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April 30, 2013 Joint Committee on Finance Paper #690

Transfers to the Veterans Trust Fund
(Veterans Affairs -- Departmentwide, Veterans Programs, and Museums)

[LFB 2013-15 Budget Summary: Page 486, #2]

CURRENT LAW

Two segregated (SEG) funds support programs administered by the Department of Veterans Affairs (DVA). Most DVA programs are funded from the veterans trust fund (VTF). In addition, payments veterans make on loans they received under DVA's mortgage loan program are credited to the mortgage loan repayment fund (MLRF). These revenues are used to repay the bonds the state issued to fund those mortgage loans.

DVA operates two state veterans homes for the care of elderly and disabled veterans and their eligible family members, one at King and another at Union Grove, and contracts for the operation of a third, the Veterans Home at Chippewa Falls. The veterans homes are funded with a combination of revenues that are credited to program revenue (PR) appropriations. In recent years, the total revenue from these sources has exceeded the costs of operating the veterans homes, resulting in surplus revenue available in these PR appropriations.

GOVERNOR

Transfer funding and costs to the VTF as follows.

General Fund Transfer. Transfer $5,300,000 GPR from the general fund to the VTF in 2013-14.

Fund Veterans Homes from the Veterans Trust Fund. Convert $102,415,300 PR and 1,151.70 PR positions in 2013-14 and $104,840,100 PR and 1,151.60 PR positions in 2014-15 to SEG appropriations and positions so that the veterans homes would be funded from the VTF, rather than from PR appropriations, beginning in 2013-14.

Make the following statutory changes. First, convert current appropriations for the operations of the veterans homes, veterans home cemetery operations, and a debt service appropriation for housing services provided at the veterans homes from PR to SEG, supported by the VTF. Renumber these appropriations.

Second, specify that all of the following revenues, which are currently credited to the PR appropriation for the operations of the veteran homes, instead be deposited to the VTF: (a) federal aid received for the care of veterans; (b) payments from residents; (c) personal funds residents have authorized the veterans homes to receive, hold, and account; (d) medical assistance payments; (e) gifts, grants, and bequests for the purposes of maintenance, restoration, preservation, and rehabilitation of the veterans cemeteries; and (f) payments for housing services provided at the veterans homes and the Northern Wisconsin Center for the Developmentally Disabled (where a facility for veterans participating in the veterans assistance program operates). Create three PR appropriations to fund programs, aids, and local assistance from moneys DVA receives from other agencies and from transfers within DVA for the purposes for which they were received.

Mortgage Loan Repayment Fund. Transfer $3,412,500 SEG and 35.20 SEG positions in 2014-15 from the MLRF to the VTF to reduce expenditures from the MLRF that are not used for bond payments. Beginning in 2014-15, transfer administrative costs and positions that are currently supported from the VTF for the administration of loans (-$158,200 SEG and -1.75 SEG positions) and program revenue that supports the operation of DVA's skilled nursing facility at Union Grove (-$10,800 PR and -0.10 PR position) to a general program operations appropriation funded from the MLRF ($173,500 SEG and 1.85 SEG positions in 2014-15).

DISCUSSION POINTS

Status of the Veterans Trust Fund

1. These provisions are intended to address projected shortfalls in the VTF and the MLRF by budgeting revenue that would, under current law, be credited to the PR appropriations for the veterans homes, and by reducing operations expenses funded from the MLRF. Revenue from the veterans homes, in addition to current sources of revenue to the VTF, would instead be used to support all programs supported by the VTF.

For several years, the costs of programs supported from these two segregated funds have exceeded revenues credited to the funds. Table 1 shows the fund condition statement for the VTF for each of the past five fiscal years, as identified in the state's Annual Fiscal Report.

