City of Milwaukee

INTERDEPARTMENTAL CORRESPONDENCE
LEGISLATIVE REFERENCE BUREAU
RESEARCH & ANALYSIS SECTION

MEMO

To: Ald. Robert Donovan

From: Mary Turk, Fiscal Review Analyst - Senior

Date: 2/7/08

Subject: Property Tax Relief Programs

The following is in response to your request for information about property tax relief programs:

Wisconsin Homestead Tax Credit Program

The Homestead Tax Credit Program directs property tax relief to low-income homeowners and renters. It is intended to provide relief once property taxes exceed a taxpayer's ability to pay them. Relief is provided as a credit reducing individual income tax liability or as a cash refund if the credit exceeds income tax due. Homestead credits of $121.9 million were paid in 2006 to 239,546 households. The average household income was $13,113, and the average credit was $509. A total of 56,843 Milwaukee County tax filers claimed homestead credits amounting to $31.6 million in fiscal year 2006. The Milwaukee County share was 26% of the statewide credit claimed with the average household income $12,645 and the average credit $556.

The homestead credit received by eligible claimants is based on a formula including household income and allowable property taxes. For claimants with a household income of $8,000 or less, the credit is equal to 80% of property taxes or rent constituting property taxes to a maximum of $1,450 in property taxes or rent. Therefore, the maximum credit is $1,160, or 80% of $1,450.

For claimants with a household income exceeding $8,000, the credit is calculated by first taking 8.788% of income in excess of $8,000 and subtracting it from allowable property taxes. The credit is then 80% of this amount. For households with property taxes or rent equal to or exceeding the $1,450 maximum, the credit becomes $0 when income reaches $24,500. For households with property taxes or rent less than $1,450, the credit will become $0 at a lower income level.

The state's 1999 Act 9 increased the maximum income level for claims under the credit from $19,154 to $20,290 for tax year 1999, and to $24,500 for tax year 2000 and thereafter. If the maximum income level had increased each year since 2001 at the same rate as inflation, it would be at $30,732 for tax year 2007.

The Governor in his most recent state budget proposal, proposed an increase in the maximum income level for the Homestead Tax Credit program. He proposed an increase in the maximum income level equal to the percentage change between the Consumer Price Index (CPI) for the month of August of the previous year and the same index for the month of August, 2006. The legislation would have also required the Department of Revenue to annually adjust the rate at which eligible property taxes are reduced for incomes above the income threshold so that the credit equals zero at the new maximum income amount.

The Joint Finance Committee modified the Governor's recommendation by first applying the provision to the 2007 tax year and by indexing the homestead tax credit maximum income level, maximum property tax amount and the income threshold formula factors to the CPI as the Governor had. The program is funded through General Purpose Revenues (GPR), and the estimated total cost of the program for 2006-2007 was $119,700,000. The estimated increase in GPR for the Governor's plan over the 2007-2009 biennium budget would have been $12,000,000, and the enhanced plan of the Joint Finance Committee would have been $14,400,000 more than the Governor's proposal, for a total of $26,400,000. The expanded credit would have resulted in a total cost of $123,600,000 in 2007-2008 and $125,100,000 in 2008-2009. Unfortunately, neither plan was included as part of the enacted state budget, and the maximum income level for the program remains at $24,500.

The Wisconsin Property Tax Deferral Loan Program

The Wisconsin Property Tax Deferral Loan Program allows low- and moderate-income elderly homeowners to convert home equity into income to pay property taxes. The program is intended for elderly individuals who have little disposable income and a significant amount of home equity, by providing cash income through loans to help pay property tax bills, thereby enabling elderly persons to remain in their homes. According to 2000 census data, 64% of the elderly population in Wisconsin live in their own homes.

The program is run by the Wisconsin Housing and Economic Development Authority (WHEDA) and funded from WHEDA's surplus fund. State law requires WHEDA to maintain this surplus fund, into which any Authority assets in excess of operating costs and required reserves are deposited. The Authority is also authorized under statute to use the proceeds of bonds or notes to make loans under the Property Tax Deferral Loan Program.

