FISCAL NOTE
ASSEMBLY, No. 3511
STATE OF NEW JERSEY
213th LEGISLATURE
DATED: MAY 18, 2009

SUMMARY

Synopsis: Extends eligibility for certain benefits to veterans who performed active service in the U.S. Armed Forces during Cold War.

Type of Impact: Increase expenditures from the Property Tax Relief Fund. Property tax revenue loss to local governments and school districts. Increase in accrued liability to Public Employees Retirement System and Teachers Pension and Annuity Fund.

Agencies Affected: Department of the Treasury: Division of Pensions and Benefits and the Division of Taxation. Local Government entities.

Executive Estimate

<table>
<thead>
<tr>
<th>Fiscal Impact</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions*</td>
<td>$13.9 million</td>
<td>$14.6 million</td>
<td>$15.4 million</td>
</tr>
<tr>
<td>Property Tax Deductions</td>
<td>$18.3 million</td>
<td>$18.3 million</td>
<td>$18.3 million</td>
</tr>
<tr>
<td>Local Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pensions**</td>
<td>$8.9 million</td>
<td>$9.4 million</td>
<td>$9.9 million</td>
</tr>
<tr>
<td>Local Revenue (shift)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disabled Veterans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Tax Exemption</td>
<td>$8.550 million</td>
<td>$8.893 million</td>
<td>$9.248 million</td>
</tr>
</tbody>
</table>

*For the Public Employees Retirement System (PERS) and the Teachers Pension and Annuity Fund (TPAF).

**A State liability under this bill.

Office of Legislative Services Estimate

<table>
<thead>
<tr>
<th>Fiscal Impact</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Tax Deductions</td>
<td>$24.4 million</td>
<td>$23.8 million</td>
<td>$23.4 million</td>
</tr>
</tbody>
</table>
The Office of Legislative Services (OLS) concurs with the Executive Branch fiscal estimate of the costs associated with provisions of Assembly Bill No. 3511 broadening the eligibility for the disabled veterans’ property tax exemption and certain pension benefits.

The OLS notes that the entire cost of the disabled veterans’ property tax exemption is borne by local governments and school districts. Accordingly, the enactment of this bill would result in revenue losses or the shifting of the tax burden within those entities. Revenue losses in specific areas will be dependent on the number of new property tax exemptions awarded to eligible veterans.

The OLS does not concur with the Executive Branch fiscal estimate of the costs associated with broadening eligibility for the veterans’ property tax deduction. The OLS estimates that the enactment of Assembly Bill No. 3511 would result in additional costs to the Property Tax Relief Fund of $24.4 million in FY 2010, $23.8 million in FY 2011, and $23.4 million in FY 2012.

This bill would increase pension system costs for the Public Employees’ Retirement System and the Teachers Pension and Annuity Fund by $22.8 million in FY 2011, $24.1 million in FY 2012, and $25.4 million in FY 2013. Because there is a two-year lag from the date additional pension liabilities are valued to the date they are actually billed, the increased pension costs resulting from this legislation would not be due until FY 2011.

BILL DESCRIPTION

Assembly Bill No. 3511 of 2008 would extend eligibility for certain benefits to veterans of the Cold War who performed active service in the United States Armed Forces between February 4, 1945 and December 25, 1991, and who received an honorable discharge. Under current law, these benefits are provided to veterans who served during specified periods of war, including World War II, the Korean conflict, and the Vietnam conflict.

The benefits such a person would be eligible for include absolute civil service preference under Title 11A of the New Jersey Statutes, a veterans’ retirement allowance under the Teacher’s Pension and Annuity Fund (TPAF) or the Public Employees’ Retirement System (PERS), and the purchase of additional military service credit in the Police and Firemen’s Retirement System (PFRS), TPAF, and PERS. An eligible person would also be entitled to the annual $250 property tax deduction provided for by Article VIII of the New Jersey Constitution or the property tax exemption provided for by N.J.S.A.54:4-3.30 for a veteran who is certified permanently 100 percent disabled by the United States Department of Veterans’ Affairs.

FISCAL ANALYSIS

EXECUTIVE BRANCH

The Disabled Veterans’ Property Tax Exemption

According to the Office of Management and Budget in the Department of the Treasury, the enactment of the provision of Assembly Bill No. 3511 that increases the number of veterans
eligible for the full property tax exemption would result in local property tax revenue losses due to the reduction in the total value of assessable property within the taxing district. According to data the division obtained from the United States Department of Veterans’ Affairs (VA), there are 7,430 New Jersey veterans that are either 100 percent disabled or “individually unemployable” (IU). IU veterans receive letters stating their disability from the VA, and they may present those documents to the municipality in order to receive the full property tax exemption. The division assumes that these letters are being honored. Applying an average 2008 property tax bill of $7,045 to the total number of currently eligible veterans yields an aggregate local property tax loss of $48,295,000 in that year. There are an additional 1,167 non-combat veterans that are either 100 percent disabled or classified as IU. If each of these veterans receives a full property tax exemption, local governments would lose an additional $7,585,000 in current property tax revenues.