TABLE 1

Veterans Trust Fund Condition
Annual Fiscal Reports
($ in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
July 1 Undesignated Fund Balance	$25,422	$22,473	$27,411	$23,573	$18,384
Revenue	$20,875	$18,491	$14,391	$12,517	$10,073
Expenditures	$23,824	$20,553	$18,026	$17,503	$13,680
Inter-Fund Transfers	$0	$7,000	-$203	-$203	$5,000
June 30 Undesignated Fund Balance	$22,473	$27,411	$23,573	$18,384	$19,777
Difference Between Revenue and Expenditures	-$2,949	-$2,062	-$3,635	-$4,986	-$3,607

2. Table 1 shows that, in each of these years, revenue to the fund has exceeded expenditures by at least $2.0 million. In addition, the table shows the funding transfers to the VTF that have been authorized in previous budgets ($7.0 million in 2008-09 from the balances of the veterans homes and $5.0 million GPR in 2011-12) as a means of increasing fund balances as other revenue to the fund continued to decrease.

3. Table 2 shows current estimates of VTF fund balances for fiscal years 2012-13 through 2014-15 under the Governor's bill.

TABLE 2

Veterans Trust Fund
Assembly Bill 40
($ in Millions)

	Estimate	AB 40	
	2012-13	2013-14	2014-15
Opening Balance	$19,777,000	$10,764,700	$30,808,100
Revenues			
Current Sources	$4,934,000	$4,227,800	$3,720,400
Operations of the Veterans Homes			
King	$0	$80,287,000	$80,629,900
Union Grove -- Skilled Nursing	0	19,814,900	19,886,800
Union Grove -- Assisted Living	0	2,248,300	2,248,300
Chippewa Falls	0	7,900,600	7,720,700
Subtotal -- Revenue from Homes	$0	$110,250,800	$110,485,700
Revenue Totals	$4,934,000	$114,478,600	$114,206,100
Fund Transfers			
From the General Fund	$0	$5,300,000	$0
From the Veterans Homes PR Balances	0	19,297,400	0
Total Available	$24,711,000	$149,840,700	$145,014,200
Budgeted Expenditures	$16,946,300	$122,032,600	$128,930,900
Estimated Lapse from Personal Loan Program	-$3,000,000	-$3,000,000	-$3,000,000
Total Expenditures	$13,946,300	$119,032,600	$125,930,900
Closing Balance	$10,764,700	$30,808,100	$19,083,300

The administration's initial estimates for the fund condition of the VTF showed balances of $11,717,100 in 2012-13, $23,047,100 in 2013-14, and $28,108,300 in 2014-15. There are three primary reasons why the current fund balances in Table 2 do not match the administration's initial estimates. First, the administration included the opening balance from the veterans homes as revenues to the VTF in both 2013-14 and 2014-15. The balance in the veterans homes appropriations would only be transferred to the VTF opening balance once in 2013-14, after which the balances would be determined by annual net revenues and expenditures to the VTF.

Second, Table 2 reflects updated revenue estimates that project an increase in revenue to the veterans homes. Third, Table 2 includes an adjustment to reflect that, although the bill would authorize DVA to provide $3.0 million per year to fund new personal loans, DVA expects to maintain its current moratorium on its loan programs.

4. Table 2 shows that, under AB 40:

• The estimated uncommitted balance at the end of the 2013-15 biennium would be approximately $19.1 million.

• The Governor's proposal to convert revenues from the operation to the veterans homes will provide a one-time increase in revenue to the fund of approximately $19.3 million in 2013-14 due to the estimated balances in the veterans homes' PR appropriations at the end of the current biennium.

• Total expenditures from the fund would exceed projected revenues by approximately $4.6 million in 2013-14 and by approximately $11.7 million in 2014-15, resulting in a structural imbalance in the fund at the beginning of the 2015-17 biennium.

5. Since 2005, the single largest source of revenue to the VTF has been principal and interest repayments from the personal loan program (PLP). In 2011-12, the VTF received approximately $4.8 million from this source, compared to approximately $12.6 million in 2004-05. Beginning in 2010-11, the second largest ongoing source of revenue for the VTF has been federal per diem payments collected from individuals who participate in the veterans assistance program (VAP). In 2011-12, these per diem payments totaled approximately $1.4 million.

