

February 12, 2014

To: Maureen Valente, Town Manager

From: David L. Levington
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Cc: Board of Selectmen
Board of Assessors
Council on Aging
Finance Committee
Representative Thomas Conroy

SUDBURY'S MEANS TESTED SENIOR TAX EXEMPTION

PROGRESS REPORT

FEBRUARY 2014

Sudbury's new Senior Tax Exemption program was approved by the town and by the Commonwealth based on certain assurances put forth by the proponents. Now that it has been enacted and put into place, we can see how the actual results of the pilot program compare to the projections.

Background

Property taxes as a burden to Senior Citizens

In the United States, where education is funded primarily through local property taxes, senior citizens often feel they are unfairly burdened. Having paid high taxes for years as their children were educated, they feel they have "done their part" and are ready for some relief.

Many states agree with this, and provide relief in a variety of ways, but the Massachusetts Constitution makes schooling a responsibility of the cities and towns, and this has made it impossible to offer seniors a lower tax rate. There is also a point of view that seniors shouldn't get a lower rate, as all children are

educated by all taxpayers. Taxes (in general) are progressive, so everyone should pay in according to his/her means, not according to age.

Massachusetts' "Circuit-Breaker"

In 1999, the Commonwealth addressed this issue by adopting a new procedure (Chapter 62, section 6k) known as the Circuit-Breaker. It doesn't change tax rates, but provides a cash credit to any taxpayer who is 65 or older and meets certain tests of means (income, house value). The credit would be the amount necessary to reduce the property tax burden to 10% of income, but with a maximum credit (currently about \$1,000).

The Circuit-Breaker has been very successful, and currently it is helping about 85,000 Massachusetts seniors; however in some towns it still leaves folks with a significant burden.

Sudbury (and other affluent suburbs) still had a problem

The limit makes the Circuit-Breaker only partially successful in Sudbury, where the average property tax burden is \$11,544 ($18.03 \times \$640,277$). A senior with income of \$60,000 and a tax bill of \$8,000, for example, would still pay over 10% of income after receiving the \$1,000 credit. This is the 'problem' Sudbury has been trying to address.

The Current Program

The current program aims to reduce the tax burden of the targeted seniors to 10% of income, after they have qualified for the Circuit-Breaker credit.

Article 2, "A means tested Senior Exemption"

This program is the last of a series going back almost ten years in Sudbury, attempting to address this 'problem'. A variety of ideas were proposed, but none became law. Most were turned down by Sudbury Town Meeting, and one was approved by Town Meeting but rejected by the General Court. This program is adapted from one introduced in Hamilton Massachusetts, and it addressed two major weaknesses of the previous proposals, namely unknown costs, and unknown number of recipients. Sudbury Town Meeting has an understandable

reticence to approve plans when it isn't completely clear how much the plan will cost, and exactly who will benefit.

1. Fixed Costs

The plan proposes to raise each taxpayer's property taxes by an amount not to exceed 1% (no more than ½% in the first year). This was shown by example to be modest; for instance a \$6,000 tax bill became no more than \$6,030 in the first year and \$6,060 in ensuing years.

In order to guarantee this limit, the proposal includes a mechanism to prorate the benefits, if they would otherwise exceed the ½% or 1%.

2. Targeted Recipients

Data was presented from the US Census and the Massachusetts Department of Revenue showing both the size of the Senior Population (there were 1243 families in Sudbury in which one or more members collected Social Security), and the number experiencing very high property tax burdens (about 200 filing for the Circuit-Breaker, and about 100 who meet the financial requirements to defer their property taxes). This was important. It made it clear to voters that the plan was not to raise taxes on young voters to help all seniors; rather it raises taxes on almost everyone to help 200-300 overburdened seniors.

Town Approval

Once they understood that they were helping a limited number of seniors, and that their costs were fixed and affordable, the voters in Sudbury voted to approve the program. The Town Meeting vote was almost unanimous, and later, after the legislature approved and Governor signed it, the voters at the polls approved the program by a wide margin.

