



JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
Fiscal Impact Review
2013 Session

Bill Number: SJ 272

Review Requested By: Senator Stosch

JLARC Staff Fiscal Estimates

JLARC staff estimate that SJ 272 could have a fiscal impact on the State that ranges between \$1,749,000 and \$8,688,000 during the first full fiscal year it is enacted, provided that several assumptions hold true. The fiscal impact of SJ 272 could be higher or lower depending on future fluctuations in the number of surviving spouses of soldiers killed in action, home values, and property tax rates in Virginia.

SJ 272 would amend the Constitution of Virginia to reimburse the surviving spouses of soldiers killed in action for local real property taxes paid on their primary residence in Virginia, provided they have not remarried. The proposed reimbursement would be available to the surviving spouses of soldiers killed in action, and would resemble the property tax benefits that are already available to qualified disabled veterans and their spouses.

A range of fiscal impact estimates was calculated for the reimbursement program contemplated by SJ 272 using data from the U.S. Department of Veteran Affairs, U.S. Census Bureau, and the Virginia Department of Taxation. The actual fiscal impact of SJ 272 could be toward the high or low end of the range depending upon the actual number of surviving spouses of soldiers killed in action who currently live in Virginia, their status as homeowners, and whether they have remarried. In addition, assumptions were made concerning the amount these spouses pay in real property tax on their primary residence each year. If one or more of these assumptions does not hold true, or significant fluctuations occur in these assumptions in future years, the fiscal impact of SJ 272 could be affected.

An explanation of the JLARC staff review is included on the following pages.

Authorized for Release:

Hal E. Greer
Director

Bill Summary: Senate Joint Resolution (SJ) 272 would amend the Constitution of Virginia and use State funding to reimburse the surviving spouses of soldiers killed in action for local real property taxes paid on their primary residence located in Virginia. Surviving spouses would qualify for the reimbursement even if (i) their spouse was killed prior to the effective date of SJ 272, (ii) they did not live in Virginia when their spouse was killed, or (iii) they have moved to a different primary place of residence in Virginia. However, surviving spouses would not qualify for the reimbursement if they have remarried.

Currently, surviving spouses of veterans with a permanent and total disability that is 100 percent service-connected qualify for a local real property tax exemption on their primary residence in Virginia, provided they have not remarried. SJ 272 would provide a similar tax benefit to surviving spouses of soldiers killed in action, though it would be in the form of a State-funded reimbursement for real property taxes paid rather than a real property tax exemption granted up front by the locality where spouses live.

SJ 272 was proposed by the 2013 General Assembly along with similar House legislation, HJ 551. Both resolutions would provide property tax relief to surviving spouses of soldiers killed in action. However, SJ 272 would use State funds to reimburse individuals for property taxes paid, while HJ 551 would provide a tax exemption that would result in foregone local tax revenue. Additionally, the tax reimbursement proposed in SJ 272 would be available statewide, while the tax exemption proposed in HJ 551 is a local option and therefore may not be available in all localities. The 2013 General Assembly passed HJ 551, but not SJ 272.

Discussion: Proponents of SJ 272 cite property tax relief as a way to help ease financial strains on the surviving spouses of soldiers killed in action who reside in Virginia. This legislation would decrease the tax burden of qualifying spouses. Although qualifying spouses would have to pay property taxes to localities upfront, they would subsequently be reimbursed by the State for the local property taxes they paid each year. Drawbacks of providing this type of property tax relief include the increased workload that localities could experience to determine whether spouses are eligible, confirm their eligibility to the State, and issue property tax reimbursements if those are locally-administered.

Over 40 states currently offer some form of property tax relief to active-duty military personnel, veterans, and/or surviving spouses, provided they meet certain criteria. At least 10 states appear to offer property tax relief specifically for surviving spouses of soldiers killed in action, including Maryland, Florida, Georgia, and Tennessee. Like Virginia, some states are currently considering legislation similar to SJ 272. In Texas, for example, individuals will vote in November 2013 on Proposition 1 (HJR 62), which would amend the Texas constitution to extend a full or partial property tax exemption to surviving spouses of soldiers killed in action.

Fiscal Implications: The fiscal impact of the proposed legislation would depend largely on the number of surviving spouses of soldiers killed in action who pay property taxes on a primary residence in Virginia. According to data from the U.S. Department of Veteran Affairs, Virginia is currently home to over 800,000 veterans. However, it is unknown how many surviving spouses of soldiers killed in action currently reside in Virginia. In addition, there is no data indicating how many of these spouses own their own home and have not remarried. Due to these data limitations, several assumptions had to be made to estimate the number of individuals who would qualify for the property tax reimbursement proposed in SJ 272, and a range of low and high estimates was

generated. Based on JLARC staff estimates, the fiscal impact of SJ 272 on the State could range from approximately \$1,749,000 and \$8,688,000 during the first year it is enacted.

