NEW JERSEY
POLICY PERSPECTIVE

TESTIMONY OF PETER CHEN, SENIOR POLICY ANALYST, NEW JERSEY POLICY PERSPECTIVE BEFORE STAY NJ TASK FORCE MARCH 13, 2024

The question when designing policy should start with is: what is the problem that this policy is going to try to solve? And subsequently, will this solution most effectively solve the problem in question?

In the case of Stay NJ, there is a very real issue of housing affordability, particularly for seniors on fixed or reduced incomes. Senior housing affordability is a growing problem, with increasing numbers of seniors living in homeless shelters and others priced out of New Jersey's expensive real estate market. Can people afford to age in place with dignity and security?

But the structure of Stay NJ as currently designed fails to achieve its stated goals. The people least able to afford to continue living in their homes are those with low incomes, for whom housing costs make up the largest proportion of their limited income, as well as renters who tend to have lower incomes and lower wealth than their home-owning peers. Any program focused on helping alleviate high housing costs must focus on the seniors most likely to lose their homes – low-income residents and renters.

Others will surely comment on the logistical and administrative hurdles of running this program alongside existing property tax credit and expenditure programs. There are certainly plenty of logistical difficulties in implementing the program as designed, but I'll leave those headaches to others to focus on. Instead, I'll focus on the key features of the program that undermine the stated purpose of the program.

Several issues must be addressed to improve the program's broad regressivity and high cost to the state:

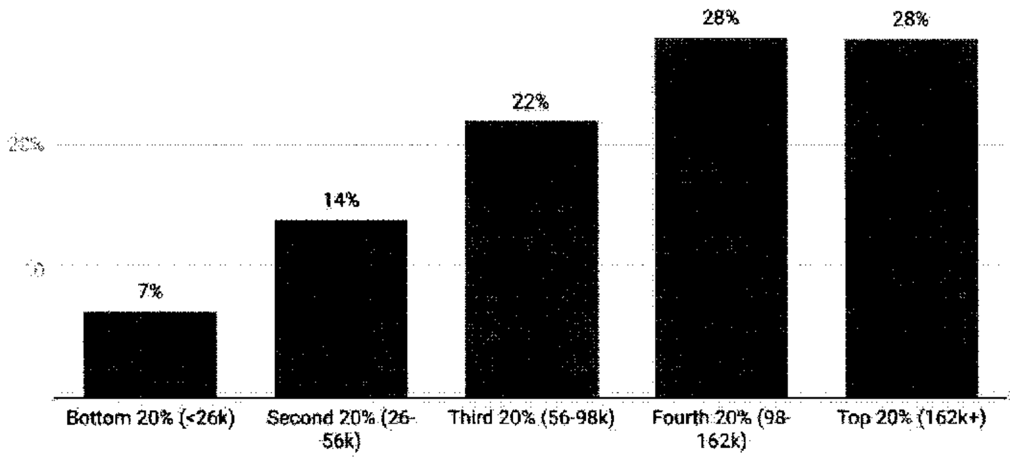
1. Make the credit a flat amount with step-downs at different income levels rather than a percentage of property tax paid.
2. Include senior renters, who tend to have lower incomes and lower wealth than senior homeowners.
3. Reduce the income cap to $125,000 to avoid subsidizing already-wealthy homeowners.
4. Reduce the overall cost of the program to preserve long-term sustainability.

Even if these improvements are made, the overall scope of the program remains extremely costly to the state. Reducing the cost of the program, while improving its progressivity for low-income residents age 65 and up, will be crucial to ensure long-term sustainability and fairness for those most at risk of housing insecurity.

As currently structured, the bulk of the benefits of Stay NJ will end up going to the wealthiest 40 percent of New Jersey households, while low-income residents will receive one-quarter as much as the highest-income residents. The discrepancy is particularly jarring because seniors tend to have *lower* incomes than their younger peers.