The Burden Shift

The plan put forward is a "Burden Shift"; i.e., all taxpayers accept a small increased burden, to relieve a small number of taxpayers of a major burden. A major advantage of this approach is that it avoids having the program compete with other town priorities, such as school expenses. The burden shift occurs outside of the budget process; it takes place during the process by which Selectmen determine property tax rates of the various classes of property.

The application process

Seniors fill out a form so the Assessors can determine eligibility. Requirements include:

- Age 65 or older
- Ten consecutive years in Sudbury
- Home value no higher than town average plus 10%
- Income under the Circuit-Breaker limits, (\$77,000 married, \$51,000 single), and
- Property taxes after receiving the Circuit-Breaker credit still exceeds 10% of income.

The form also included questions to assure the applicant did not have undeclared assets which would put him/her outside the group the program was intended to address.

"Seamless Implementation"

The proponents cheerfully and optimistically described a trouble-free implementation process, although that was far from guaranteed. The program is unlike any other existing in the Commonwealth, and it promised a challenging task for the town staff responsible for putting it in place.

Good things happened while the bill was being considered in Boston. The Committee on Revenue recommended certain changes which the Town rejected, and as a result our Representative, Thomas Conroy, asked that all the town "factions" get together and agree on a final version.

That took place. Town administrators and the proponents met extensively, moderated by local leaders, and developed, reviewed and modified the set of procedures needed to make the process work. Mr. Conroy took the revisions to the Committee on Revenue, and had the bill amended. The bill that the Governor signed was one which all parties had approved.

First Year Results

PARTICIPATION

This year about 240 Sudbury seniors qualified for the Circuit-Breaker, but despite wide publicity only 124 applied for this new program.

It is likely that participation will increase in the second and third year. Eligibility is similar to the "Circuit Breaker", where participation has increased steadily over the years as more seniors become aware of the opportunity.

COSTS

The act limited the "burden shift" to 0.5% of the residential levy for the first year, and to 1.0% thereafter. The actual cost (rate shift) for the first year was 0.4%.

This totaled \$289,200, and is the amount added to the residential tax rate. This resulted in a rate of \$18.03, and would have been about \$17.96 without the shift. The added property tax for the average homeowner worked out to be about \$45 (on an assessed value of \$632,187). Higher or lower valued homes paid more or less proportionately. It seems likely that with increased participation the target of 1% in years two and three will be about right.

RECIPIENTS

.Although the applications are confidential, the Assessors have been able to provide valuable information about the recipients as a group.

TAX REDUCTION

The 118 seniors received property tax reductions ranging from under \$1,000 to over \$5,000; **the median reduction was about \$2,500.**

Assessed property taxes were reduced:

\$1,000 or less	24
\$1,001 to \$2,000	23
\$2,001 to \$3,000	26
\$3,001 to \$4,000	28
\$4,001 to \$5,000	9
\$5,000 to \$6,100	8

ELIGIBILITY

An analysis of the applications showed that those who received the benefits were clearly part of the target audience. They not only qualified for the Circuit-Breaker, but were on the high end in age and years in Sudbury, and on the low end in income and home value.

Age: The median age was 80+ years.

The range was from 66 to 95, as follows:

Age 65-69	11
Age 70-74	27
Age 74-79	20
Age 80 or over	60

RESIDENCE: The median years lived in Sudbury was 30+ years!

10-20 years	28
20-30 years	18
More than 30 years	72

Income: The median qualifying income was \$37,200.

Incomes under \$25,000	21
Incomes \$25,000-29,999	17
Incomes \$30,000-39,999	24
Incomes \$40,000-49,999	25
Incomes \$50,000-59,999	10
Incomes \$60,000 or over	21

HOME VALUES: The median assessed value was \$417,300.

Assessed value under \$400,000	50
Assessed value \$401,000-500,000	43
Assessed value \$501,000-600,000	17
Assessed value \$600,000-685,100	8

The experience of a senior with \$40,000 income was something like this:

Property tax at normal rates: $\$18.03 \times \$417,300 =$	\$7,524
Circuit-Breaker credit	1,000
Tax reduction from this program	2,500
Property tax paid after credit and tax reduction	\$4,000

Seamless implementation

To their great credit, the professional staffs in the Assessing and Finance Departments made the optimistic promises of the proponents come true.

