Senior and Disabled Property Tax Deferral Program

Status Prior to 2011 Legislative Session

- Program has operated on a self-funding basis for nearly four decades.
- The housing market collapse starting in 2007 reduced payments coming in and greatly increased demand by financially stressed seniors to get into the program.
- The Department of Revenue did not have sufficient funds to fully pay the counties in November of 2010 forcing a delay of full payments until May of 2011.
- The Department of Revenue projected that funds for the program would be $9.2 million short for November of 2011 and an additional $8.2 million short in the following year under current law. On top of the 2010 shortfall this would leave the program with a cumulative deficit of $24.8 million by November 2012.

Actions Taken by the 2011 Legislature

- The Legislature, acting through the revenue committees, established a work group to develop a plan to restructure the program to make it self-funding over the long-term while serving the neediest seniors. The over-riding goal of the Legislature was to restructure the deferral program to keep it going rather than terminating it as was the case in California and other states.
- The Legislature passed 2 bills to address the imbalances in the program. The first was HB 2543 which restricted eligibility based on certain criteria and capped future growth. The second was SB 939 which directed the Treasury to loan $19 million to the program to keep it solvent through the rest of the biennium. The loan must be repaid by July 1, 2013.
- The key elements of the reforms under HB 2543 are:
    - Retain the household income limit of $39,500 (indexed) and age eligibility (age 62).
    - Place a value limit on eligible homes based on the median value for the county.
    - Require participants to have lived in their homes for at least 5 years.
    - Set a limit on participant's assets beyond their residence.
    - Require participants to re-apply every 2 years to ensure that the income test continues to be met
    - Exclude properties that have reverse mortgages. This step was taken because the state has a second lien on property taxes owed after the reverse mortgage balance is paid. Financial institutions generally require a mortgage lien to home value ratio of .6 meaning sufficient equity should be available to pay other liens. However, falling home values have pushed this ratio to .9 and higher in many cases.

Impact of HB 2543—Current Law

- Program participation was reduced from about 10,400 to roughly 4,900 as a result of the reforms contained in HB 2543. The primary reasons for ineligibility under the new law are failure to recertify, existing reverse mortgage liens, less than 5 year residency and home value above the limit.
- In its current form the program is expected to be financially viable in both the short-term and the long-term. The account balance in November 2011 was -$0.7 million. The balance is projected to be +$5.7 million in November 2012. These estimates do not include a $19 million loan from the Common School Fund.

Proposed 2012 Changes—HB 4039

- Grant two-year delay for those existing participants who were deactivated solely because of an existing reverse mortgage on their residence. This will re-activate 1,664 participants.
- Direct Department of Revenue to pay 2011 and 2012 property taxes for those re-instated to program. Direct county tax collectors to refund full or partial 2011 property taxes paid by those who are re-activated.
- Direct Department of Revenue to gather more comprehensive financial data on program participants prior to the 2013 legislative session.
- Require financial institutions to notify individuals applying for reverse mortgages that obtaining a reverse mortgage will deactivate their property tax deferral.

Impact of Program Changes on Fund Balance

November Balance (in millions)	**2011**	**2012**	**2013**	**2014**
Current Law* (HB 2543)	-$0.7	+$5.7	+$13.1	+$22.2
Previous Law (pre-HB 2543)	-$16.9	-$24.8	-$33.3	-$39.6
Proposed Changes in HB 4039*	-$4.0	-$0.3	+$7.6	+$9.5

*Excludes $19 million loan from Common School Fund.

- The proposed amendments in HB 4039 result in a deficit of $4.0 million after all 2011 property taxes are paid and a slight negative balance following payment of 2012 taxes. This suggests a portion of the $19 million loan from the Common School Fund will be needed for cash flow purposes.
- The projections indicate that the fund balance will be sufficient to fully repay the Common School Fund in June of 2013 without use of General Fund under the proposed changes in HB 4039. Repayments to the fund are expected to be approximately $1.5 million per month. This means that the fund is expected to repay the $19 million and still have a small cushion entering the 2013-15 biennium.
- The fund is expected to return to self-sufficiency in the 2013-15 biennium with adequate resources to pay property taxes in 2013 and 2014.