If local property taxes, on average, increased annually at the rate of 4 percent, the mandated maximum under the recently-enacted levy cap law, the expected additional local property tax loss to be borne by local governments would be $8.550 million in FY 2010, $8.893 million in 2011, and $9.248 million in FY 2012. The division notes that the entire cost of the disabled veterans’ property tax exemption is absorbed by local governments. Should this measure become law, there would be shift in the local property tax burden to those property taxpayers not benefitting from the expanded exemption.

The Veterans’ Property Tax Deduction

The Division of Taxation in the Department of the Treasury estimates that the enactment of Assembly Bill No. 3512 would result in $18.3 million in additional costs to the Property Tax Relief Fund. According to the division, the United States Department of Veterans’ Affairs compiles information based on a number of statistical categories, including state of residence and period of service. Using the database, the division was able to estimate that there are 128,113 “peacetime veterans” living in New Jersey as of September 30, 2008. The cost of providing a $250 deduction to each veteran plus the mandatory 2 percent administrative fee as required by law would be $32,668,815. However, the division notes that, for tax year 2008 (Fiscal Year 2009), the State is paying veterans deductions to only 56.1 percent of all New Jersey veterans. Accordingly, the division assumes a maximum cost of $18,327,205.

Additional Pension Liabilities

The Division of Pensions and Benefits in the Department of the Treasury estimates that the additional cost to the State General Fund to pay for the increased pension system costs (PERS and TPAF) would be $22.8 million in FY 2011, $24.1 million in FY 2012, and $25.4 million in FY 2013. This assumes that the bill becomes law in 2009 and takes effect immediately. Because there is a two year lag from the date additional pension liabilities are valued to the date they are actually billed, the increased pension costs resulting from this bill would not be due until FY 2011. The division estimates that this bill would increase the unfunded actuarial accrued liability of PERS and TPAF combined by $202.6 million.

The division has also noted that unlike existing State law which requires continuous active service for at least 14 or 90 days in a specific area of military conflict. This bill does not include either of those requirements or require them to be met in order to qualify for the veterans’ preference. Statutory provisions are already in place giving a special veterans’ preference to pension system members who were involved in certain military campaigns. Originally, the pension laws provided special pensions to qualified members involved in military campaigns up to and including the Korean War. These laws have been amended periodically to extend these preferences to individuals involved in military campaigns such as the Vietnam conflict,
Operation Desert Shield/Desert Storm, and Operation Iraqi Freedom. However, the State does not recognize all military campaigns when compared to Federal civil service regulations providing veterans’ preference.

**OFFICE OF LEGISLATIVE SERVICES**

The OLS generally concurs with the Executive Branch Fiscal Estimate. However, the OLS notes the following:

**The Disabled Veterans’ Property Tax Exemption**

The OLS notes that the bill extends eligibility for the disabled veterans’ property tax exemption to veterans of the Cold War. There would be no additional State or local expenditures due to this provision; local property tax rates would be adjusted to cover the value of the exemptions granted. Furthermore, the fiscal impact of this bill will not be spread equally among all local governments since the concentration of veterans who would be eligible for the full property tax exemption varies widely among municipalities.

**The Veterans’ Property Tax Deduction**

The OLS estimates that the enactment of Assembly Bill No. 3511 would result in additional costs to the Property Tax Relief Fund of $24.4 million in FY 2010, $23.8 million in FY 2011, and $23.4 million in FY 2012. The OLS projection does not concur with the Executive Branch estimate. The estimate provided by Division of Taxation is based on the percentage of all veterans living in New Jersey that have received the veterans’ property tax deduction. The OLS estimate is based on the percentage of “wartime veterans” living in New Jersey because these data more accurately represent the population of veterans currently eligible for the property tax deduction.

According to projections made by the U.S. Department of Veterans Affairs, there may be 340,403 wartime veterans living in New Jersey as of September 30, 2009. The OLS estimates that 263,393, or 77.4 percent of these veterans will receive the $250 veterans’ property tax deduction. This percentage was applied to the projected number of peacetime veterans living in New Jersey on September 30, 2009 (123,317) to estimate number of new property tax deduction claims that would result from the enactment of this bill (123,317 x .774 = 95,447). To forecast the additional cost of the increase in the veterans’ property tax deduction, the OLS multiplied the estimated number of claims for FY 2010 by $250 (95,447 x $250 = $23,861,839.50). The cost of the additional claims was then multiplied by 0.02 to determine the cost of the 2 percent administrative reimbursement provided to municipalities ($23,861,839.50 x 0.02 = $477,236.79). The amount of the property tax deductions and the amount of the administrative reimbursement were then added together to yield the total cost estimate ($23,861,839.50 + $477,236.79 = $24,339,076.29).

**Section:** Local Government  
**Analyst:** Scott A. Brodsky  
**Assistant Fiscal Analyst**  
**Approved:** David J. Rosen  
**Legislative Budget and Finance Officer**

This fiscal note has been prepared pursuant to P.L. 1980, c.67 (C. 52:13B-1 et seq.).