From applications through rate-setting, this new program was introduced and administered smoothly and in a trouble-free manner. The law included a provision enabling the town to delay implementation if there was a problem establishing a tax-rate, but this did not occur.

Looking to the Future

This is a progress report, presented so that all those interested in this new program can keep up with its implementation, its problems, and its successes. We will continue to study the results of this first year, both to keep the town aware, and to find ways to make the second and third years more successful.

Appendix to Progress Report on Sudbury's Means Tested Senior Tax Exemption Program:

Implementation Information Prepared by Sudbury's Finance Department

February 24, 2014

Implementation of Chapter 169 of the Acts of 2012

Sudbury Means Tested Senior Citizen Property Tax Exemption: SMTE Program

FY4 July 1, 2013 – June 30, 2014

In the months leading up to the application period many control and test measures were already in development or underway:

- Eligibility criteria was clearly defined and identified.
- A user friendly application and guideline was developed and approved by the Board of Assessors.
- Questions from the senior population and others were addressed.
- A workable process presumed to fit in with current tax rate setting procedures was in development.
- A database was created incorporating all necessary fields of applicant statistics.
- A mechanism to apply the new exemption to tax bills was underway.
- Outreach to the Department of Revenue was initiated. It was quickly realized that the State would not be approving or reviewing the new application and guideline.

The established deadline for FY14 applications was August 29, 2013. The ensuing actions from the deadline all contributed to successful implementation of the SMTE Program for 2014.

- **August 29, 2013:** Assessors received applications including 2012 MA Income Tax Schedule CB and 1st two pages of 2012 Federal 1040.
- **September 10, 2013:** Assessors entered items for each applicant into a database (Note: Chapter 169 of the Acts of 2012 provides the definition of qualifying income as circuit breaker income).
- **September 26, 2013:** Formal notification letter to all divisions of the Department of Revenue; including Division of Local Services, Municipal Law, Bureau of Accounts regarding the **SMTE** program.
- **October 9, 2013:** Assessors concluded the application review process; resulting in 118 approvals, 2 disqualifications and 4 denials.
- **November 8, 2013:** Finance Director finalized creating new exemption code and process for entering exemption into MUNIS system.
- **November 8, 2013:** Budget Analyst finalized revisions to the Senior Exemption Calculation Workbook.
- **November 20, 2013:** Assessors received approval of assessed values for all Sudbury properties as of January 1, 2013.
- **November 20, 2013:** Import of FY 2014 assessed values to Senior Exemption Calculation Workbook.
- **November 22, 2013:** It was determined that the 1st year collective cap of .5% of residential levy for exemption relief conferred under this Special Act would likely be sufficient to allow for the target tax liability of 10% of qualifying income & amount of prior year CB benefit for those qualifying applicants.
- **November 22, 2013:** Final preparation of Classification Hearing Materials

- **November 26, 2013:** Classification Hearing Held- **No** Res Exemption **No** Small Commercial Residential Factor of **.974606** resulting in res rate: \$18.03 CIP: \$24.94, tax rates based on Sudbury's SMTE Program. The same factor w/o SMTE Program would result in res rate of \$17.96 and CIP \$24.94.
- **December 2, 2013:** Approval of tax rates by the Commissioner of Revenue Residential Rate: \$18.03 CIP: \$24.94.
- **December 11, 2013:** SMTE benefit posted to tax bills.
- **December 16, 2013:** Chapter 59 Sec. 5 exemption requests received to date in addition to Community Preservation Surcharge, Senior Community Service, and Senior Tax Deferrals processed.
- **December 27, 2013:** Tax Bills printed and mailed.

The technical steps regarding the recap process and tax bill representation may be available as a separate document.

