

REPORT – SUDBURY’S SENIOR TAX DEFERRAL PROGRAM DETAILS

PROGRAM INFORMATION AS OF JUNE 2013

FREQUENTLY ASKED QUESTIONS (FAQ’S) ABOUT SUDBURY’S DEFERRAL PROGRAM

How does a senior tax deferral differ from an exemption or abatement of taxes? Unlike an exemption or abatement of taxes, a senior tax deferral simply allows someone to *postpone* payment of taxes. A tax deferral agreement requires the deferred taxes along with interest to be paid in full *ONLY* (1) when the property is sold or transferred, (2) upon death, or (3) upon the death of a surviving spouse if he or she qualifies for a deferral and enters into a new tax deferral agreement.

What is the current balance for all tax deferrals in Sudbury? As of the date of this report the balance is \$2.45 Million.

What besides senior tax deferrals is recorded in Sudbury’s tax deferral account and what is that balance? Included in this general ledger account grouping is any activity for *temporary hardship deferrals*. As of the date of this report the balance for temporary hardship deferrals is \$66,766.

Does Sudbury receive any sort of reimbursement from the State for tax deferrals? No. Unlike some other age or income tax relief options granted at the local level the State does not give municipalities any funding for tax deferrals either on a permanent or temporary basis. Massachusetts has not adopted legislation similar to Washington, Minnesota, Idaho and Oregon that require the State’s Treasury to lend funds (equal to annual deferrals) to the local taxing authorities. When deferrals are paid the local government refunds the state treasury, including interest collected. A state reimbursement program of this kind would typically require the establishment of a special revolving fund that would allow for an accumulation of earnings for future self-funding and/or borrowing outside General fund appropriations. Therefore in order for Massachusetts to adopt something similar the legislature would have to identify a potential revenue source or devise a way to borrow funds to support a statewide program.

Now that Sudbury’s Special Act for a Senior Citizen Exemption has become law how will this impact the senior tax deferral program? This new tax exemption does not preclude seniors from also taking advantage of the Senior Deferral program. The value of any exemption is applied to a taxpayer’s tax liability first thereby lowering the amount to be deferred.

Is charging interest on senior tax deferrals required by Massachusetts General Law? No, not since 2006 when State legislation was passed allowing communities based on Town Meeting vote to set an annual interest rate on senior tax deferrals anywhere from (the previous statutory rate of) 8% to as low as zero.

How does Sudbury determine the interest rate on deferrals? In 2003 a special act regarding senior deferrals went into effect. The Act calls for the Board of Selectmen to set the interest rate for each

fiscal year. This process supersedes the changes subsequently made at the State level in 2006 that requires Town Meeting approval to determine a rate not to exceed 8% but that may be as low as zero.

How does the Board of Selectmen determine what the interest rate should be each year?

At or near the beginning of each fiscal year the Town Treasurer provides the Board of Selectmen with one or more recommendations for an interest rate for the coming year. The Treasurer provides a report that includes Program's current status and other information considered useful in their decision-making process.

TIMELINE FOR SENIOR TAX DEFERRAL PROGRAM

Governances – M.G.L. Chapter 59, Section 5 (Clause 41A) and all updates relative thereto from Legal Acts, general or special.

1993 Sudbury's *first long-term tax deferral* is granted. Program administered under regular State criteria; mandated interest rate of 8%.

1998 Sudbury's senior tax deferrals increase to *two*. Program administered under regular State criteria; mandated interest rate of 8%.

2002 Town successfully submitted special legislation to expand the existing eligibility parameters for senior tax deferrals. This allows the Board of Selectmen to set the deferral rate at their discretion annually, not to exceed statutory 8%. Sudbury has **5 senior tax deferrals**.

2003 Town lowers interest rate from 8% to 4%. Participation in program doubles again from **5 to 10 senior tax deferrals**.

2005 Town sets interest rate at 2.5% primarily based on 1-year Constant Maturity Treasury Bill rates. Participation in program continues to increase; **quadruples to 20** since passing special act 2002.