StayNJ Benefits Would (Still) Overwhelmingly Go to the Highest-Income Households

Highest-income households would receive four times more than the lowest-income households



Percentage of tax cut benefits from StayNJ by household income quintile.

Source: NJPP analysis of modeling from Institute on Taxation and Economic Policy • Created with Datawrapper

Fundamentally the structure of the credit must be changed to address the three key features that make this program more costly and less effective.

1. **End the proportional credit structure, which gives less to the low-income and more to the already-rich.**

Why is Stay NJ so regressive as written? Much of the reason derives from the structure of the credit as a percentage of property tax bill paid. Reducing property tax bills "in half" may sound simple, but many of the shortcomings of the proposal come from this program design choice. Again, I will leave it to the taxing authorities and tax preparers to describe the administrative hurdles of this deceptively complex program design.

Instead, my focus will be on the effect this has on the distribution of benefits across the income and wealth spectrum.

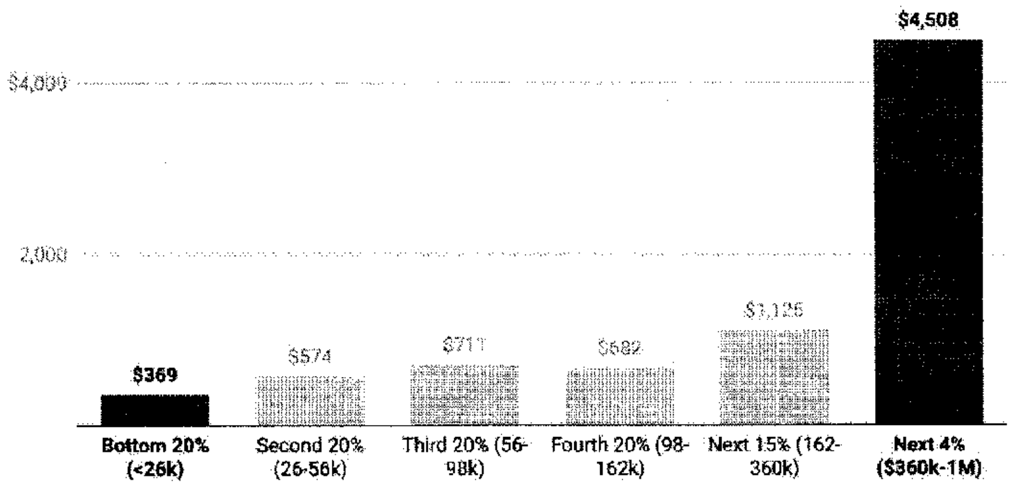
Lower-income residents, i.e., those least able to afford high housing costs, are more likely to own lower-value housing or rent. Meanwhile, higher property tax bills are largely dependent on high property *values*, and more-valuable homes are likely owned by higher-income and wealthier residents.

Why should Stay NJ try to be progressive instead? A progressive tax benefit increases the amount of money that goes towards lower-income households. This aligns with the state's goal of making life affordable for residents and principles of progressive taxation.

However, Stay NJ's current structure as a benefit of 50 percent of the property tax paid means that it sends *more* money to people with *more* valuable homes, tending to benefit higher-income and higher-wealth households. In short, Stay NJ puts the state in the position of subsidizing householders with larger, more expensive homes.

Average StayNJ benefit would be far larger for high-income seniors than their low-income peers

The much smaller renter credit compared to homeowners means that average payments for the very wealthy are much larger than those going to lower-income ranges



Source: NJPP analysis of modeling from Institute on Taxation and Economic Policy • Created with Datawrapper

An example is instructive here. (I use town Census and 2023 property tax data to approximate an "average" household.)

TABLE A: Higher-income aged-65+ households with higher-value homes would get more back from Stay NJ than lower-income

	Family A	Family B	Family C
Municipality	Trenton	Hamilton	Princeton
Income	$35,000	$66,000	$120,000
Assessed Value	$60,000	$400,000	$850,000
Property Tax Bill	$3,500	$7,100	$21,320
Stay NJ amount	$1,750	$3,550	$6,500
Stay NJ % of income	5.0%	5.3%	5.4%

Put differently, Family A is in much more financial precarity than Family B or C. Yet the amount they get from Stay NJ is lower both as a percentage of income and in real dollars.

