# Home Rule Petition Proposals

Given the limitations of the statutory Residential Exemption, the committee undertook to draft proposals for possible consideration for Lexington. Because the committee’s charge is not specific for the target population, this exercise was grounded in competing senses of who these proposals should seek to help. A first proposal was based on the existing means-testing models which the committee was seeking to emulate, and would target members of the community with limited means. The committee felt that the $1100 state circuit breaker benefit is insufficient for Lexington which has an average single family property tax bill of $14,169 (FY2018). Moreover, the Concord assessor reminded the committee that an objective was to address homes valued above the circuit breaker limit but below the town median limit, as the circuit breaker had not kept apace with inflation in towns such as Lexington and Concord.

While Lexington might need to fund a means-tested residential exemption for the benefit of its residents, it would clearly be worthwhile for Lexington to lobby state legislators to both raise the benefit ceiling and the home value eligibility criteria, rather than using local funds to compensate for state caps. However, as Lexington home prices and property taxes are higher than many other communities, it is possible that interest in these adjustments would be limited.

At the public hearing, one elderly resident proposed that the committee not lump all 65+ residents together in one group, and instead appreciate the differences in living circumstances which occur with aging. This argument engendered further discussion in the committee, and led to the conception of an entirely new approach which would provide tax remedy to the oldest members of the Lexington community, and could serve as model for legislation elsewhere.

These two proposals, one adopting a version of means-tested exemptions intended for Lexington, and the other targeting an exemption at our most senior community members, are discussed and assessed in this section.

**Lexington Proposals**

Many considerations impacted the design of possible proposals. The next section outlines rationales which informed the committee in construction of proposals. Following the rationales, two proposals are introduced and evaluated against criteria.

**Rationales for Criteria:**

Age: With increasing aging and retirement ages, starting at 70 makes sense. As an individual ages further beyond 70, access to new sources of income may diminish due to declines in physical mobility and intellectual agility.

Home Value: Median home value is effectively a policy cap because subsidizing families who live in nicer homes than half of Lexington residents may leave residents feeling they are helping those who are “better off”. An applicant’s assessed value would be compared with assessed values in the community. (Review: median home value is intended to include single and multifamily homes and condominiums.)

Asset Level: Households with material asset bases may be reasonably expected to tap into those asset bases before receiving subsidy from their town. We may reasonably expect younger retirees to require more assets than older retirees, however it is not clear that higher thresholds should then be used for younger retirees. Maintaining a consistent asset level across ages would have the effect of providing more relief for senior retirees and less to younger retirees who should have a larger asset base.

Income Level: Combined with assets, income is commonly thought to represent need. However, with the advent of Roth IRAs which do not have required minimum distributions (RMDs) of IRAs, households may be able to better control the years in which they receive income and through financial planning create apparent evidence of a need for financial subsidy. Therefore, income cannot be the only means-testing criteria. We have also learned that the circuit breaker income formula includes non-taxable sources of income, and therefore it seems important to follow that pattern rather than using adjusted gross income (AGI) from a tax return.

Ownership: The guiding principal is property tax relief, so the notion advanced is that someone paying property taxes (by definition) an owner would be the one receiving relief. Therefore the criteria focus on the access to income and assets for the person who is the beneficial owner. This also avoids a “rent-a-senior” situation where a senior citizen exists in the household in part to provide relief for an otherwise unqualified family. A question then is also whether the town should provide relief to renters, as the circuit breaker does today. A few problems in the case of renters are that the rents are private contracts and therefore might not be arms-length transactions, and that the property tax component of rent is imputed rather than explicitly paid. Finally, the town has no property tax relation to the renter, so any adjustment would either have to be a direct check or a form of indirect rebate through the property tax payer.

Residency: An argument for longer residency requirements is that those indivduals have already “paid into” the local tax system and are not simply moving into town for a tax break, while an argument to waive residency requirements is that they violate mobility guidelines in federal law. Existing towns do have a residency requirement. The committee feels that a 5 year residency requirement is a compromise between these two positions. A possible implementation is that the person was a resident of Lexington (not necessarily owner) for 5+ years, and a continuous owner and resident the preceding two years (with other years of residency occuring at another point in the person’s life).

**Rationales for Benefits:**

Materiality: Benefits should be material enough that the individual appreciates their impact and they have potential impact on some of a household’s financial decisions.

Supplemental: The benefits received should be assumed to accompany other remedies and breaks available to a household, such as the state circuit breaker and tax deferral. These benefits would not seek to replace, substitute, nor stand alone.

Justifiable to other residents: Many households struggle to pay property tax bills, so the remedies should be justifiable. One justification is on the basis of household need. Another is on the basis of overall town economic impact by assisting those who tend to have a small economic impact on the town budget.

Targeted: Benefits should be targeted to a small group of individuals with demonstrated needs.

Housing Price Impact: Benefits should be designed in a manner that they tend to attach to the individual rather than the property.

Financial cliffs: Preferred systems are not financial cliffs, but graduated systems so a household slightly above a threshold may receive some assistance. In practice, eliminating cliffs makes systems is rather complex and reduces understandability.