Eligibility Requirements

Age: The applicant must be 65 years of age or older on the date of application. Any co-owner must be at least 60 years of age on the date of application. If married, the applicant's spouse must qualify as a co-owner. However, a spouse can be any age if the spouse or the applicant is permanently disabled.

Household Income: Applicants' prior year household income may not exceed $20,000 of all reportable income for Wisconsin income tax purposes along with social security benefits and other types of nontaxable income received by all persons residing in the house.

Loan Purpose and Maximum: The loan must be for property taxes and special assessments due on a single family home, condominium or multi-unit dwelling (4 or fewer units) in Wisconsin. The applicant may apply for a loan for all or part of the previous year's property taxes and special assessments, payable in that year up to $2,500. For example, loan applications are filed in 2008 for 2007 taxes payable in 2008. Taxes and assessments on up to one acre of land surrounding the home may be included.

Residence Requirements: The applicant must have lived in the dwelling unit for at least six months during the preceding year.

Outstanding Obligations: Total outstanding liens, judgments, mortgages and delinquent property taxes may not exceed 33% of the value of the housing unit, as determined by the most recent property tax assessment. Any previous loans under this program and loans under the housing rehabilitation loan program, also administered by WHEDA, are excluded from this limitation.

Insurance Coverage: The applicant must have fire and extended casualty insurance policy coverage on the home and permit WHEDA to be named as a lienholder on the policy.

Application Deadline: Applications for Property Tax Deferral Loans must be filed with WHEDA by June 30 of the year in which the taxes are due.

Additional Outstanding Obligation Limit: The amount of outstanding liens and judgments on a dwelling may not exceed 50% of the assessed value of the dwelling, including Property Tax Deferral Loans and housing rehabilitation loans.

Title Search Fee: Starting in 2006, all applicants must pay a $75 annual title search fee when a loan application is submitted (previously only applicants who had not applied for a loan in the previous year had to pay the title search fee). The title search fee may not be added to the loan amount.

Phone Consultation: Before a loan is approved, each applicant must complete a phone consultation with WHEDA staff to help ensure the applicant understands his or her obligations under the program.

Interest Rates

By law, the rate must be 1% over the prime lending rate established by the Federal Reserve Board at the time the rate is set. For 2008, this rate is 8.75% compounded annually and is fixed for the life of the loan. A borrower may pay back all or a portion of the loan at any time.

Repayment of the Loan

Upon entering the loan agreement, a lien in favor of WHEDA to secure repayment of the principal, interest and fees due on all loans made to the participant through the Property Tax Deferral Loan Program is attached to the dwelling unit on which the property taxes are paid. Repayment of the loan is due under any of the following conditions:
1. Sale or transfer of the home, except upon transfer to co-owner who resides in the home and is permitted to assume the participant's account.
2. Death of the participant, if the participant is the sole owner, or death of the last surviving eligible co-owner.
3. Condemnation or involuntary conversion of the dwelling unit.
4. At the request of the participant or co-owner.
5. Inability of the applicant to continue to comply with all eligibility requirements.
6. Discovery by WHEDA that a participant or co-owner has made a false statement on the application or otherwise in respect to the program.

If a participant in the program ceases to meet the eligibility requirements (for example, does not maintain an insurance policy on the property), WHEDA may: (a) request repayment of the loan;

(b) allow the participant to continue in the program but be ineligible for additional loans; or (c) require partial repayment of the loan.

Revenue received from repayment of Property Tax Deferral Loans is returned to a revolving loan fund that WHEDA has established for the program. For loans issued prior to 1994, the portfolio of which was purchased by WHEDA using housing rehabilitation program reserves in 1992, repayment revenue is returned to the housing rehabilitation program reserve.