2006 State allows all communities to lower interest rate based on Town Meeting vote to anything between 8% and zero. This does not affect the Town's program under special act 2002. **49 senior tax deferrals**.

2008 State allows all communities to further increase qualifying gross receipts limitation by a fixed amount or as a percentage of circuit breaker level to increase annually. This does not affect the Town's program under special act 2002. **65 senior tax deferrals**.

2010 Town maintains 2.5% interest rate based on longer-term Constant Maturity Treasury rates. Longer horizon for rate setting chosen to bypass volatility of short-term economic markets and realize a reasonable rate of return for receivable payoff horizon of 10-20 years. **77 senior tax deferrals. Total of 92 parcels in deferral, total receivable increases to \$1.74M.**

2012 Town's Special Act of STM 2011 for Senior Tax Exemption is still being considered by Massachusetts' Legislature. Town maintains 2.5% interest rate based on longer-term Constant

Maturity Treasury rates. **72 senior tax deferrals issued in FY12. Total of 90 parcels in the program, total receivable increases to \$2.35M.**

2013 Town's Special Act of STM 2011 for Senior Tax Exemption was passed by Massachusetts' Legislature as a pilot program to operate from FY14 through FY16. **62-65 senior tax deferrals expected for FY13. Total receivable increases to \$2.45M.**

LOCAL OPTIONS RESULT IN LOCAL FINANCIAL CONSEQUENCES

As mentioned in previous reports, very little has been done over the years regarding senior tax relief legislation at the State-level except to allow local options unfortunately also place the burdens onto local municipalities. Recent Circuit-Breaker legislation is the notable one exception that benefits both seniors and local communities by offering a real estate credit that on State income taxes.

At the local level Sudbury continues to lead the way in developing meaningful tax relief for seniors. Most recently Sudbury passed a Special Act for senior tax relief in 2011. This groundbreaking legislation which was enacted into law this year establishes a pilot exemption program in Sudbury that promises to deliver tax relief to a majority of seniors that also qualify for the State's tax circuit-breaker program. The annual benefits provided under this new program would be borne entirely at the local level by all residential taxpayers.

How does senior tax relief impact finances at a local level? Senior tax relief programs either a) reduce the amount of taxes collected (exemptions), b) delay the collection of taxes (senior and temporary hardship deferrals) for years or even decades, or c) shift the burden of one segment of taxpayers onto the rest of the tax base (Sudbury's special legislation of 2011). Exemptions of taxes and property values are financed through the municipal budgeting and tax rate setting processes, respectively. Tax deferrals on the other represent revenues that are budgeted for each year but not collected for years or even decades. It is important to note that while tax deferrals do not throw our annual budget "out of balance" they do represent an impediment to using available reserves as necessary, or on building balances for the future.

A municipality is allowed to consistently spend more than it collects in revenues? Yes. Remember that spending is controlled by the appropriation process. While a municipality cannot spend more than what is appropriated at Town Meeting it may spend more in annual appropriations than what it collects in property tax revenues. The reason for this is that there is a basic assumption that because the town has a lien on the property it will eventually collect the taxes. This premise holds true for *all* property taxes including balances that become delinquent (not paid by June 30) or otherwise fall into the special category of tax deferral.

If a large portion of tax revenues are not collected then where does the money come from to pay for the appropriations every year? The Town may continue to spend up to its annual appropriations by using available funds from its reserves. Unlike revenue deficits that are required to be raised on the next year's tax rate this type of "borrowing" from available cash flow can put a tremendous burden on a community's ability to maintain adequate cash reserves

for the future. While we may have not reached that tipping point yet we need to remain cognizant of that possibility somewhere down the road depending on if the amount of annual deferrals were to increase significantly and/or receivables rise to a level that far exceeds our ability to generate sufficient Free Cash to support senior tax relief programs or other extraordinary needs that require reserves.

