

Testimony

The Disabled Veterans' Real Estate Tax Exemption Program

Joint Public Hearing to the

Veterans Affairs and Emergency Preparedness

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Department of Military and Veterans Affairs

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Introduction

Chairmen Vulakovich, Costa, Barrar and Saino, and members of the committees, thank you for giving me the opportunity to appear before you today on a very important issue, revision of the Real Estate Tax Exemption Program.

It is important to remember that Veterans are created through federal military service and the U.S. Department of Veterans Affairs (USDVA) has the responsibility to provide benefits and services to those who served. The Office of Veteran's Affairs first priority is to ensure that our Veterans are receiving the full measure of both federal and state benefits to which they are entitled. We are very grateful for the additional benefits afforded our Veterans from the Commonwealth; the Disabled Veteran Real Estate Property Tax Exemption Program (RETX) is one of the most used state benefits our Veterans seek.

Disabled Veterans' Real Estate Tax Program Overview

The Real Estate Tax Program provides for an exemption for any honorably discharged Veteran who served during war or armed conflict who has been rated as 100 percent service-connected disabled or an unmarried surviving spouse. The Veteran must also be a resident of the commonwealth and demonstrate financial need to be exempt from the payment of all real estate taxes on their principal residence. We have developed proven office procedures to adjudicate these claims in a fair and equitable manner while assuring accuracy and efficiency. The original intent of this program is to ensure that 100% disabled Veterans with a financial need do not lose their homes. It is important to note that this program is derived from the Constitution of Pennsylvania (Article 8, Section 2(c)). In short, this provision incorporates the 100% disability determination by the USDVA. There is no provision for any tax exemption based upon a lesser disability except for those Veterans in the individual un-employability category which I will discuss shortly.

The Real Estate Tax Exemption program has grown considerably over the last seven years. As of September 2015, there are 9,358 Veterans or their unmarried surviving spouses currently exempt from real estate taxes. In 2008 there were only 3007 on the program, this is an almost 300% increase. The income limit to qualify for the program is adjusted every two years and was last adjusted in January of 2015 to \$87,212.00. Out of the 939,069 Veterans currently living in Pennsylvania, 125,254 Veterans are receiving USDVA compensation or pension. That represents 111,701 receiving compensation and 13,533 receiving a pension. To demonstrate the number of disabled Veterans currently in the Commonwealth I direct your attention to the following chart:

0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
506	23,859	14,115	11,593	10,085	6,973	9,234	9,706	7,373	5,065	13,191

This chart shows the number of Veterans by percentage of disability according to the USDVA. As you can see, the Commonwealth currently has 13,191 Veterans at the 100% disabled rating. Here it is important to note that there are many Veterans that are paid at the 100% disabled rate but may be rated as low as 60% disabled. These Veterans qualify for the program under the USDVA condition called Individual Un-employability or I/U. These Veterans may not be rated at 100% but they are deemed by USDVA to be unemployable due to their disability and are therefore paid at the 100% level. When taking this eligibility into account, there are over 45,000 Veterans that meet the basic disability requirement however that does not mean that they all meet the income levels or own property.

Property Tax/Rent Rebate Program Overview

In addition to the Real Estate Tax Exemption Program, Commonwealth seniors age 65 and older (including Veterans); widows and widowers age 50 and older; and people with disabilities, at any level of rating, age 18 and older with an income limit of \$35,000 a year for homeowners and \$15,000 annually for renters are eligible for the Property Tax/Rent Rebate Program. Governor Wolf championed a proposal that was put forward by Representative Markosek and it was debated in the House on October 7. This proposal will provide an expansion to the Property Tax/Rent Rebate Program by increasing the eligibility income from \$35,000 to \$55,000 and maximum rebates from \$650 to \$2,000. This program is administered by the Department of Revenue but is also of benefit to Veterans.

This proposal would provide more than \$400 million in tax relief to seniors, people with disabilities and Veterans beginning in claim year 2016 (SFY 2017-18). It will have little impact on seniors, who do not pay income tax on retirement income. The program would be funded by a portion of the proposed personal income tax increase to 3.57 percent.

In short, this proposal excludes all Veteran disability benefit payments from income eligibility calculation for the PTRR program. The Department of Revenue estimates that approximately 14,000 disabled Veterans currently qualify for this program. This is 14,000 across all disability ratings, approximately 15% of disabled Veterans.

Recommendation

The Office of Veterans Affairs of the Department of Military and Veterans Affairs fields a myriad of questions regarding the RETX program. We currently have 9,358 Veterans on this