A flat amount, rather than a percentage of property tax bill, would be a much more fair method of distributing resources to the households who need it the most.

Consider an alternative version of the credit that looks more like a large ANCHOR payment – set at a flat amount by income range. All three families in this scenario would be in the first tier of ANCHOR.

TABLE B: A flat benefit amount means more proportionally for lower-income households.

	Family A	Family B	Family C
Municipality	Trenton	Hamilton	Princeton
Income	$35,000	$66,000	$120,000
Assessed Value	$60,000	$400,000	$850,000
Property Tax Bill	$3,500	$7,100	$21,320
Jumbo ANCHOR amount	$2,000	$2,000	$2,000
Jumbo ANCHOR % of income	5.7%	3.0%	1.6%

To be clear, NJPP continues to have concerns about the ANCHOR program itself, especially the tilt towards homeowners at the expense of renters. Nonetheless, this structure results in a much more progressive outcome, ensuring that low-income households are most assisted. This progressive effect could be strengthened further by adding more brackets or tiers to the income structure, providing a greater benefit for lower-income residents, perhaps one tier at $50,000 and another at $100,000.

2. **Eliminating the renter exclusion would assist the most housing-insecure.**

If the goal of this program is to assist senior housing stability, renters must be included in the program. Housing insecurity is more concentrated in renters rather than homeowners.

NJ senior renters much more likely to be housing insecure than homeowners

Despite having fewer 65+ renters, nearly 3x as many senior renters are behind on housing payments than homeowners

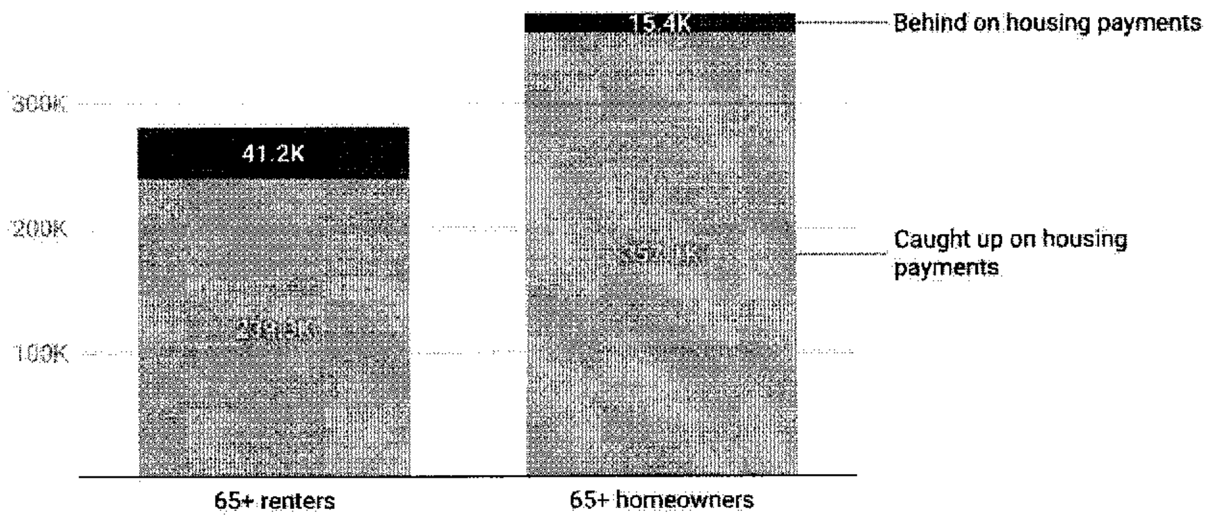


Chart: Peter Chen, NJ Policy Perspective • Source: Census Household Pulse Survey Phase 4.0, Cycle 01, Housing Tables 1a and 1b. • Created with Datawrapper

Consider what this chart tells us – nearly 15 percent of senior renters missed last month's housing payment, compared to 4 percent of senior homeowners.