6. As previously indicated, the Legislature has authorized two one-time transfers to the VTF since 2007-08, totaling $12.0 million. In 2008-09, DVA was authorized to transfer $7.0 million from the appropriations for veterans homes operations to the VTF. 2011 Act 32 authorized a $5.0 million transfer from the general fund in 2011-12.

7. The VTF supports the benefit and operational costs for most of the Department's programs for veterans, including: (a) operation of the Veterans Museum; (b) transitional housing and support services provided through the VAP; (c) grants to certain veterans organizations that assist veterans in claiming federal veteran benefits; (d) grants to counties for the operations of county veterans service offices; (e) the VetEd tuition reimbursement program; (f) grants for transportation services provided by counties and a contracted entity; (g) maintenance and operations of the veterans cemeteries; and (h) subsistence aid and health care aid for needy veterans.

On December 1, 2011, DVA placed a moratorium on issuing new loans in all of its loan programs. Prior to the moratorium, the VTF was a funding source for issuing personal loans to veterans.

Status of the Mortgage Loan Repayment Fund

8. The mortgage loan repayment fund (MLRF) receives veterans' payments on their DVA mortgage loans and repays the bonds used to fund those mortgage loans. In the past, the MLRF has been used to fund new mortgage loans and occasionally funding reserves in the MLRF have been used to support the VTF. Table 3 shows the fund condition statements for the veterans mortgage loan repayment fund from 2007-08 through 2011-12 as reported by the state's Annual Fiscal Report. As shown in the table, expenditures from the MLRF have exceeded revenues in each of the past five years.

TABLE 3

Mortgage Loan Repayment Fund
Annual Fiscal Reports
($ in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
July 1 Undesignated Fund Balance	$124,392	$109,031	$71,964	$59,619	$31,849
Revenue	$79,874	$74,626	$58,012	$68,023	$53,583
Expenditures	$95,235	$113,070	$70,243	$95,678	$54,170
Inter-Fund Transfers	$0	$1,377	-$114	-$115	$0
June 30 Undesignated Fund Balance	$109,031	$71,964	$59,619	$31,849	$31,262
Difference Between Revenue and Expenditures	-$15,361	-$38,444	-$12,231	-$27,655	-$587

9. When DVA was still issuing mortgage loans, the state issued bonds and used the funding from the bonds to provide mortgage loans to veterans at reduced interest rates. For "qualified veterans," who are veterans within 25 years of their date of separation from active duty, DVA issued loans funded with tax-exempt bonds. For loans funded from tax-exempt bonds, DVA could set the loan interest rate high enough to cover administrative costs, insurance reserves, and servicing fees while still remaining competitive with the private loan market. In 1998-99 the number of qualified veterans interested in DVA mortgage loans decreased and DVA began to offer loans funded with taxable bonds. Taxable bonds have a higher interest rate, which would normally be passed on to the veteran applying for the loan. However, to remain competitive DVA started to remove components of the loan interest rate needed to fund administrative, insurance, and servicing costs.

In 2000, the interest rates on conventional mortgage loans declined below the rates on DVA's outstanding loans. Many veterans with loans from tax-exempt bonds chose to refinance into conventional loans, which greatly reduced the number of DVA's loans that included administrative components to their interest rates. As a result, the MLRF lost much of its ongoing funding source for administrative costs.

10. The MLRF was also adversely affected by declining interest rates on the fund's cash balances. Some bonds prevent DVA from paying the principal on the bond before a minimum maturation date. When veterans pay down their mortgages early, DVA places the money in an account managed by the State of Wisconsin Investment Board to earn interest until the bond agreement allows payment on the principle. For much of the past decade, the State Investment Fund interest rate has been below the interest rates of the bonds the state originally issued. For example, for seven of the past ten years, the State Investment Fund's annualized time weighted return was 2.08% or less. This has led to the MLRF losing money as it pays more on the interest on its bond debt than it receives on its investments.

11. The bonds used to make mortgage loans to veterans are backed by the full faith and credit of the state and must be repaid in full. In conjunction with the Department of Administration and in consultation with its bond tracking agency, DVA has determined that it must maintain a $5,000,000 balance in the MLRF to maintain the fund's solvency.