RECENT USAGE OF SUDBURY SENIOR EXEMPTIONS AND DEFERRALS

Sudbury has enacted many local options over the years in order to expand on tax relief opportunities for its seniors. These options include lowering age and income requirements for certain programs in addition to increasing the actual dollar amounts given on various exemptions. Sudbury has also significantly reduced the interest rate for Senior Deferrals from the State mandated 8%.

Sudbury's current senior tax relief options (relating strictly to age and income factors) are as follows:

1. Clause 41C. Elderly person over age 64. Maximum benefit of \$2,000.
2. Clause 17E. Elderly person over age 70 or surviving spouse. Maximum benefit of \$563.18
3. CPF Surcharge Exemption. Exemption up to 100% of surcharge. (Automatic 100% exemption for Senior Deferral program participants).
4. Clause 41A. Senior Tax Deferral. Deferral allowance up to 100% of tax. 2.5% simple interest. Payback only at sale or transfer of property.
5. Clause 18. Hardship Exemption. Exemption amount given at discretion of Board of Assessors.
6. Clause 18A Deferral. Temporary Hardship Deferral. Deferral allowance up to 100% of tax for 3 years. 8% statutory interest. 2 year grace period before payback.
7. Tax Work-Off Program. Relief of \$800 property tax per year. May be combined with other program benefits.
8. *New* local Senior Tax Value Exemption to reduce property tax liability based on income.

Table 1 Sudbury's History of Age/Income Restricted Exemptions and Deferrals

The following table provides a five-year history of all age-based tax relief options being provided.

	2009	2010	2011	2012	2013	5-YRS	5-YR AVG
<u>Exemptions:</u>							
41C	53,264	56,833	58,044	59,198	52,502	279,841	55,968
17D/E	4,758	4,572	4,578	4,449	4,224	22,581	4,516
CPF	35,033	38,195	38,353	33,920	31,360	176,861	35,372
18	15,500	16,752	11,670	10,061	4,000	57,983	11,597
Work-Off	33,343	36,236	35,104	34,133	36,626	175,442	35,088
	141,898	152,588	147,749	141,760	128,712	712,707	142,541
<u>Deferrals:</u>							
18A Temp Hardship Deferral	33,427	12,870	13,040	-	-	59,337	11,867
Senior Deferral	343,617	435,354	466,071	436,999	369,129	2,051,170	410,234
	377,044	448,224	479,111	436,999	369,129	2,110,507	422,101

Note that tax exemptions are applied against the Town's tax Overlay Reserve account. **Overlay Reserve** is an account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve is not established by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet. The Town uses Overlay to budget for less than the total amount of taxes levied (and works similar to an allowance for uncollectible receivables in the private sector). What is budgeted for in Overlay represents tax dollars that we commit every year but will not receive. Tax deferrals on the other hand represent tax dollars that we will eventually collect at some point in the future.

STATISTICS FOR SUDBURY'S SENIOR TAX DEFERRAL PROGRAM

Table 2 Senior Tax Deferral Receivable Balance Information by FY, as of June 1, 2013.