This is perhaps not surprising, given that homeowners overall have higher incomes and wealth than their renting peers. Homeowners are also more likely to hold stock investments, have more retirement savings, and indeed hold any savings at all – the median financial assets for a renter household nationally are less than $5,000 compared to $100,000 for homeowners. The above chart shows nearly three times as many senior renters missing housing payments than homeowners, despite higher homeowner numbers overall. This suggests that the shape and concentration of high housing costs (relative to income and assets) and resulting housing insecurity is focused on renters, not homeowners.

Research has shown that renters do pay property taxes in the form of higher rents. Landlords pass the cost of property tax directly to their tenants.

A policy solution already exists to impute a percentage of rent as property taxes as part of the New Jersey property tax deduction, which imputes 18 percent of rent as property taxes paid. Although additional research should be conducted to ensure that the percentage is an accurate representation of the impact of property tax on rent, existing law demonstrates that this technical issue is not insurmountable.

A focus on homeowners at the expense of renters ignores the reality of which seniors who wish to stay in their homes but cannot, as opposed to those who may choose to leave for lower housing costs elsewhere.

Renters deserve parity with homeowners when it comes to addressing their high housing costs.

3. **Lowering the $500,000 income cap to $125,000 would prevent the state from subsidizing the wealthy at great public expense.**

Fundamentally, a tax credit should not benefit the wealthy at the expense of the less-wealthy. As noted in the above table, nearly 28% of the cost of Stay NJ ends up going to people in the top quintile of income.

And this chart belies the wealth of this group, because incomes for seniors tend to be *lower* than those of 25-64-year-olds, as they move towards retirement. In addition, New Jersey seniors are often eligible for exemptions on some or all of their retirement income, so even if their real income is higher, their income for tax purposes is often substantially lower. A cap of $125,000 would include three-quarters of New Jersey senior households.

Why should the state be in the business of subsidizing homeowners with valuable real property assets and well-above-average state income?

Expanding the program to near-universal eligibility may feel like a laudable goal. But if it results in the state writing checks to some of the state's wealthiest and highest-income households, this universality becomes a liability for the stated purpose of the program.

Combine all the harmful features of Stay NJ and you get a perverse outcome:

- Two dentists in with $400,000 in income and a $1.5 million house get $6,500
- Two fixed-income retirees with $40,000 in income and a $400,000 house get $3,500
- Two fixed-income retiree renters with $20,000 in income and no real estate assets get $0 (or $250 in ANCHOR funding)