Characteristics of Participants

Since the program's inception in 1986, through 2006, 6,169 loans were issued for a total of just over $10 million. The average loan amount has grown from $1,109 in 1986 to $2,114 in 2007, an increase of 91%. Most program participants are repeat loan recipients who have received a number of loans from the program. Based on preliminary data for 2006, only 24% were made to individuals who were first-time loan recipients.

The number of loans has gone from 295 in 1986, to a high of 486 in 1993, to a low of 57 in 2007. There was a large drop in the number of loans between 2006 (158) and 2007 (57). The reason for this is thought to be the implementation of the $75 title fee being charged each year, not just those who had not applied in the previous year. The average income of a participant in 2007 was $12,645, the average assessed property value was $129,009 and the average age was 78.8 years old. Twelve of the 57 new program participants in 2007 (21%) were in Milwaukee County. The next highest number of participants by county was Waukesha at 9 (16%).

California Programs

California offers 3 programs to assist senior citizens or blind or otherwise disabled persons with property tax relief. The programs are the Homeowner Assistance Program, the Renter Assistance Program and the Property Tax Postponement Program.

California Homeowner Assistance Program

This program allows a once-a-year payment from the State of California to qualified individuals based on the percentage of the property taxes assessed and paid on their homes. For the 2007 claim year, the maximum amount of assistance that an eligible homeowner received was $472.60, which is 139 % of the property taxes paid on the first $34,000 of full value of the home (139% x $340). An applicant must meet all of the following eligibility criteria:

- Must be a United States citizen, designated alien or qualified alien when the claim is filed.
- Is 62 years of age or older or blind or otherwise disabled.
- Own and live in their own home.
- Have a total household annual income of $42,770 or less.

A total of 132,087 California claimants received payments amounting to $35.8 million in 2006. The average household income was $19,127, and the average payment was $271.

California Renter Assistance Program

This program allows a once-a-year payment from the State of California to qualified individuals based on the percentage of the property taxes that they paid indirectly when they paid their rent.

The maximum amount of assistance that a claimant may receive in 2007 is 139% of $250, the statutory property tax equivalent (139% x $250), which is $347.50. An applicant must meet all of the following eligibility criteria:

- Must be a United States citizen, designated alien or qualified alien.
- Is 62 years of age or older or blind or otherwise disabled.
- Live in a qualified rented residence in California.
- Have a total household annual income of $42,770 or less.

A total of 449,049 California claimants received payments amounting to $141.6 million in 2006. The average household income was $11,357, and the average payment was $315.

California Property Tax Postponement Program

This program allows eligible homeowners to postpone payment of part or all of the property taxes on their residence. Upon approval of a claim, the State Controller's Office will mail Certificates of Eligibility to the homeowner. The homeowner must mail or take the Certificates of Eligibility to the county tax collector's office to postpone the property taxes due. To secure the postponed amount, the State Controller's Office records a lien against the property. Interest is charged on the proposed taxes on a simple interest basis (the annual interest rate divided by 12) and applies only to that particular year's postponed taxes. Interest continues to accrue on the postponement account until all postponed taxes plus interest are repaid to the State.

To be eligible for postponement, the homeowner must meet all of the following criteria:

- Be 62 years of age or older, blind or disabled.
- Own and live in their own home.
- Have a 2006 household income of $31,500 or less.
- Have a 20% equity interest in the home at the time of application. The application cannot be approved if the total amount of liens, deeds of trust, mortgages and other encumbrances against the home exceeds 80% of its fair market value as determined by the State Comptroller.

The postponed property taxes must be repaid when any of the following occurs:

- The homeowner moves.
- The home is sold or title is conveyed.
- The homeowner dies and does not have a spouse or qualified individual who continues to reside in the house.
- Future property taxes or other senior liens are allowed to become delinquent.

The Property Tax Postponement Program expended $12,071,125 from California's General Fund for 5,550 claimants in the 2006-2007 filing season. The average amount of property tax postponed per claimant was $2,175. The interest rate charged was 4% per annum.

I hope this information will prove useful to you. Please feel free to contact me at x8680 with any questions or for further data.

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