Predictability: Total benefits offered to a household should be relatively consistent from year to year, avoiding every-other year effects or other oscillations.

Widowing: The benefit system should avoid penalizing those who become widowed. (Existing systems tend to lower thresholds upon death of a partner, and fail to reflect that many household costs continue beyond that event.)

Understandability: Taxpayers and beneficiaries should be able to comprehend the benefit system being proposed.

Flexibility for Government: In asking the state for a home rule petition, the guidelines should be constrained enough that a future generation cannot easily expand the scope or benefit of the program beyond it’s original intent. However, as benefits are indexed to other legislation (such as the state circuit breaker), enough flexibility should exist that town government can respond when material changes occur to other legislation, or more detailed study occurs for subgroups of the affected populations. (Specification for what would occur if the circuit breaker were not in force is important.)

Mobility within Lexington: Avoid creating any restrictions which make it difficult for the individual to move within Lexington. In some sense the benefit is “portable”, but it is not that the specific tax level or rate is ported.

**Proposal #1: Circuit Breaker Style Means-Tested Exemption**

Goal: Provide material assistance to seniors with demonstrated financial need as a supplement to existing vehicles (circuit breaker, deferral, etc.). The objective is to lower a household’s property tax contribution closer to 15% of income for those households experiencing high levels of property taxes.

Age: 70+

Owner: Oldest owner of household, with 50%+ beneficial ownership

Residency: 5 years, with 2 continuous

Home Value: At or below median

Asset level: A multiple of the maximum income threshold on the state circuit breaker (currently joint income) between 1.0 and 5.0. The maximum asset level multiplier is set by the Selectmen annually, and is an identical figure for all households independent of filing or marital status.

Income level: Use the state circuit breaker to calculate.

Benefit:

For households with assessed value at or below the state circuit breaker maximum level:

* Households with income below the individual threshold (currently $58,000) can receive up to N times the circuit breaker value. Selectmen set the value of this circuit breaker multiple annually, to be between 1.0 and 3.0, with a committee recommendation of 2.0. The multiple of the state circuit breaker is the planned reduction in an individual’s property tax bill, provided the reduction in addition to the individual’s prior year state circuit breaker, does not depress property tax to income ratio below 15%, and in the event this would occur, the benefit is adjusted downward to the figure which matches 15%.
* Households with income above the individual threshold but below the joint threshold (currently $88,000) would receive 1.0 times the state circuit breaker as a property tax reduction, provided the reduction in addition to the individual’s prior year state circuit breaker, does not depress property tax to income ratio below 15%, and in the event this would occur, the benefit is adjusted downward to the figure which matches 15%.

For households with assessed value above the state circuit breaker maximum but below the town median:

* Same 1.0 level benefit is proposed as for those who are at or below the state circuit breaker maximum. (In effect, the town benefit extends to the town median residential value when that value is above the state circuit breaker limit.) The household would receive the full circuit breaker amount rather than a multiple of it (since they probably did not receive it).

Renters:

* No additional benefit

Annual Action by Selectmen:

* Determine maximum asset level by setting asset multiple of joint income to a figure between 1.0 and 5.0
* Determine maximum circuit breaker mutiple, by setting this figure between 1.0 and 3.0, for households meeting all criteria with total income below the individual threshold of the state circuit breaker.

Funding: Levy?

Analysis of Impact:

Estimate 450 circuit breaker households

Estimate 50% meet asset criteria:

225 recipients

Estimate that 1.15 times circuit breaker is average benefit received (due to 15% threshold, and income thresholding applied):

225 \* 1.15 \* $1100 = $284,625

Further,

Estimate 350 households would meet circuit breaker income criteria but do not meet market value criteria due to $778,000 cap, but would have a home between that value and the Lexington median assessed value ($950,000).

Estimate 40% meet asset criteria:

140 recipients

Estimate that 1.15 times circuit breaker is received:

140 \* 1.15 \* $1100 = $177,100

Total cost to town: $467,725

Total beneficiary households: 365

Average benefit/household: $1,265

**Proposal #2: Octogenerian Means-Tested Tax Exemption**

Motivation: Life expectancy in Middlesex County, Massachusetts is 80 years. Residents who outlive life expectancy may struggle to balance retirement savings and asset levels with increasing property taxes. The guiding principal is to substantially retard increase in residential property taxes upon reaching age 80, while providing the flexibility for that individual to move within Lexington.

**Age**: 80+

**Owner**: Oldest owner of household, with 50%+ beneficial ownership

**Residency**: 5 years, with 2 continuous residency and ownership

**Home Value**: At or below median home

**Asset level**: A multiple of the maximum income threshold on the state circuit breaker (currently joint income) between 1.0 and 5.0. The asset multiplier is set by the Selectmen annually, and is an identical figure for all households independent of filing or marital status.

**Income level**: multiple of the maximum income threshold on the state circuit breaker (currently joint income) between 0.7 and 1.2. The income multiplier is set by the Selectmen annually, and is an identical figure for all households independent of filing or marital status.