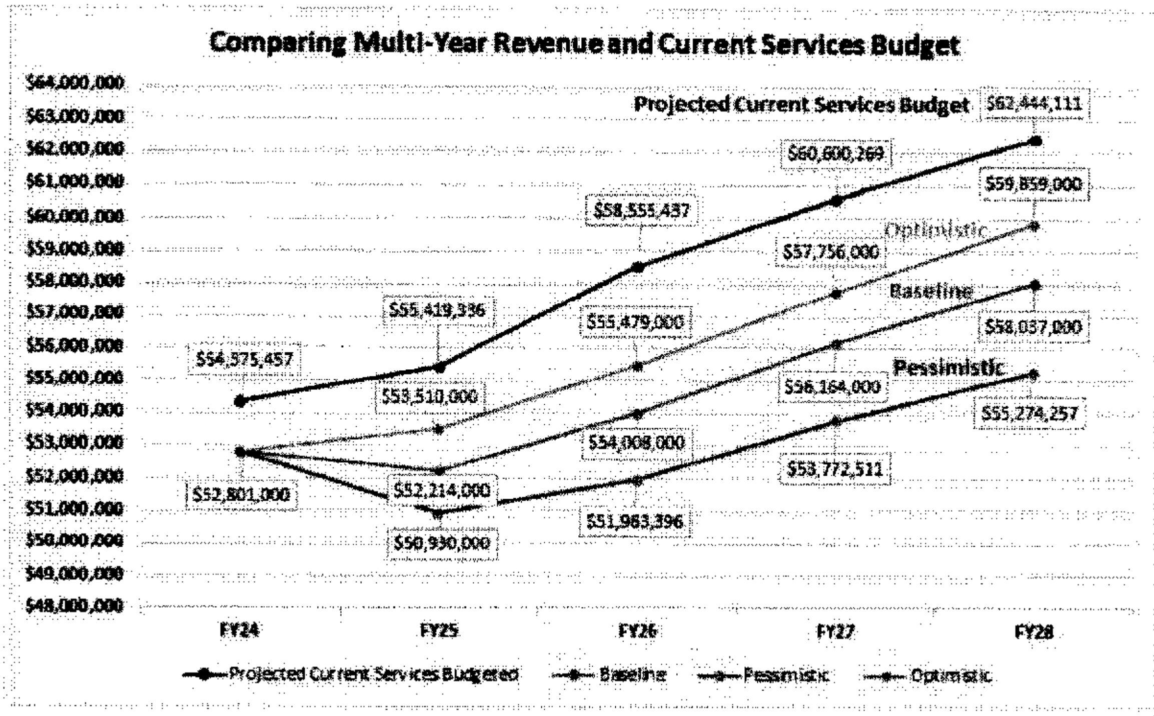
The result of the three harmful features (calculating the benefit as a percentage of property taxes; failing to include renters; a high income cap) means that the structure of the credit is fundamentally upside-down, helping the wealthy at the expense of the less-wealthy.

4. **Reducing the cost of the program overall is critical to maintain budget health and program stability in the future**

Beyond its regressive nature, Stay NJ's overall price tag of $1.9 billion threatens the fiscal health of the state, especially if payments go out in FY 2025 and 2026, years when a substantial shortfall of revenue is anticipated due to reduced collections and a loss of federal funding.

Limiting the cost of Stay NJ can be accomplished through some of the suggestions that reduce its regressivity (lowering the benefit amount for higher-income households; lowering the income cap). But broadly speaking the size of the benefit is simply out of step with other subsidies the state provides households. As a comparison, the Child Tax Credit's estimated cost is a mere $250 million, compared with more than $2 billion for Stay NJ, while resulting in a much more progressive tax structure.

Recent multi-year revenue projections show a state budget that will outstrip revenues by billions every year, even in an optimistic revenue scenario. The below chart, produced by the Sweeney Center Multi-Year Budget Work Group in February 2024, anticipates an even lower cost estimate for Stay NJ than NJPP's ($1.5 billion vs. $2.1 billion).



If the goal of this program is to provide sustainable long-term aid to assist seniors to continue living in their homes and avoid housing insecurity, then it must be focused in scope to ensure it is feasible in subsequent years. Otherwise, there simply will not be enough money to fund this alongside the other property tax credit programs and keep essential state services fully funded. And preserving the surplus in particular is extremely important, due to the trend in structural deficits that will require additional revenue in the event of even a small downturn.

One other option could simply be to increase the benefit amount for seniors within the existing ANCHOR program as discussed above. People over 65 already receive a larger credit for both homeowners and renters, and this program could simply be expanded further, though NJPP again recommends making the program more progressive for lower-income residents, perhaps by raising the amount only for those earning less than $75,000 or creating additional brackets for determining benefit amounts.

Conclusion

To sum up the recommendations to make Stay NJ more sustainable, more effective, and more just:

1) Make the credit a flat amount with step-downs at different income levels rather than a percentage of property tax paid.
2) Include senior renters, who tend to have lower incomes and lower wealth than senior homeowners.
3) Reduce the income cap to $125,000 to avoid subsidizing already-wealthy homeowners.
4) Reduce the overall size of the program to manage its potential budget-busting costs.