	PARCEL COUNT	MIN A/R BAL	MAX A/R BAL	AVG A/R BAL	TOTAL A/R BAL
1993	1	\$ 3,165.12	\$ 3,165.12	\$3,165.12	\$ 3,165.12
1994	1	\$ 3,189.05	\$ 3,189.05	\$3,189.05	\$ 3,189.05
1995	1	\$ 3,261.63	\$ 3,261.63	\$3,261.63	\$ 3,261.63
1996	1	\$ 3,494.86	\$ 3,494.86	\$3,494.86	\$ 3,494.86
1997	1	\$ 3,644.74	\$ 3,644.74	\$3,644.74	\$ 3,644.74
1998	2	\$ 1,766.90	\$ 3,644.74	\$2,705.82	\$ 5,411.64
1999	2	\$ 3,294.56	\$ 4,766.12	\$4,030.34	\$ 8,060.68
2000	3	\$ 2,038.98	\$ 5,311.21	\$3,617.62	\$ 10,852.85
2001	3	\$ 3,489.48	\$ 5,828.78	\$4,298.74	\$ 12,896.23
2002	4	\$ 535.72	\$ 6,401.91	\$3,429.45	\$ 13,717.81
2003	7	\$ 1,869.69	\$ 6,915.04	\$4,072.95	\$ 28,510.63
2004	11	\$ 1,423.59	\$ 6,809.41	\$4,068.90	\$ 44,757.87
2005	13	\$ 301.22	\$ 6,809.41	\$3,822.97	\$ 49,698.59
2006	30	\$ 790.42	\$ 7,426.76	\$4,147.00	\$ 124,410.07
2007	44	\$ 972.38	\$ 9,700.93	\$4,369.08	\$ 192,239.72
2008	46	\$ 1,357.73	\$10,210.19	\$4,682.78	\$ 215,407.85
2009	49	\$ 1,414.26	\$ 9,176.27	\$4,875.95	\$ 238,921.61
2010	61	\$ 1,561.84	\$13,237.47	\$5,386.18	\$ 328,556.97
2011	62	\$ 913.83	\$16,028.64	\$5,675.98	\$ 351,910.80
2012	63	\$ 1,160.72	\$16,355.68	\$5,909.19	\$ 372,279.18
2013	62	\$ 1,200.00	\$14,381.21	\$5,902.83	\$ 365,975.59
Grand Total	467	\$ 301.22	\$16,355.68	\$5,097.14	\$ 2,380,363.49

Table 2a Senior Tax Deferral Payments Made in FY2013 as of June 1, 2013.

	FY2013 Deferral Payments	
2003	\$	5,278.99
2004	\$	7,588.39
2005	\$	5,917.02
2006	\$	18,211.21
2007	\$	15,630.62
2008	\$	22,224.54
2009	\$	14,981.25
2010	\$	31,990.21
2011	\$	46,237.50
2012	\$	44,418.81
2013	\$	7,343.52
Grand Total	\$	219,822.06

Fourteen tax deferrals were paid for a total \$219,822. The number of payoffs is nearly double from 8 last year but the total amount increased by only \$50,000.

Over the years no clear pattern for payoffs has emerged. However we have seen an increase in recent years in the number existing and eligible participants that have mortgages, are looking to refinance or take out reverse mortgages on their properties. Often mortgage companies do not allow senior tax deferrals. Consequently we are seeing a reduction in new or continuing deferral participation.

Massachusetts does not have legislation that would require banks or mortgage companies to accept or allow tax deferrals. Therefore many lenders choose to protect their underlying investment by requiring all property taxes be paid in full at all times regardless of age, income or local options that otherwise enable someone to defer property taxes.

Chart 1 Senior Tax Deferral Receivable Aging of June 2013.

Sudbury's current tax deferral receivables include balances that stretch across 19 years generated from **82 different parcels**. History shows that once someone has entered the deferral program they will generally continue to defer for several years. The chart below shows the current duration of participation in the program. The average duration of the program increased slightly from 5.02 to 5.70 years in FY13. We expect a likely maximum range for deferrals of 15 -20 years.

