



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 461 of the 128th G.A.

Date: March 9, 2010

Status: As Introduced

Sponsor: Reps. Pillich and Boose

Local Impact Statement Procedure Required: Yes

Contents: Military-related law changes

State Fiscal Highlights

STATE FUND	FYs 2010-2011	FUTURE YEARS
General Revenue Fund, Local Government Fund (Fund 7069) and Public Library Fund (Fund 7065)		
Revenues	Starting with FY 2011, possible loss due to taxpayer deduction of veterans compensation payments	
Expenditures	- 0 -	
Persian Gulf, Afghanistan, and Iraq Conflicts Compensation Fund (Fund 7041)		
Revenues	- 0 -	- 0 -
Expenditures	Up to \$100 million for the biennium (\$50 million appropriated in each fiscal year)	- 0 -
Funds of the Department of Veterans Services		
Revenues	- 0 -	
Expenditures	Potential savings from operating efficiencies	

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- **Persian Gulf, Afghanistan, and Iraq Conflicts Compensation Program.** The bill appropriates \$100 million for the FY 2010-2011 biennium. These funds are derived from the issuance of bonds as authorized under the Ohio Constitution and are to be used to support the Persian Gulf, Afghanistan, and Iraq Conflicts Compensation Program.
- **Tax effects.** The bill allows taxpayers to deduct from income any state bonus payments not already excluded from income, for service during the Persian Gulf, Afghanistan, or Iraq conflicts. This deduction would reduce personal income tax revenue. During the current biennium, revenue to the GRF would be reduced by 94.35% of this loss and revenue to the local government funds would be reduced by 5.65% of this loss. State revenue losses resulting from taxpayer deduction of the portion of these payments not already excluded from income are assumed to begin in FY 2011.

- **Department of Veterans Services.** The bill makes changes to some of the operational procedures governing the administration of the Department of Veterans Services. These changes are largely technical and may result in creating efficiencies or cost savings.
- **National Guard Scholarship Program.** The bill's modifications to the eligibility for the Ohio National Guard Scholarship Program are not likely to significantly change the cost of the program.
- **Adjutant General.** The bill's changes to the operations of the Adjutant General's Department largely codify current practices and procedures.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011 – FUTURE YEARS
Counties, Municipalities, Libraries, and School Districts		
Revenues	- 0 -	Possible loss due to taxpayer deduction of veterans compensation payments
Expenditures	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Payments to counties and municipal corporations from the Local Government Fund and to libraries from the Public Library Fund would be reduced by the state personal income tax deduction in the bill.
- The reduction in Ohio taxable income under the bill would reduce school district income tax revenues to those districts that use Ohio taxable income as the basis for calculation of taxes owed.

Detailed Fiscal Analysis

Overview

The bill makes numerous changes to current law generally pertaining to the Department of Veterans Services, the Adjutant General, and programs that benefit veterans. For the purposes of this fiscal analysis, the bill most notably:

- Appropriates funds for the Persian Gulf, Afghanistan, and Iraq Conflicts Compensation Program, as authorized under the Ohio Constitution, and enacts language governing its implementation;
- Makes clarifying changes related to the organization and operation of the Department of Veterans Services, specifically related to Ohio's veterans' homes;
- Provides clarification on how certain officials of the Adjutant General's Department are compensated and accrue leave, in certain circumstances, and modifies certain administrative duties and procedures relating to the Adjutant General's Department, in order to comply with federal law; and
- Provides that a scholarship funded by the Ohio National Guard Scholarship Program be reduced by the amount of tuition benefits an applicant receives under a federal scholarship program.

Persian Gulf, Afghanistan, and Iraq Conflicts Compensation Program

Issue 1 on the November 2009 statewide ballot, approved by voters, authorized issuance of up to \$200 million of bonds to provide compensation to Ohioans who served on active duty during the Persian Gulf, Afghanistan, and Iraq conflicts, and to family members of qualified deceased Ohio veterans, and to pay administrative costs of this program. Ohio veterans who served in the Persian Gulf, Afghanistan, and Iraq conflicts would each be eligible for stipends of \$100 for every month of such service, up to a maximum of \$1,000. Ohioans medically discharged or medically retired due to combat-related disabilities during such service would be eligible for compensation of \$1,000. Other Ohioans on active duty service, domestic or foreign, during these conflicts would be eligible for \$50 per month of such service, up to \$500. A surviving spouse, child, or parent of a deceased eligible Ohio veteran would be eligible to receive the payment that the veteran would have been eligible to receive. If the Ohio veteran's death resulted from injuries or illness sustained in the Persian Gulf, Afghanistan, or Iraq conflicts, the person's survivors would be eligible to receive \$5,000. Bonds to fund these payments could be issued through December 2013.