JLARC staff used multiple data sources to estimate the fiscal impact of SJ 272, including:

- (i) Dependency and Indemnity Compensation (DIC) recipient data from 2013 as a proxy for the number of surviving spouses of soldiers killed in action currently living in Virginia;
- (ii) National Veteran Survey (NVS) data to estimate how many of these surviving spouses are homeowners and have not remarried;
- (iii) American Community Survey (ACS) data from 2012 to obtain the lower quartile and median property values of owner-occupied housing units in Virginia; and
- (iv) Virginia Department of Taxation property tax data to obtain the average statewide effective property tax rate in 2011.

Using the aforementioned data sources, JLARC staff made several assumptions to estimate the potential range of SJ 272's fiscal impact (see table below). These assumptions capture both the low and high-end values found in the selected data sources. Assumption 1, for example, assumes that the number of DIC beneficiaries captures all surviving spouses of soldiers killed in action currently living in Virginia for the low estimate. The high estimate assumes that the number of surviving spouses of soldiers killed in action currently living in Virginia is more than three times the number of DIC recipients, as suggested by a NVS finding that 32 percent of surviving spouses are aware of benefit programs for military dependents and survivors.

Assumptions	Low Estimate	High Estimate	Data Source*
1. Surviving spouses of soldiers killed in action currently living in Virginia	2,028	6,338	DIC, NVS
2. Surviving spouses who are homeowners	71%	71%	NVS
3. Surviving spouses who have not remarried	93%	93%	NVS
4. Lower quartile/median home value in Virginia, Average statewide effective property tax per \$1 of property value, Estimated property tax paid by each surviving spouse	\$149,600, \$0.00873, \$1,306	\$237,800, \$0.00873, \$2,076	ACS, ASRS
Estimated Fiscal Impact	\$1,749,000	\$8,688,000	-----

*DIC=Dependency and Indemnity Compensation (2013); NVS=National Veteran Survey (2010); ACS=American Community Survey (2012); ASRS=Virginia Assessment/Sales Ratio Study (2011)

The fiscal impact estimated for SJ 272 is relatively comparable to the revenue impact reported by other states with property tax benefits similar to SJ 272. In Maryland, for example, a property tax exemption available to disabled veterans, their surviving spouses, and the surviving spouses of soldiers killed in action is expected to result in \$1.7 million in forgone tax revenue in FY 2014. In Minnesota, a property tax exemption similar to Maryland's is projected to have a fiscal impact of \$19.4 million in foregone tax revenue in FY 2014. The estimated fiscal impact of a proposed property tax exemption specifically for surviving spouses of soldiers killed in action in Texas is projected to be \$94,000 in FY 2015 if it is passed by popular vote this fall. Variation across states in the fiscal impact of property tax benefits likely reflects how the benefit is designed and the size of the population it serves. The property tax reimbursement proposed in Virginia in SJ 272 is not capped or limited in value, but it would apply specifically to surviving spouses of soldiers killed in action.

Because SJ 272 did not pass during the 2013 legislative session, the earliest that it could have a revenue impact on the State would be FY 2017, assuming that a similar constitutional amendment is reintroduced and passes the General Assembly in 2014 or 2015, identical legislation passes the new General Assembly in 2016, and the amendment passes popular vote in the fall of 2016. The

first full fiscal year that this amendment could have a revenue impact on the State would therefore be FY 2018. If implemented in FY 2017, the fiscal impact of the constitutional amendment proposed in SJ 272 could differ from the range estimated by JLARC staff if significant changes occur in the number of surviving spouses of soldiers killed in action, home values, or property tax rates in Virginia. Due to the difficulties associated with predicting changes in these areas, JLARC staff did not inflate the fiscal impact estimate for SJ 272 into FY 2017 dollars.

Budget Amendment Necessary: Yes, between \$1,749,000 and \$8,688,000 would need to be appropriated to reimburse surviving spouses of soldiers killed in action for taxes paid on real property, starting in FY 2017. Enabling legislation would need to identify the specific State agencies that would have responsibilities and receive appropriations related to SJ 272. State agencies, such as the Department of Veteran Services, may experience heightened demand on their resources if they are tasked with helping spouses obtain documentation to prove they are eligible for the reimbursement proposed in SJ 272. However, the cost of providing this type of assistance would likely be minimal for State agencies. Local governments may experience the greatest increase in demand for resources, as they may be responsible for administering property tax reimbursements. Certain localities would be disproportionately affected by this responsibility, as some would have more spouses who qualify for the reimbursement than others. However, revenue impacts associated with increased resource demands in localities would not affect State appropriations.

Agencies Affected: Virginia localities; Virginia state agencies identified in enabling legislation.

Date Released, Prepared By: 11/1/2013, Lauren Axselle.