program. This is a nearly 300% increase in eligible applicants since 2008. This does not include those applications that are adjudicated and found to be ineligible. RETX is a needs based program that requires verification and validation of several program criteria to determine eligibility; until the recent past, this was mostly a manual process conducted by a single employee. It is important to note that even with this substantial increase in applications, and our concerted efforts to digitize records, refine work flow and automate processes; we have not realized any increase in staff compliment to meet this growing need. Two years ago when I took this position we were running as much as 11 months behind on this program. We made a conscious decision to review our work flow procedures, explore options, leverage staff and validate new and innovative procedures that would allow us to achieve reasonable goals that I was able to set based on these exploratory efforts. We conducted these change management processes using only internal resources and at no additional cost to the Department or the Office of Veterans Affairs. Based on the results of these efforts we were able to substantiate and demonstrate a clear need to right size the Office of Veterans Affairs, Division of Programs and Services to meet this increased workflow. I am awaiting approval of this year's budget to receive three additional personnel in the department to work this program so that we can reach our goal of taking no more than 90 days to process new and renewal applications for this important Veteran benefit. We are currently sustaining an increased adjudication rate by leveraging other program personnel and I have required my management staff, including myself, to adjudicate claims. This is a short term solution that was necessary to validate our change management efforts but without the additional personnel, the current rate of processing is not sustainable. My point here is that the benefit is needed and used by our Veterans; the processes used to manage the program are now well documented, proven and efficient; the program is valuable, viable and more importantly serves our most severely disabled Veterans in a fair and equitable manner. The program is not perfect but it is not in need of major overhaul either.

There are 6 or 7 proposals now in the House and Senate to make changes to the Real Estate Tax Program. Some changes involve proportional payments, changes to income definitions, and other changes to eligibility requirements. Regardless of what, if any, changes that may be made to this program we must still sustain the existing program to accommodate the over 9,000 participants that have already been deemed eligible for the benefit under existing policy. It is my contention that the current real estate tax program is not broken but it could stand a few minor changes to improve upon it. I will discuss what changes I think are necessary and prudent in a moment. I would like to take just a moment to discuss an equally important aspect of this program which is the affect proposed changes would have on the ability of our 67 counties to accept lower receipts of income in support of the county services. More than 80% of county budgets are dedicated to mandated services, and state and federal funding assistance have not kept pace with costs. Because county government relies on the property tax for its locally generated tax revenues, county officials repeatedly face the difficult decision of raising property taxes to balance the impact of inadequate funding streams for required programs. The raising of property taxes would

adversely impact more of our Veterans than those who might benefit from any expanded eligibility provisions to the RETX program. As the lead Veterans Advocate for the Commonwealth it is my duty to be the voice that brings you a clear message on behalf of our Veterans; we served, we are Veterans but we are also citizens of this Commonwealth. We live, work and play here; we appreciate the state benefits that are provided to us, but if given the choice I believe that our Veterans would ask you to take action on a couple of minor changes.

First, our current RETX program meets the intent for which it was implemented seven long years ago with two exceptions; both of which would affect eligibility criteria. I believe that our Veterans would ask you to consider expanding eligibility criteria to provide the 100% RETX exemption for spouses of our Veterans who were killed in action or declared missing in action. We owe it to the Veteran to take care of the spouse in instances such as these. Secondly I would ask that you consider making a provision to exempt USDVA disability income from the program calculations that we use to determine financial need. Remember, these compensation payments are earned at the expense of the Veteran having received a service connected injury or disability. These changes would expand eligibility to a small number of Veterans and their families, but it would be a demonstrable recognition of service and sacrifice.

Based on current criteria, our current RETX program could benefit approximately 45,000 of our 939,000 Veterans, roughly 5% but of course, not all of the 45,000 meet the financial need or property qualification. We can sustain our current program and incorporate any increased workflow generated by the two eligibility recommendations I suggest into our already planned staff increase. However, any other major changes to this program would require additional analysis of new workflows to ensure that we right size the Division of Programs and Services to meet the increased requirements. Additional complement increases and impacts upon county government revenue are assured; some would be more significant than others. I have been asked on several occasions what we might do in support of our Veterans and I will tell you we need to look at the other 95% who have served. Contrary to what is heard daily on the news, not ALL Veterans are broken. We do have educational programs, assistance programs, and motor vehicle programs that support all Veterans but in reality, non-rated Veterans are being overlooked when it comes to benefits, programs, and recognition of service

Over the past two years there has been considerable talk about future programs to support Veterans; discussions reference a program such as the Persian Gulf Bonus Program which recognized those Veterans who had served in the Persian Gulf in the 1990-91 conflict. I would ask the legislature to consider a new program in support of all Veterans. My recommendation is to provide for a state income tax rebate for all Veterans who were honorably discharged with a minimum of two years of service. This rebate would be in the form of a tax credit on the state income tax. This could be a 10%, 5% or whatever you deem appropriate and more Veterans of the Commonwealth would benefit from this program. This recommendation would reduce the burden of expanded real estate tax exemption that would be shouldered by the Counties but it

would increase an additional burden on the Commonwealth. Everything has a cost, and this includes the Honorable service that is rendered by our nearly 1 Million Veteran Citizens here in Pennsylvania. If you want to recognize our Veterans for their service then I think it is important to recognize as many as possible. Although this will still not reach 100% of our Veterans due to non-taxable pension income, it certainly will reach a lot more than the 5% we are reaching today.

Conclusion

I thank the Committee for the opportunity to appear before you today. As a result of the commitment of Governor Wolf and his Administration, our department faces the challenges of the future with the confidence that we can succeed.

We all work every day on behalf of our Veterans. We strive to do the right thing to thank them for their service on our behalf. Again, thank all of you for your commitment to every one of us.