

History of Program cont'd

- **1982** Household income capped at \$25,000; property taxes paid or 20% of rent paid must exceed percentage of income; number of brackets raised from five to six (4-7%)
- **1985** Income cap raised to \$32,000; number of brackets increased to eight (3.5-7%); maximum rebate \$750

History of Program cont'd

- **1987** Income cap and rebate cap eliminated; rent percentage increased to 24%
- **1990** Household income capped at \$60,000; rebates capped at \$2,000
- **1991** Household income capped at \$45,000; rebates capped at \$1,350; rent percentage lowered to 20%

History of Program . . . again

- **1995** Household income cap raised to \$47,000; maximum rebate \$1,500, but reduced by 50 cents for each dollar of income over \$44,000
- **1999** Enactment of new benefit program for households with income between \$47,000-75,000 as part of education reform package

“Income Sensitivity” vs. Circuit Breaker

- Legislation passed in 1997 creating a statewide property tax (Act 60) expanded tax relief benefits and provided for a dual system--a “prebate” payment to eligible homeowners intended to “income sensitize” their property tax bills, and the existing rebate system for property owners and renters with household income \leq \$47,000

Public Policy with Competing Goals

- Provide equal educational opportunity by taxing all property the same
- Provide state education block grant to all towns but retain local control over school spending decisions
- Provide property tax relief through income-based system
- Tie local spending decisions to tax relief mechanism

Mechanics of Benefits

- “Income sensitivity” payments (prebate) are calculated based on prior year income and equalized housesite value using a flat rate of 2% (adjusted for local spending)
- “Circuit breaker” payments (rebate) are calculated based on “look back”-- household income and total property taxes in same year--using a sliding income percentage

Simplified Prebate Calculation (Fall 2005)

$$\begin{array}{rcl}
 \text{Equalized housesite value} & \times & \text{Education tax rate (state + local)} \\
 & & = \text{Housesite school property tax} \\
 & & \textit{minus} \\
 \text{Household income in 2004} & \times & \text{Household income percentage} \\
 & & = \text{Income sensitized school property tax} \\
 & & \hline
 & & \text{Amount of prebate}
 \end{array}$$

Prebate/Rebate Interaction

- Prebate check mailed between July-December (30 days prior to first property tax payment)
- Rebate application filed in subsequent tax year based on prior year housesite value, income, and taxes
- Amount of rebate reduced by prebate amount from previous tax year

Growth in Program

- In 1987, the total cost of the program was \$13 million; average rebate = \$403
- In 1997, the cost of the program had increased nearly three-fold, to \$35M
- In FY 2005, the three programs totaled \$104 million; statewide property tax receipts for the fiscal year were \$732 million

Estimation Timeline

- A technical working group meets in September to outline a schedule for model inputs (identification of problems in the model are addressed prior to this)
- Mid-October--all inputs are “finalized”
- Early November--initial estimates available
- Dec. 1--recommendation of tax rates for the coming year

Estimation Inputs for FY07

- CPI estimates
- Income regression equation
- Population projections
- State/local government inflation
- Tax data for prebates for FY06
- Education inputs
- 2005 equalized grand list by town
- Growth rates for homestead grand list
- Growth rates for nonresidential grand list
- Rebate file for tax year 2005

Problems Encountered

- Program changes (e.g., household income definitions, prebate/rebate eligibility and parameters, split grand list)
- Rapid but uneven growth in property values
- Prebate and rebate calculated on same property tax year but different income years (i.e., calculation of benefit differs according to filing behavior)

The “Phantom Population” Problem

- Since inception of program, policy makers and administrators of program have assumed a “phantom population” that was unaware of program
- Assumption based, in part, on Department statistic indicating three-quarters of households have income less than \$75,000, based on returns with MJ or HH status

Where Have All the Households Gone?

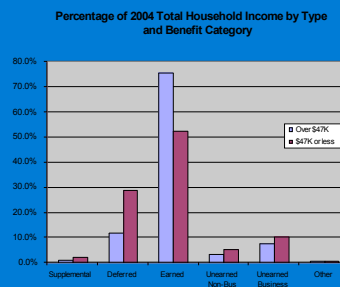
- Department advertised programs, contacted advocacy groups, and did special mailings-- mailing in Fall 2004 had poor return (5%)
- Turned to the PUMS for verification-- approximately 100,000 households with household income under \$75K had property taxes exceeding 3% or more of their income
- PUMS closely matched number of prebates

FY05 Estimate Low by +10%

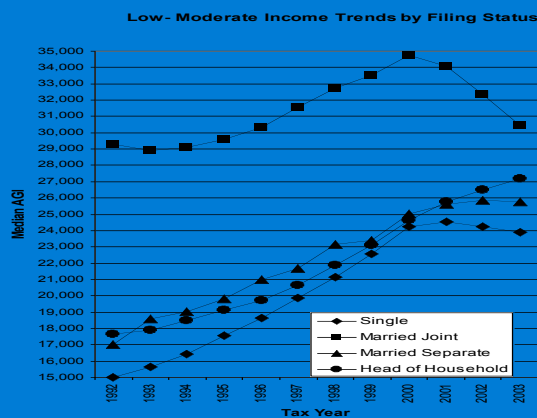
- Significant movement in and out of rebate program
- Of households getting rebate, 13,000 had incomes lower this year than last; 10,000 had incomes higher last year; 7,000--no income information
- New applicants had lower incomes than estimated

Household Income Analysis

- Relative weight of income components for two groups of beneficiaries differs
- Deferred income more important for under \$47K; fastest growing income category 2001-04



Falling Incomes--Real . . . ?



. . . Or Artifact?

- Demographic effects, e.g., retirement; grown children (finally) moving out
- Manipulation of unearned income
- “Loans” and non-governmental gifts not included in household income
- Large offsetting adjustments to total household income

Two-Year Income Effect

- Act 60 required “true-up” in second year; benefit re-computed with income and property tax data from same year and balance paid to or refunded from State
- “True-up” eliminated in 2002. Homeowners with rising incomes keep benefit and those with falling income (under \$47,000) calculate benefit on lower income in second year

Possible Remedies

- Changes to household income definition
- Include asset test (complicated)
- Cap the payment (political resistance)
- Combine programs into one system (Tax Dept. favorite)



Estimation Challenges

- Refine income regression equations to account for falling incomes at lower end
- Estimate new applicant pool resulting from increase in income eligibility cap
- Resort to wild guess on number of eligible rebaters who have received prebate but not applied for “second bite” in the past but will do so in coming year
- Use of grand list for estimation purposes that is based on incompletely verified sales sample data