Area of Responsibility	Date	Program Phase	FY Activity	Notes
Citizen Petition	Jan-11	Secial Act Approval Special Town Meeting	FY11	
Board of Selectmen	Feb-11	Special Act (Sudbury Means Tested Senior Exemption) submission to State Legislature		
State Representative Thomas Conroy & House Chairman of Joint Committee on Reveune Jay Kaufman	Mar-12	Sudbury Senior Tax Relief Community Meeting discussing the potential for advancing the bill submitted by the Town of Sudbury	FY12	
State Representative Thomas Conroy & Senators Eldridge & Fargo	Mar-12	Sudbury Act moved out of committee → House Means and Ways → Bill H.3435		
Board of Selectmen, Town Manager	29-Mar-12	Meeting/Finance Dept staff to address differences in Sudbury's original petition to the state and the resulting H.3435.		
Board of Selectmen, Town Manager	3-Apr-12	Vote to establish H.3435 Review Committee		
H.3435 Review Committee & Finance Dept Staff	Apr-12	Develop H.3435 into enabling ligsilaion to allow for successful implementation		
H.3435 Review Committee & Finance Dept Staff	Apr-12	Re-work H.3435 to match the intent of the original Act as Voted at Town Meeting		
H.3435 Review Committee & Finance Dept Staff, Board of Selectmen, Town Manager	1-May-12	H.3435 Review Committee Report to Board of Selectmen		
Town Manager	2-May-12	Suggested changes to the Act submitted to Representative Conroy		
State Legislature & Governor Patrick	27-Jul-12	Upshot of H.3435 = Chapter 169 of the Acts of 2012 (SMTE)	FY13	
Assessing Staff	January-March	Begin outreach to DOR/DLS Legal Staff		DOR will not review or approve any home- rule petition applications. It is up to the local Assessors' to develop a workable application.
Board of Assessors	January-March	Formalize Eligibility Criteria		
Board of Assessors	February - Jun	Develop and Approve Guideline & Application		
Budget Analyst/Finance Director	??	Exemption Calculation Database		

Area of Responsibility	Date	Program Phase	FY Activity	Notes
Assessing Staff	February - Jun	Establish valuation parameters for eligibility		
				FY13 average SFR (101) Value plus 10% \$685,148
Board of Assessors	Jun-13	Application and Guidelines Approved FY 2014		
Assessing Staff	29-Jun	Mailing of approved apps and guidelines (to those having requested app materials)		120 apps
Assessing Staff	July 1 - August	Apts. with applicants to assist with application filings, and answer questions and concerns.	FY14	sat with over 50% of applicants spoke with or messed others
Assessing Staff	23-Jul-13	Program Presentation at Sudbury Senior Center		Over 75 attendees
Assessing Staff	Jul-13	Met with Senior Tax Advisors on the subject of tax deferrer eligibility		
Board of Assessors	29-Aug-13	Deadline for application submission		124 aps. Received
Assessing Staff	10-Sep-13	Applicant data entered into a spreadsheet for BOA review		2 were incomplete or non qualifying due to technical issues (immediately notified)
Assessing Staff	26-Sep-13	Formal Notification letter to Bureau of Accounts, Bureau of Municipal Law Finance, and Division of Local Services		
Board of Assessors	9-Oct-13	Application review process concluded		4 denied
Finance Director	8-Nov-13	Tax Billing system updated to accept new Program		
Budget Analyst	8-Nov-13	Revisions to Senior Exemption Calculation workbook finalized		
Department of Revenue Division of Local Services	20-Nov-13	Approval of FY14 Interim Assessed Values		
Assessing Staff & Budget Analyst	22-Nov-13	Estimate FY14 SMTE Program benefit & Cost		10% qualifying Income plus 2012 Circuit Breaker benefit =target tax liability for 118 recipients
Budget Analyst	22-Nov-13	FY14 Classification Hearing Materials completed including an addendum describing the SMTE program		

Area of Responsibility	Date	Program Phase	FY Activity	Notes
				No Res Exemption No Small Commercial Residential Factor of .974606 resulting in res rate: \$18.03 CIP: \$24.94
Board of Selectmen	26-Nov-13	Classification Hearing		
Commissioner of Revenue	2-Dec-13	Tax Rates Approved		\$18.03: \$24.94
Finance Director	11-Dec-13	SMTExemptions posted to tax bills		
Assessing Staff	16-Dec-13	Chapter 59 statutory exemptions, Community Preservation Surcharge, Senior Community Service, Senior Tax Deferrals processed.		
Treasurer/Collector	27-Dec-13	Tax Bills prepared and issued		