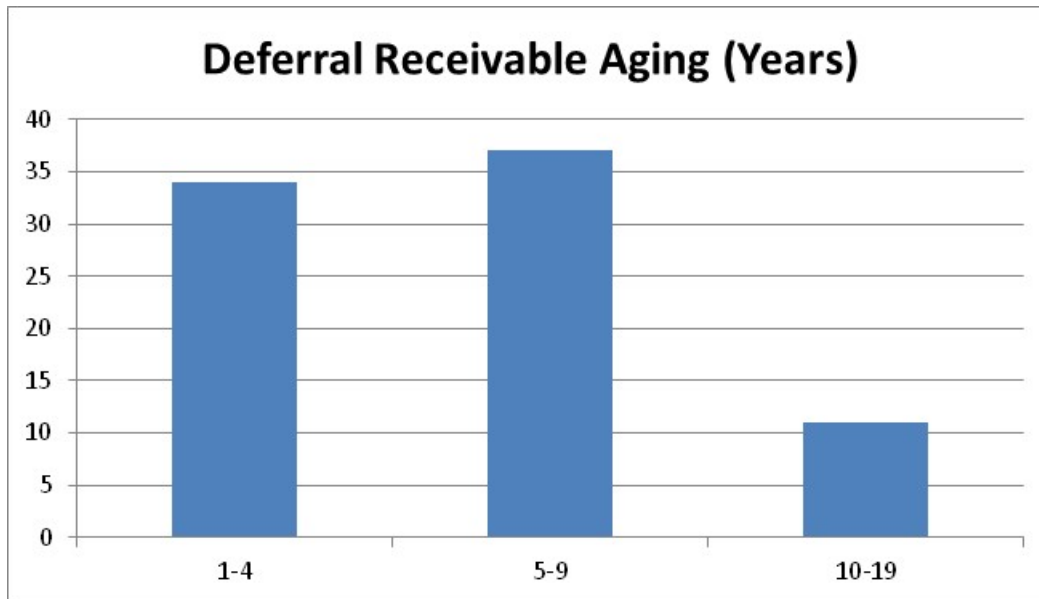


Chart 2 Deferral Receivable Balance Information as of June 2013.

As mentioned earlier, the Town experienced a significant amount of payoffs verses new deferrals in FY2013 which led to the smallest net growth (of approximately \$26,000) in total tax deferral receivables to date. We do expect to add a few more deferrals for longstanding participants by year end which may increase the net change for FY2013 to between close to \$40,000.

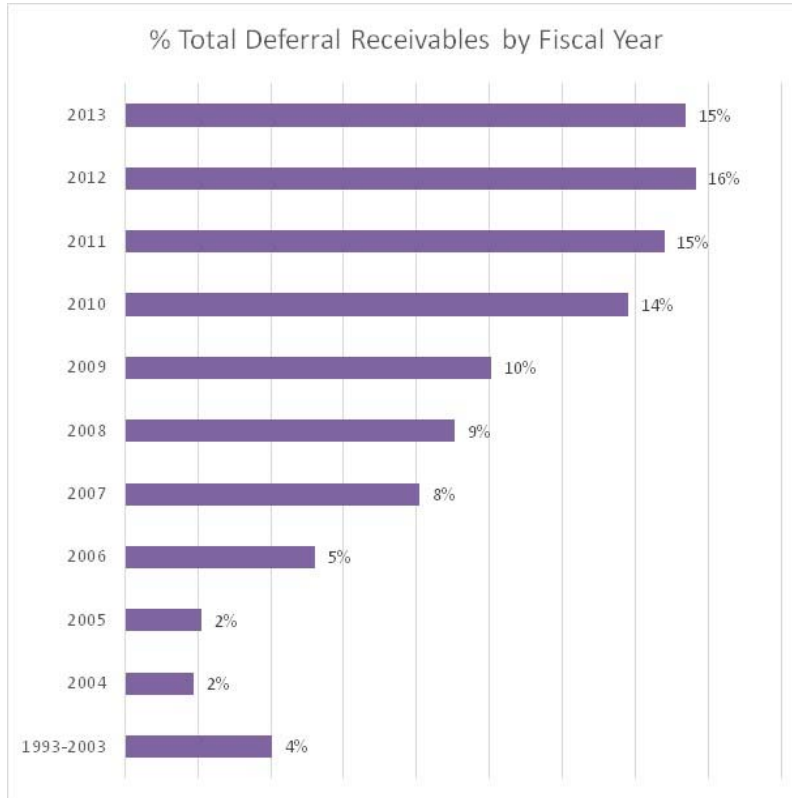
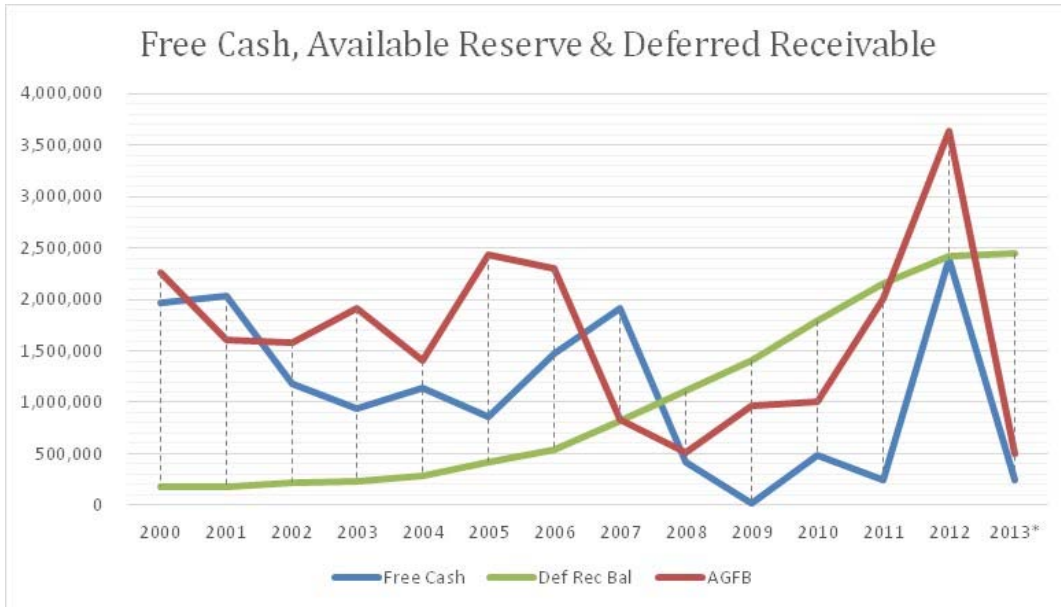


