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Testimony of
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To the City Council Committee on Aging
On Proposed Expansions of the Senior Citizen Rent Increase Exemption and The Senior Citizen Homeowners Exemption

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Good morning, Chairwoman Baez and members of the Committee. I am Theresa Devine, a senior economist at the Independent Budget Office. Thank you for inviting us to testify today on the proposed changes in the Senior Citizen Rent Increase Exemption (SCRIE) and the Senior Citizen Homeowners Exemption (SCHE).

IBO estimates that raising the income eligibility threshold for SCRIE from $20,000 to $24,000 would result in 2,575 additional senior households receiving SCRIE benefits at a total annual cost to the city of $1.8 million in foregone tax revenue. The average value of the abatement for new participant households would be $711.

Reducing the proportion of income paid in rent required for SCRIE eligibility from 33 percent to 25 percent would raise the number of participating senior households by 5,245 at a total annual cost to the city of $1.2 million in foregone tax revenue, according to our estimates. The average value of the abatement for new participant households would be $233.

The proposed upward shift in the income eligibility schedule for SCHE would raise exemption values for current participants, make more households eligible for SCHE, and encourage greater participation of currently eligible households. IBO estimates that the total annual cost to the city would be $4.5 million in foregone tax revenue.

In the remainder of my testimony, I will discuss the current and proposed rules for SCRIE and SCHE, respectively, and how we obtained our cost estimates for the proposed changes in each program.

SENIOR CITIZEN RENT INCREASE EXEMPTION

Current and Proposed Rules. Under current rules, SCRIE is available to households which are headed by persons age 62 or older, have annual incomes of $20,000 or less (net of payroll and income taxes, court-supported payments, and cost-of-living increases in pensions and Social Security), and have valid leases in rent-regulated apartments with rents equal to at least one-third of household income. An eligible household that participates in SCRIE is exempt from rent increases, and the property owner receives a property tax abatement to compensate for the lost rental income.

Intro. No. 539 would raise the maximum income level for SCRIE from $20,000 to $24,000. Res. No. 993 would reduce the required share of income spent on rent from one-third to one-fourth.

IBO Cost Estimate. To estimate the costs of the proposed changes in SCRIE, IBO used data on household income, contract rent, rent regulation status, and householder age from the 2002 Housing and Vacancy Survey (HVS), which became available this summer. The 2002 HVS data are benchmarked to the 2000 Census, whereas our previous analysis of SCRIE options used the 1999 HVS, which was benchmarked to the 1990 Census. With this shift, our estimates of SCRIE eligibility and participation have changed. IBO now estimates that 111,000 households are currently eligible for SCRIE. Comparing the number of participants reported by the Department of Finance to this 2002 HVS number, we estimate the SCRIE participation rate to be 40.2 percent. (This rate is higher than our previous estimate of 33 percent, which we based on 1999 HVS data.)

Raising the income threshold by $4,000 would make about 6,400 households newly eligible, according to the HVS data. With a participation rate of 40.2 percent, 2,575 additional households would receive SCRIE benefits. With an average abatement of $711 per new household, the total foregone tax revenue for the city would be $1.8 million.

Lowering the proportion of income paid in rent required for SCRIE eligibility from 33 percent to 25 percent would raise the number of eligible households by about 13,000 and the number of participating households by 5,245, again using our estimated participation rate of 40.2 percent. With an average abatement of $233 per new household, the total foregone tax revenue for the city would be $1.2 million.

Note that these estimates reflect rent increases approved by the Rent Guidelines Board, which took effect on October 1, 2003, and historical patterns of one- and two-year lease renewals.

The cost estimate does not include any provision for additional administrative expenses in the Department for the Aging or the Department of Finance. Given the relatively small number of new beneficiaries, any additional administrative costs are likely to be small.

SENIOR CITIZEN HOMEOWNERS EXEMPTION

Current and Proposed Rules. SCHE is currently available to households which are owned by at least one person age 65 or older if owners are spouses or siblings and the owners have annual incomes of no more than $29,900 (net of gifts, inheritances, return of capital, veteran's disability compensation, and unreimbursed medical and prescription drug expenses). If other persons are owners, then all must be age 65 or older and the owner income criterion must be satisfied. SCHE provides property tax exemptions of 5 percent to 50 percent of assessed value based on owner income, with the 5 percent exemption available to homeowners with incomes of $29,000 to $29,900 and the 50-percent exemption available to homeowners with incomes up to $21,500. The number of participants climbs sharply with the level of the exemption. Eighty percent of Tax Class 1 and condominium homeowner SCHE participants are receiving the 50 percent exemption. (Data on exemption levels are not available for individual shareholders in cooperative buildings.)

Intro. No. 540 would shift the exemption schedule up the income distribution by $2,500. The 50 percent exemption would be available for senior homeowners with incomes up to $24,000, and exemptions would rise by 5 percentage points to 15 percentage points for other currently eligible homeowners. Homeowners with incomes of $29,900 to $32,400 would be newly eligible for exemptions of five percent to 15 percent.

IBO Cost Estimate. IBO obtained its cost estimate for Intro. No. 540 using data from the Department of Finance for current SCHE participants.

For Class 1 and condominium homeowners, we were able to determine the current number of SCHE participants by current exemption level (i.e., 5 percent to 50 percent) and calculate approximate exemption increases for these participants under the proposed change. We also used these data on participation and exemption values by exemption level to estimate increases in the numbers of participants among currently eligible homeowners in response to the larger exemptions under Intro. No. 540 and the amounts these new participants would receive. To estimate the number of participants among the newly eligible and their exemption amounts, we used the participant and assessed property value data for the highest income groups under current rules. Finally, we applied a blend of Class 1 and Class 2 current tax rates to the total exempt assessed value from these steps to obtain a total tax expenditure estimate for Class 1 and condominium homeowners.

Exemption data are not available for individual participant homeowners in cooperative buildings and some other situations. However, we do observe each property's total exempt value under SCHE for these homeowners. We applied our estimated percentage increase in total exempt value from Class 1 and condominiums to this total to get an estimated change in exempt assessed value for this group and applied the current Class 2 tax rate to this amount to obtain our tax expenditure estimate.

Overall, we estimate that the proposed changes in SCHE will cost the city a total of $4.5 million. This reflects an expected increase of roughly 10 percent in the number of SCHE participants, as well as higher benefits for about one-fifth of current participants.

The cost estimate does not include any provision for additional administrative expenses in the Department of Finance. With rising participation, some expense could be incurred, at least initially.