The constitutional amendment specified the time period of the Persian Gulf Conflict as August 2, 1990 to March 3, 1991. The Afghanistan Conflict began October 7, 2001 and the Iraq Conflict began March 19, 2003. The Afghanistan and Iraq conflicts are still ongoing. Because of the length of the current two conflicts, many of the Ohioans

who served on active duty during these conflicts plausibly would be eligible for the larger payment, up to \$1,000.

The bill appropriates \$50 million in each of FYs 2010 and 2011 for the payments required by Issue 1. It also provides that if the Director of Veterans Services determines that additional appropriations are needed to pay this compensation, the needed amounts are appropriated.

State and local tax effects

The bill permits Ohio personal income taxpayers to deduct, to the extent not otherwise deducted or excluded in computing federal or Ohio adjusted gross income, the amount received by the taxpayer as a veteran's bonus. Under federal law, a state bonus payment is excludable from taxable income to the extent that it is paid for service in a combat zone.¹ The excludable amount for combat zone pay may be limited for commissioned officers. Because Ohio taxable income is based on federal adjusted gross income, with further adjustments specific to this state, the portion of the state bonus payments not excluded from federal taxable income would also be included in Ohio taxable income, in the absence of this provision of the bill.

Deduction of the amount of the veterans' bonus not otherwise excluded from income was not specified in Issue 1. It appears therefore to be a revenue loss resulting from this bill. LSC fiscal staff does not have an estimate of the portion of the state bonus payments that will be excluded from federal taxable income, or of the portion that will be included in federal income but excluded from Ohio taxable income because of this provision. This exclusion from Ohio taxable income creates a revenue loss, most of which would be a revenue loss to the GRF. The balance is a loss to the state's local government funds, which receive a portion of total tax revenues from certain state taxes including the state income tax. A reduction in total tax revenues reduces receipts of the Local Government Fund (Fund 7069) by 3.68% of the decline in total tax revenues. During the current biennium, receipts of the Public Library Fund (Fund 7065) are reduced by 1.97% of the decline in total tax revenues. In permanent law, the percentage is 2.22%. LSC fiscal staff does not have an estimate of the amount of the loss of revenue to the GRF or the local government funds.

School district income taxes are based on either Ohio taxable income of taxpayers residing in the school district or on the portion of that income that is earned income, generally limited to wages and self-employment income. School boards and voters of individual school districts choose whether to enact income taxes in their districts and which of these two tax bases to use. For school districts in which Ohio taxable income serves as the starting point for calculation of school district income taxes, exclusion from Ohio taxable income of state bonus payments not excluded from federal taxable income will reduce school district income tax revenues. LSC fiscal staff does not have an estimate of the amount of this reduction.

¹ IRC 134(b)(6) and 112(c)(2).

The following calculations are illustrative only, indicative of possible orders of magnitude, and are not intended as estimates of the fiscal effects of this bill. If yearly payments under the bill are assumed to be equal to the appropriation of \$50 million, and if none of this amount is assumed to be excluded from federal taxable income as state bonus payments for service in a combat zone, then the fiscal effect on the state of the exclusion of the payments from taxable income would be the reduction in state tax revenues associated with \$50 million of income. The tax loss would depend on the marginal tax brackets of the recipients. If, for example, their average tax rate on the additional income is 3%, state income tax revenue would be reduced by \$1.5 million, resulting in a loss to the GRF of about \$1.415 million (for payments made in FY 2011). The loss to the state's local government funds, and consequently to units of local government, would be about \$85,000. The associated loss of school district income tax revenue would be about \$39,000. The losses could be higher than these amounts, if Issue 1 payment obligations exceed the appropriation, but would be reduced by exclusion of part of the state bonus payments from federal taxable income because they are payments for service in a combat zone. Other information or assumptions would yield different amounts for these losses.