Under current law, costs associated with the administration of the mortgage loan program are funded from the MLRF. The bill would transfer $3,254,300 SEG and 33.45 SEG positions for the administration of the mortgage loan program from the MLRF to the VTF. Transferring these positions to the VTF will eliminate one of the factors causing the reduction in the MLRF fund balance.

Program Revenues to Support the Veterans Homes and Funding Conversion

12. The Department's residential care facilities are supported from five primary sources: (a) member contributions; (b) medical assistance (MA) payments for nursing home services the veterans homes provide to veterans who are eligible for MA; (c) USDVA per diem payments; (d) Medicare payments; and (e) USDVA service-connected disability payments. A brief explanation of these revenue sources is provided below.

Member Contributions. Member contributions include VA pension amounts that are paid directly to members, as well as other personal funds contributed by members. The costs of care to members are reduced by any VA per diem payments and aid and attendance benefits for those members who qualify. The aid and attendance benefit is an enhanced monthly pension payment paid in addition to a veteran's pension. Veterans and surviving spouses are eligible for aid and attendance benefits if they do not exceed specified income limits and if they require the aid of another person for activities of daily living, are bedridden, are patients in a nursing home due to mental or physical incapacitation, or have specific vision limitations.

USDVA Per Diem Payments. The Department receives USDVA per diem payments for its member veterans, which vary depending on the level of care provided. In federal fiscal year 2012-13, USDVA paid DVA $41.90 per day for each member in an assisted living unit and $97.07 per day for each member who received nursing home care.

Medicare. Veterans may be eligible for both USDVA veterans benefits and Medicare. Medicare eligible veterans can receive treatment both from VA facilities through VA benefits and non-VA facilities through Medicare benefits. In most cases, veterans benefits will not pay for a service that Medicare has covered, or vice versa. In some cases, where veterans receive VA-authorized services from a non-VA provider, Medicare may cover costs not covered by veterans benefits and/or pay copayments USDVA charges veterans. Medicare may also cover some prescriptions not covered by veterans benefits.

USDVA Service-Connected Disability Payments. USDVA provides monthly cash benefits to veterans that have a service-connected disability and were discharged under other than dishonorable conditions. To be eligible for disability compensation, a veteran must have: (1) a medical diagnosis of the impairment; (2) evidence the condition occurred or worsened in-service; (3) medical proof of a connection between the in-service injury or illness and the current disability.

Medical Assistance Payments. DVA's nursing homes are certified to participate in the MA program and receive MA reimbursement for the costs of services they provide to MA-eligible residents. Most MA benefits costs, including payments to nursing homes for the care they provide to MA recipients, are funded on an approximately 60% federal/40% state cost-sharing basis. The veterans homes claim all allowable MA costs under the MA program, as long as the total claim is less than the Medicare upper limit, the amount that the state estimates would have been paid under Medicare payment principles. DVA estimates approximately 82% of the residents at the Veterans Home at King and 58% of residents at the Veterans Home at Union Grove will be MA recipients in 2013-14.

13. It is estimated that there will be a balance of approximately $19.3 million in uncommitted program revenue available from the veterans homes PR appropriations at the end of the current biennium. Under the bill, these funds would be available to support all programs supported by the VTF, including the operations of the veterans homes.

14. Due to the continuation of low interest rates in the conventional loan market, the moratorium on the PLP will likely continue for the foreseeable future. Without new personal loans being issued, revenue from the PLP will continue to decrease and the VTF will not have an alternative source of revenue. The veterans homes have the potential to be an ongoing source of revenue for the VTF, although the surplus revenue the veterans homes will generate will depend on several factors, including occupancy levels and the costs of operating the veterans homes. Based on the Governor's budget recommendations, DVA estimates that in 2013-14, revenue from the veterans homes will exceed expenditures by approximately $6.1 million, but in 2014-15 estimated revenues would exceed expenditures by only $2.2 million.

