. The annual income limit became $39,500 in household (rather than Federal taxable adjusted) income, to be verified by biennial income recertifications. Lawmakers further decided that homes purchased within the past five years would no longer be eligible for tax deferrals. They capped the value of houses in the programs at 100% to 200% of the county median home value, depending on how long the participants had been living in their homes.[vii]

HB 2543 also took steps to increase and protect the program's revenue stream. Interest on deferrals changed from six percent simple interest to six percent compound interest, increasing both projected future income and the long-term interest burden on participants. Of more immediate consequence, however, was the decision to no longer allow participants to have reverse mortgages on their homes. This change simultaneously trimmed the program's rolls and increased the likelihood that participants had sufficient equity to repay their deferred taxes. Even with changes, the program continued to have a projected shortfall for payments in

November 2011 and 2012. The program's fund was bolstered temporarily with a $19 million loan from the Common School Fund, to be paid back with interest in mid-2013.

This set of changes succeeded in cutting as many as half of the 10,500+ participants from the programs' rolls.[viii] This, however, sparked a firestorm of controversy, as seniors, many of whom faced large tax bills on incomes of less than $10,000/year, were given less than three months notice before their year's property taxes—often $2,000 or more—unexpectedly came due. The program again made headlines in *The Oregonian* as seniors petitioned their representatives and testified in Salem.[ix]

The result was a second bill, HB 4039, which gave a reprieve to some distressed homeowners. The roughly 1,700 participants who had been disqualified solely because of reverse mortgages were reinstated for a two-year period, with arrangements made to cover or refund property taxes charged for the two years. Continued funding issues, however, meant that other former participants, such as those who had recently purchased their homes, or whose houses exceeded county median value ratios, remained without support.[x]

Survey Findings

As the Legislature contemplates further changes to the program, a recent survey conducted by Oregon State University's Rural Studies Program and the Oregon Policy Analysis Laboratory provides context regarding the income and mortgage status of program participants. The survey, which was funded by the Oregon Department of Revenue, was mailed to all program participants, including those reverse mortgage holders who were reinstated on a temporary basis. Of the 7333 surveys mailed, 2363 surveys were returned, for a response rate of 32%.

The results show that the Property Tax Deferral Program is helping a large number of long-time, low-income homeowners remain in their homes. More than 80 percent of respondents purchased their homes more than 10 years ago, and over half bought at least two decades ago. While the current annual income limit is just above $40,000 per year, 47 percent of respondents reported living on less than $15,000 in 2011, and more than 85 percent of respondents received less than $25,000. While the vast majority (over 97 percent) of

respondents receive Social Security, 30 percent of respondents have no other source income. Given the low-incomes of most respondents, it is reasonable to conclude that property taxes would constitute a large monthly expense that many participants would struggle to meet.

The survey also shows that, despite concern about the influx of new participants in recent years, those who entered the program in the past five years show are generally similar to long-term participants. Incomes of new participants, for example, remain quite low: 43 percent of recent entrants reported less than $15,000 in income in 2011, and 83 percent received less than $25,000. New entrants are also largely long-term homeowners, with 46 percent having owned their homes since at least 1990, and nearly three-quarters having owned since at least 2000.

Reverse mortgages constitute another source of concern for the program. Although it is not possible to ascertain whether these mortgages constitute a high risk of default, it is notable that half of all reverse mortgage-holders had less than $15,000 in income 2011, and 56 percent have owned their homes for 20 years or more. This makes it clear that losing the property tax deferral be a hardship for many of the long-term homeowners that the program seeks to support.

Endnotes

[i] Oregon Department of Revenue. *Property Tax Deferral Programs Annual Report: Senior Citizen, Disabled Citizen, Special Assessment.* 150-490-475 (Rev. 04-09), April 2009. Accessed December 18, 2012 from http://www.oregon.gov/dor/forms/property/490-475.pdf.
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