Department of Veterans Services

The bill makes clarifying changes to existing law related to the operation of the Department of Veterans Services (DVS).² Some of these include, but are not limited to, the following changes:

- Updates references pertaining to the Ohio Veterans Home;
- Removes the requirement that the Director of DVS publish and distribute a biennial report of enacted legislation dealing with veterans to each county veterans service office and the state headquarters of each congressionally chartered veterans organization in the state;
- Removes the requirement that the Director of DVS make an annual report to the Governor as to all expenditures and the management of the Ohio Veterans Homes Agency;
- Broadens the eligibility standards for those seeking admittance to a veterans' home, in part, to comply with federal law; and
- Modifies language generally related to the fiscal management of DVS, including the merging of line items, specifications of the use of certain funds, and eliminating requirements to seek Medicaid funding for veterans' home residents.

² DVS was created in Am. Sub. S.B. 289 of the 127th General Assembly, which merged the Governor's Office of Veteran's Affairs, the Ohio Veterans Home, and the Board of Regents' Ohio War Orphans Scholarship Program.

Generally, most of these changes will create efficiencies, or cost savings, to DVS. According to DVS staff, some of these changes will also make Ohio law more compliant with federal requirements.

Adjutant General

In researching the provisions of the bill relating to the Adjutant General, LSC fiscal staff spoke with staff of Ohio's Adjutant General's Department (ADJ). What follows is a distillation of those discussions.

Compensation and leave

The bill specifies how the Adjutant General, Assistant Adjutant General for the Army, Assistant Adjutant General for Air, and Assistant Quartermaster General may accrue leave and receive compensation while performing uniformed service. Currently, those officials receive federal pay based on the number of days they are on federal duty. Those officials also receive a state salary for their full-time jobs. The bill does not change that practice; it simply codifies that those officials are permitted to receive federal pay while performing uniformed service. Thus, this provision will have no immediate direct fiscal effect on the ADJ. The need to codify this procedure apparently exists to eliminate any potential ethical questions that may arise in the future.

The bill also modifies how the aforementioned officials of ADJ accrue leave while performing uniformed service. Again, these modifications appear to codify current procedure and thus will have no immediate direct fiscal effect on the ADJ.

Administrative and procedural duties

Various provisions in the bill assign certain administrative duties and responsibilities to the Adjutant General, Assistant Adjutant General for the Army, Assistant Adjutant General for Air, and Assistant Quartermaster General. LSC fiscal staff has learned their purpose is generally to bring the Revised Code into compliance with federal law and, perhaps more importantly as it relates to this fiscal analysis, current departmental procedure. Thus, these provisions will have no immediate direct fiscal effect on the ADJ.

Armory Improvements Fund (Fund 5340)

Under current law, Fund 5340 receives money from the sale or lease of ADJ's readiness centers, formerly known as armories, or from the sale or lease of other facilities and land owned by the Adjutant General. Proceeds from the fund are required to be used to support Ohio National Guard facility and maintenance expenses. The bill replaces that expenditure requirement with a provision permitting those proceeds to be used for any purpose under Am. S.B. 148 of the 109th General Assembly. That act provided that the proceeds of property sales were to be used by the ADJ to assist in the purchase of property better suited to the ADJ's needs or to maintain the Ohio National Guard as required by statute. This change would appear to expand the permissible uses of the proceeds deposited to the credit of Fund 5340.

Ohio National Guard Scholarship Program

The bill reduces the amount of Ohio National Guard Scholarship awards for students receiving federal scholarships under the "Post-9/11 Veterans Educational Assistance Act of 2008" (Post-9/11 GI Bill). Under current law, Ohio National Guard Scholarship awards are equal to the full tuition amount for students attending a public institution of higher education or the average public tuition amount for students attending a private institution. The Post-9/11 GI Bill provides a similar award, so the bill's changes eliminate potential duplicative scholarships. The bill also modifies eligibility for the Ohio National Guard Scholarship Program. The modifications are not likely to significantly change the cost of the program. Under continuing law, the Adjutant General must make awards to all eligible applicants unless funds appropriated for the scholarship and funds in the Ohio National Guard Scholarship Reserve Fund are insufficient to make all awards. In FY 2009, 5,948 scholarships were awarded and no students were denied scholarships due to insufficient appropriations.

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