Chart 3 Cash flow, Reserves & Receivables

Maintaining a very large deferral program presents some unique albeit worthwhile financial challenges for Sudbury. We can make reasonable assumptions each year regarding how many people will apply for deferrals and possibly for how much. However, as mentioned earlier we do not have a way of including this financial information in the municipal budgeting and tax rate setting processes. The next chart shows a history of deferral receivable balance, Free Cash and Available General Fund Balance (AGFB). Other factors which contribute to changes in reserve levels are not included.



(*Free Cash certified as of October 2012, other FY13 are estimates only.)

The bulk of our tax deferral receivables balance has come about in recent years during a prolonged period of economic difficulties and budgetary constraints. As conditions improve so too may our ability to absorb even *greater* deferral participation but much will depend on our reserve levels going forward, as well as, any major complex, competing uses (as identified in the Town’s preliminary strategic financial plan issued April 2013).

Some other states have established a senior property tax deferral revolving account to be used for the purpose of making the payments to municipal tax collectors of property taxes as amounts are deferred. Upon payment of the deferred receivables the tax liens are redeemed and the amounts collected including interest are transmitted back to the State Treasury. The State of Oregon for example has been running its deferral reimbursement program for several decades paying out in upwards of \$14-\$15 million in annual reimbursements to the various counties where the tax deferrals range anywhere from 3 to 1,900 accounts. In all cases the State charges interest on deferrals to help pay for program administration as well as borrowing costs, where necessary. Washington, Minnesota and Idaho are also among the list of other States taking an active *financial* role in advancing senior tax deferral programs by providing local property tax authorities with what amount to very low cost loans to qualifying homeowners so that municipalities do not have to; thereby are not forced to suffer any **cash flow** crises in an effort to help seniors by deferring large amounts of taxes levied (and budgeted for each year) that may not be paid off for 15 to 20 years.