15. In his 2011-13 budget bill, the Governor proposed granting DVA the ability to transfer balances in the veterans homes operations appropriations to the VTF. The Joint Committee on Finance modified the Governor's proposal by: (a) prohibiting transfers from appropriations funded from gifts and grants; (b) requiring that any proposed transfer be approved by the Joint Committee on Finance under a 14-day passive review process; and (c) limiting these transfer provisions to apply only for the 2011-13 biennium. DVA has not exercised this authority.

16. Since the Act 32 provision provided DVA the authority to transfer the balance from the veterans homes to the VTF, the Governor's proposal could be viewed as unnecessary, as a mechanism is already in place to use these surplus revenues to fund other veterans programs. However, the Governor's proposal would eliminate the need for these periodic transfers, and provide DVA greater flexibility to manage all of its programs within the funding sources available to it. If the Committee wishes to authorize the use of veterans homes revenues to support both the veterans homes and all VTF-funded programs, it could adopt the Governor's recommendations (Alternative A1).

17. The bill would provide DVA with flexibility to manage veterans programs, but also creates a direct and permanent link between the veterans homes operations and the status of the VTF. Under the bill, DVA would have the authority to reduce expenditures for the veterans homes if it determined such action would benefit the VTF. Similarly, any decision to increase funding for the operation of the veterans homes would be weighed against the needs of other

veterans programs funded from the VTF. It could be argued that the bill establishes new criteria for DVA's operation of the veterans homes that are not focused solely on the care and treatment of veterans home members, and that any decision by DVA to use moneys for purposes other than for which they were collected should be subject to legislative oversight and approval. This may be especially true for funding normally used for the care of individuals and in some cases paid for with the private funds of residents of the veterans homes.

18. For these reasons, if the Committee wishes to maintain oversight of the use of revenue generated by the veterans homes, it could delete the Governor's provisions and instead, make permanent the funding transfer mechanism enacted as part of Act 32 (Alternative A2). Under this alternative, DVA would be required to submit periodic requests to the Committee for the transfer of funds from the PR appropriations for the veterans homes to the VTF and the MLRF if it determines that there is insufficient funding in these funds to support VTF-supported programs.

19. Act 32 required DVA and the Board of Veterans Affairs to jointly provide recommendations regarding the adoption of a viable long-term funding source for the VTF and to submit these recommendations to the Governor and the Legislature by June 30, 2012.

In its report, DVA listed a number of potential funding sources supported by the feedback the Department received from veterans. These funding sources included: (a) transferring revenue from the veterans homes to the VTF; (b) proceeds from a veteran-themed lottery; (c) revenue from existing professional sports and entertainment taxes; (d) a percentage of the state's mining and timber revenue; (e) veterans debit or credit cards; (f) redirecting a percentage of the beer and/or liquor tax; (g) GPR funding; (h) the sale of surplus assets from state agencies; and (i) potentially creating a 501(c)(3) non-profit foundation to help fund the VTF.

As part of its report, DVA surveyed and received responses from 44 state departments that administer veterans affairs. Of these 44 states, 43 indicated that they received general fund or general tax funding. In addition, 25 states used federal VA payments, 16 received funding from license plate sales, and 15 received revenue from fees. There were 11 states that were partially funded from trust funds.

If the Committee is interested in monitoring the status of the veterans trust fund in non-budget years, it could require DVA to submit a report to the Committee that would include descriptions of the fund condition, projected revenues and expenditures, and any program changes expected to impact the fund by June 30 of every even numbered year (Alternative D).

GPR Transfer to the Veterans Trust Fund

20. The bill includes a one-time transfer of $5,300,000 GPR to the VTF in 2013-14. The Governor's intent is to provide approximately the same amount of GPR funding to DVA in the 2013-15 biennium as was provided under Act 32 for the 2011-13 biennium. In Act 32, the VTF was provided GPR transfers totaling $5,416,800, which included: (a) a $5,000,000 transfer from the general fund; and (b) $416,800 GPR to repay lapses from the VTF that occurred in the 2009-11 biennium.