**Benefit**:

Calculate the “Index Factor” (IF) as follows:

IF = (Oldest owner age - 79) \* .03

Property tax reduction = IF \* property taxes

Examples:

80 year old owner: 3% reduction

85 year old owner: 18% reduction

90 year old owner: 33% reduction

95 year old owner: 48% reduction

Annual Action by Selectmen:

* Set maximum asset level multiplier
* Set maximum income level multiplier

Town perspective: a medium-sized adjustment would occur in the year of implementation, but in subsequent years it would appear as if the tax increases were not landing on 80+ year olds with modest or medium means so the households with typical age would absorb slightly higher tax increases to offset. If the program retains more octogenerian seniors or life expectancies increase, then reduced town expenses will pay for that increase. If the program does not impact residency, then only a nominal financial impact would occur after the initial small adjustment.

Household perspective: because property taxes increase 3-5% per year, these scaled increases would have the effect of keeping property taxes relatively stable for a household after reaching age 80. In the year of implementation, some households would see a large drop in property taxes, which could even be more than 30%. But in future years, households with an owner aged 80+ would no longer see property tax bills with large cumulative increases from year to year. This would give octogenerians comfort when aging in place. (Tax deferral should remain an option as well.)

Funding: Tax Shift across all classes of property

Analysis of Impact:

Using town address list:

2,031 Lexington residents age 80+

547 are in Brookhaven or other non-residential property

1,484 are possible owners and renters, and occupy 1,128 distinct addresses

Taking the oldest householder at each address, we calculate the mean age as 85.8 and the mean benefit at 20.5%.

Assume the Selectmen set the asset ratio of 5.0, for a max asset level of 5.0 \* $88,000 = $440,000, and set the maximum income ratio of 1.0 for 1.0 \* $88,000 = $88,000.

We may estimate that 65% of households would meet the requirements of residency length, maixmum home value, maximum asset level, maximum income, and are owner occupied.

733 Households = 1,128 \* 65%

FY18 average home assessment $918,772.

Assume avg 80+ year old lives in home with 80% of avg assessment

Then average 80+ year old home assessment: $735,018

FY18 average tax bill would be: $10,511.

With 20.5% reduction, average reduction: $2,155.

733 households \* $2,155 per household = $1,579,398 total cost to Lexington

(An issue is whether household assets should be prorated for beneficial interest or another adjustment to remove incentive to divorce to bring household assets under threshold. A second issue is whether having no income goal could let the individual be beneficiary of large trust and exclude the trust assets while having the income be high.)

**80 Year Olds Known Non-Owners Residential Zoned Property**

|  |  |
| --- | --- |
| **Address** | **Count** |
| Brookhaven (1010 Waltham Street) | 297 |
| 10 Pelham Road | 90 |
| William Roger Greeley Village | 50 |
| 178 Lowell Street | 30 |
| 30 Watertown Street | 28 |
| Main Campus Drive | 27 |
| 840 Emerson Gardens | 19 |
| Katahdin Drive | 6 |
| **Total** | **547** |

### Property Tax Freeze Models in other States

While Massachusetts has modest programs to assist senior citizens, some other states have more robust programs to protect seniors against property tax increases. While none of these models should be directly transferred to Lexington, they are cited as evidence that creating an age-based program which targets the elder population may have merit. Lexington could promote such a program at the state level, or it could adopt its own home rule petition and create an opportunity for other communities to follow.

The chart shows the states of New Jersey, Texas, and Tennessee as possible models for tax freezes. The age eligibility for all three starts at 65 and New Jersey and Tennessee have income limits. In New Jersey, the difference in dollars from the first year is reimbursed, while in Texas and Tennessee, the rate is frozen at the first qualifying year. Frozen tax levels are adjusted if home improvements occur.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **New Jersey** | **Texas** | **Tennessee** |
| Age | 65+ | 65+ | 65+ |
| Other Eligibility Requirements | Lived there for 10+ years, income less than ~$87,000 (2017) | n/a | Income below threshold (~$29,000-$52,000 depending on county) |
| Benefits | Taxpayer reimbursed by state for property tax levels above amount paid in first qualifying year. | Property tax amount set in first qualifying year. | Property tax set in first qualifying year. |

## Evaluation

TBD: Do we need to bring in survey considerations here?

or are they before this section?

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| --- | --- | --- |
|  | Means-Tested RE | Age-and-Means Tested RE |
| **Property Tax Related** **Housing Stress**: Precision | Fair precision if objective is helping those with limited means | Precision if objective is helping 80+ year olds |
| **Property Tax Related Housing Stress**: Recall | Low recall if goal is to relieve housing stress across community | Recall high for 80+ year olds with limited income |
| Total budgetary impact - Lexington budget | None | Possible reduction in aggregate demand for schooling, but less than size of tax shift to occur. |
| Short term Housing Market Impact (Prices / Rents) | None | None |
| Optimal Allocation of Housing (& flexibility for future) - who’s in it and ownership assumption, condoizing, tear down | None | Goal to support 80+ in home may reduce optimal allocatio of housing |
| Equitable Taxation | Small | Debatable |
| **Migration** | ? | ? |