INTEREST ON DEFERRALS

Table 3 Deferral and Market Rate History

ParticipationYear	Deferral Rate	15-yr FMR	New or Ongoing Deferrers
2002	8.00%	6.86	14
2003	4.00%	6.21%	23
2004	2.00%	4.84%	26
2005	2.50%	5.81%	33
2006	2.50%	5.35%	49
2007	2.50%	6.35%	62
2008	2.50%	6.41%	65
2009	2.50%	6.38%	66
2010	2.50%	5.41%	77
2011	2.50%	4.02%	76
2012	2.50%	3.32%	71
2013	2.50%	2.88%	62*

Source: Mortgage rates from HSH Associates Financial Publishers

*Note: As of the publication of this report not all deferrals for FY2013 have been processed. See other parts of this report for deferral payoff information which may also contribute to a decline in active participation since reaching a peak in 2010.

We continue to offer our seniors an exceptional alternative to any consumer-based borrowing opportunities available. Sudbury's deferral program remains very popular in comparison to all other communities surveyed, including those charging little or no interest.

It has been suggested that we should further lower or even eliminate charging interest as a means of increasing participation in the deferral program. While taxpayers that defer would undoubtedly prefer not to have to pay any interest there is no evidence to suggest that a modest, *per annum* interest charge is considered a financial hardship or otherwise discourages participation in our program. Instead what we have heard time and again from senior taxpayers that qualify for the program but do not participate is that they:

- a) Do not want any sort of arrangement that constitutes a long-term liability of accumulating tax principal for themselves (or their heirs).
- b) Cannot take advantage of income tax deduction or circuit-breaker credit when deferring their property taxes.
- c) Cannot refinance or obtain either a mortgage or a reverse mortgage on their property when deferring their taxes.

APPENDIX 1: AN UPDATE ON OTHER COMMUNITIES

According to the DLM's last report (2005), there were only 146 out of 353 communities in Massachusetts with senior tax deferral activities. Their study indicated the number of active deferrals ranged from only 1 to a high of 82, with the average participation being 8. Sudbury at that time had 26 active deferrals ranking us 8th in the State only behind much larger communities such as Newton, Quincy, Hingham and Lynn. Wellesley maintains approximately half the number of active deferral accounts as Sudbury but around the same level of receivables balance. An update of these statewide statistics is not yet available so we continue to conduct our own surveys.

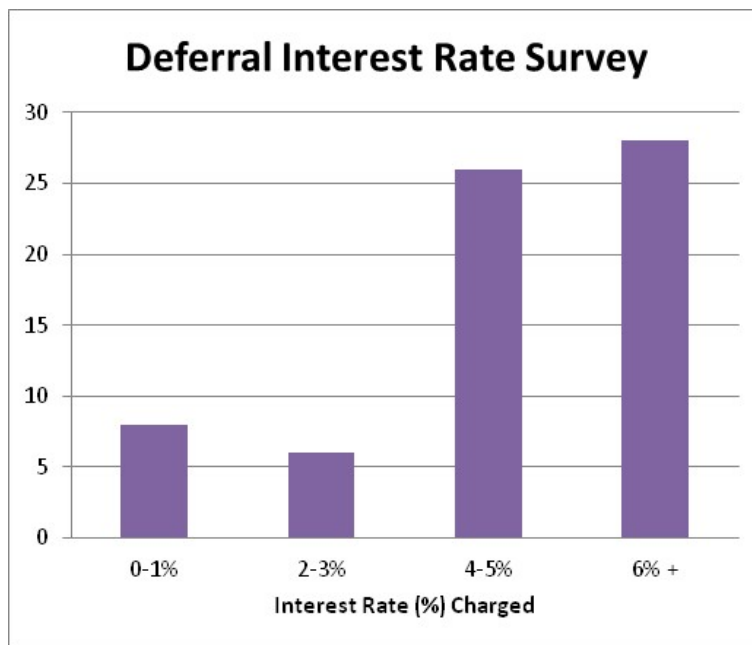
What other Communities are charging for interest on senior deferrals

The table below is an update to the survey conducted in 2011. Communities marked with an asterisk have been added or information updated as of June 2013.