In addition to the $5,300,000 transfer to the VTF the Governor recommends in 2013-14, AB 40 would provide an additional $165,200 GPR over the biennium for the military funeral honors program, for a total of $5,465,200 in the 2013-15 biennium.

21. As discussed above, expenditures from the VTF have exceeded revenues for the past several years. Under the bill, budgeted expenditures from the VTF would continue to exceed projected revenues, excluding transfers, by approximately $4.6 million 2013-14 and by $11.7 million in 2014-15. The Governor's recommendation to transfer GPR funding to support the VTF would increase the projected balances in the fund in the 2013-15 biennium, but would not address the structural imbalance between ongoing revenues and expenditures from the fund. Revenues from the veterans homes are uncertain beyond the 2013-15 biennium and the Committee may be required to address this issue again as part of its 2015-17 budget deliberations. However, transferring the veterans home appropriations to the VTF would ensure a positive balance through the 2013-15 biennium.

If the Committee wishes to provide approximately the same level of GPR support for the VTF in this budget as was provided in Act 32, it could adopt the Governor's recommendation relating to the GPR transfer amount (Alternative B-1). However, in light of the projected $19.1 million balance in the VTF at the close of the 2013-15 biennium, and weighing the needs for other GPR-funded programs, the Committee could determine that it is unnecessary to transfer any GPR to the VTF in the 2013-15 biennium and delete this transfer (Alternative B-2).

Personal Loan Program

22. The bill retains $3,000,000 SEG in expenditure authority for an appropriation used to fund personal loans from the VTF. The administration indicates DVA has no plans to resume issuing new personal loans and that deleting the authority would have no adverse impact on the Department's plans for the 2013-15 biennium. Deleting this authority would decrease budgeted expenditures from the VTF by $3,000,000 SEG annually and reduce estimated lapses from the VTF by corresponding amounts, resulting in no net change in the projected fund balances of the fund in the 2013-15 biennium.

ALTERNATIVES

A. Changes to the Veterans Trust Fund and Mortgage Loan Repayment Fund

1. Adopt all of the Governor's recommended changes relating to the veterans trust fund and mortgage loan repayment fund, except the proposed funding transfer from the general fund (addressed under "B").

2. Delete all of the Governor's recommended changes relating to the veterans trust fund and mortgage loan repayment fund, with the exception of the funding transfer from the general fund (addressed under "B"). Convert $102,415,300 SEG and 1,151.70 SEG positions in 2013-14 and $104,850,900 SEG and 1,151.70 SEG positions in 2014-15 to PR appropriations and positions so that the veterans homes would continue to be funded from PR appropriations, rather than from the VTF, beginning in 2013-14.

In addition, make permanent the session law provisions included in Act 32 which authorize transfers from appropriations that support the veterans homes to the VTF with the approval of the Joint Committee on Finance under a 14-day passive review process. Authorize similar transfers for the MLRF.

ALT A2	**Change to Bill** Funding	Positions
PR	$207,266,200	1,151.70
SEG	- 207,270,700	- 1,151.70
Total	- $4,500	0.00

B. GPR Supplement to the Veterans Trust Fund

1. Adopt the Governor's recommendations to transfer $5,300,000 to the VTF in 2013-14.

2. Delete the Governor's recommendations to transfer $5,300,000 to the VTF in 2013-14.

ALT B2	**Change to Bill** Revenue
GPR-Transfer	- $5,300,000
SEG-REV	- $5,300,000

C. Personal Loan Program Funding

1. Adopt the Governor's recommendation to maintain base funding for the personal loan program ($3,000,000 SEG annually).

2. Delete base funding for the personal loan program (-$3,000,000 annually) and reduce estimated lapses to the VTF by corresponding amounts.

ALT C2	**Change to Bill**
SEG-Lapse	- $6,000,000
SEG	- $6,000,000

D. Reporting Requirement

1. Require the Department to submit to the Committee, by June 30 of every even-numbered year, a report describing the current condition of veterans trust fund, the fund's projected revenues and expenditures, and any program changes implemented since the biennial budget act that are expected to impact the fund.

2. Take no action.

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