Town	Rate	Town	Rate	Town	Rate	Town	Rate
Acton	0.50%	East Brookfield	8.00%	Needham	4.00%	Tewksbury	5.00%
Amherst	4.00%	Frammingham	4.00%	Newbury	8.00%	Waltham	5.00%
Arlington	6.00%	Hamilton	5.00%	Newton	0.75%	Watertown*	8.00%
Ashland*	4.00%	Harvard	2.00%	Northborough	8.00%	Wayland	3.50%
Bedford	8.00%	Hingham	1.00%	Northhampton*	5.00%	Wellesley*	0.28%
Bellingham	8.00%	Hopedale	5.00%	Norton	4.00%	Westborough	0.00%
Bolton	8.00%	Hopkinton	5.00%	Norwell	8.00%	Westford	8.00%
Boston	4.00%	Hudson	8.00%	Plymouth	2.25%	Weston	0.04
Boxborough	8.00%	Ipswich	4.00%	Province Town	8.00%	Winthrop	0.08
Braintree*	8.00%	Lexington	0.26%	Quincy	4.00%	Worcester	0.08
Burlington*	4.00%	Lincoln	4.00%	Saugus	8.00%	Yarmouth	0.08
Cambridge	4.00%	Lunenburg	4.00%	Scituate	8.00%		
Canton*	8.00%	Lynnfield	4.00%	Sharon	3.00%		
Carver	8.00%	Marlborough	8.00%	Southborough*	4.00%		
Chicopee	4.00%	Marshfield*	0.00%	Sterling	8.00%		
Concord*	4.00%	Maynard	2.00%	Stoneham	8.00%		
Dedham	6.00%	Medway	0.20%	Sturbridge	8.00%		
Dover*	8.00%	Merrimack	4.00%	Sudbury	2.50%		
Duxbury	4.00%	Natick	4.50%	Swampscott	8.00%		

Survey Results – Interest Rate Frequency

Of the communities surveyed, 11 are currently charging a **lower** interest rate than Sudbury. Responses indicate that many of these communities have opted to adjust their rates annually based on short-term investment benchmarks. The city of Newton adopted a special ordinance in 2006 to charge the Federal Reserve Banks' discount rate charged for primary credit, effective as of June 30 of the prior fiscal year not to exceed 8%. Whereas Wellesley has adopted special legislation that uses the monthly two year constant maturity Treasury published in July each year. To date, **only two** communities in Massachusetts, Marshfield and Westborough have opted to reduce their rate to 0% by Town Meeting vote. To date, Marshfield has 38 active deferrals with a total accounts receivable balance of approximately \$620,000 and Westborough has only 7 with a total of approximately \$158,000. The only community that has a balance similar to ours is Wellesley which has a current interest rate of .28% for 39 active accounts.



Research shows that a majority of communities in Massachusetts continue to feel that charging interest on senior deferrals is an appropriate business practice. Sudbury continues to offer a rate that is substantially lower than the original State mandate of 8% as well as many other communities that have only gone as far to reduce interest between 3-4%. While a handful of communities have opted to react in recent years to a sharp decline in short-term **investment** rates as their guide many others responsible for municipal treasury functions, myself included, feel that midrange market **lending** rates serve as a better indication of what is most acceptable to *all* taxpayers as being: commensurate with the average duration of deferrals and providing modest financial support of the program, while still offering a significant discount to any other consumer credit or lending options.

APPENDIX 2: MARKET INTEREST RATE REFERENCES

Rate Type	Current	1 Year Ago
MMDT	.15%	.28%
6 mo. CD's	.26%	.47%
State & Local Bonds (20 yr)	3.93%	3.81%
Bank Prime	3.25%	3.25%
1 yr CMT	.14%	.21%
5 yr CMT	1.04%	.76%
10 yr CMT	2.12%	1.76%
20 yr CMT	2.93%	2.44%
15 yr Fixed Rate Mortgage	2.88%	3.74%
30 yr Fixed Rate Mortgage	3.91%	4.55%

CMT: The Constant Maturity Treasury rates are also known as "Treasury Yield Curve Rates". Yields on Treasury securities at "constant maturity" are interpolated by the U.S. Treasury from the daily yield curve, which is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market.