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April 17, 2015 Joint Committee on Finance Paper #701

Veterans Trust Fund Condition and Other Related Items (Veterans Affairs)

[LFB 2015-17 Budget Summary: Page 523, #2, Page 524, #5, Page 525, #7, and Page 527, #13]

CURRENT LAW

The veterans trust fund (VTF) is a segregated fund for the support of programs benefiting Wisconsin veterans and their families, and for promoting interests of veterans. The fund receives revenues from various sources, including repayments of loans made under the personal loan program, federal grants, and receipts from sales at the Wisconsin Veterans Museum. In 2013-14, the VTF had total revenues of $4.0 million (excluding a $5.3 million transfer from the general fund) and total expenditures of $11.9 million.

The veterans mortgage loan repayment fund (VMLRF) is a segregated fund for the administrative expenses related to the veterans primary mortgage loan program and the home improvement loan program and for debt service payments on bonds issued for making loans under those programs. Revenues are derived from loan repayments. In 2013-14, the VMLRF had total revenues of $24.7 million and total expenditures of $29.7 million.

GOVERNOR

Veterans Trust Fund Condition Statement. The following table shows the fund condition statement for the veterans trust fund, reflecting fund appropriations under the bill and estimated revenues during the 2015-17 biennium.

Estimated Veterans Trust Fund Condition, AB 21/SB 21

	2015-16	2016-17
Opening Balance, July 1	$1,414,600	$0
Revenues	2,990,000	2,766,100
Total Available	$4,404,600	$2,766,100
Appropriations	$18,394,200	$19,411,200
Ending Balance, June 30	-$13,989,600	-$16,645,100

Veterans Employment Grant Program. Provide $500,000 annually to reflect the transfer of the veterans employment grant program from the Department of Workforce Development (DWD) to the Department of Veterans Affairs.

Veterans Education Grant Funding. Reduce funding by $750,000 in 2015-16 for the veterans tuition reimbursement program, to reflect a reduction in the demand for reimbursement under the program.

Transfer Mortgage Loan Administration Functions to DVA's General Loan and Grant Administration Appropriation. Reduce funding by $3,180,500 SEG and eliminate 33.05 SEG positions, beginning in 2015-16, in the general program operations appropriation for the veterans mortgage loan program, and provide corresponding SEG funding and position increases in the Department's appropriation for administration of loans and aids to veterans to reflect a transfer of the responsibility for some of the administrative costs of the veterans mortgage loan programs.

DISCUSSION POINTS

1. As shown in the veterans trust fund condition table above, VTF fund expenditures are expected to exceed fund revenues in each year of the biennium. Although this results in a projected negative ending fund balance beginning in both years, DVA indicates that some combination of actions to increase revenues or decrease expenditures will be taken to maintain a positive balance. Reflecting this assumption, the table shows an opening balance of $0 for the 2016-17 fiscal year. This paper provides background on the recent history of budget management measures related to the VTF, including the transfer of PR appropriation balances from the state veterans homes appropriations, discusses a provision in the bill related to the veterans mortgage loan repayment fund and its effect on VTF expenditures, describes some adjustments that could be made to VTF appropriations, and provides some alternative measures related to maintaining VTF solvency.

Veterans Trust Fund and State Veterans Homes Appropriation Balances

2. The veterans trust fund has some sources of ongoing revenues, but the Legislature has relied primarily on one-time transfers from other sources to maintain the solvency of the fund over the past two decades. In recent years, there have been transfers from the general fund of $5.0 million in 2011-12 and $5.3 million in 2013-14 and transfers from unappropriated PR balances from

the appropriations for the state veterans homes of $1.1 million in 2006-07 and $7.0 million in 2008-09.

3. During the 1990s, the Legislature approved several transfers of assets to the VTF consisting of veterans loan portfolios and the proceeds from the sale of loan portfolios, as well as cash from the veterans mortgage loan repayment fund. These assets were used to support existing veterans benefit programs, but also to capitalize new loan programs, including the personal loan program and the consumer loan program (since repealed). Repayments from these loan programs have provided the primary source of ongoing revenue since that time. However, due to a depletion in the amount of trust fund revenue available to make new loans, as well as to a decrease in the demand for loans, the Department stopped issuing new loans in 2011. Accordingly, loan repayment revenue to the VTF has declined steadily in recent years. To illustrate, loan repayments to the VTF totaled $6.6 million in 2010-11, but are expected to be $1.0 million in 2015-16 and $0.8 million in 2016-17.

4. The following table shows the fund condition statement for the VTF for past five years, as identified in the state's Annual Fiscal Report.

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

	2009-10	2010-11	2011-12	2012-13	2013-14
July 1 Undesignated Fund Balance	$27,411	$23,573	$18,384	$19,777	$15,272
Revenue	$14,391	$12,517	$10,073	$6,577	$3,982
Expenditures	$18,026	$17,503	$13,680	$11,062	$11,850
Inter-Fund Transfers	-$203	-$203	$5,000	$0	$5,300
June 30 Undesignated Fund Balance	$23,573	$18,384	$19,777	$15,272	$11,196
Difference Between Ongoing Revenue and Expenditures	-$3,635	-$4,986	-$3,607	-$4,485	-$7,868

5. In response to a declining VTF balance, the 2011-13 budget authorized DVA to make transfers during that biennium from the state veterans homes PR appropriation balances to the VTF, with the approval of the Joint Committee on Finance under a 14-day passive review process. In passing the 2013-15 budget, the Legislature made that authority permanent, although in signing the bill, the Governor vetoed the requirement that the Department receive approval of the Joint Committee on Finance prior to the transfer. DVA has not yet used this authority, although the Department indicates that this mechanism would be used in the 2015-17 biennium to maintain a positive balance in the fund.

6. The unappropriated PR balance in the Department's appropriation for institutional operations at the state veterans homes was $31.2 million at the close of 2013-14, and, is anticipated

to increase to $41.0 million in 2014-15. Under the Department's revenue assumptions and the budget authority provided under the bill, the balance would increase to approximately $46.0 million in 2015-16, and $51.1 million in 2016-17, in the absence of any revenue transfers to the veterans trust fund. This PR appropriation balance is well in excess of the amount that would be needed to maintain a positive balance in the veterans trust fund, provided DVA exercises its authority to transfer unexpended PR balances.

7. The state veterans homes program revenue appropriation receives revenue primarily from the medical assistance (MA) program, federal veterans per diem payments, payments by residents, federal service-connected disability payments, and Medicare. Historically, MA program payments have been the largest source of revenue and are the primary reason that, in recent years, the unappropriated PR balance has continued to increase. MA program payments to the state veterans homes are based on the Medicare upper limit payment methodology, which can exceed the actual, average cost of providing care. This is particularly the case since federal per diem payments received on behalf of residents who are veterans are not counted as an offsetting revenue when calculating the payment. As long as the homes remain at or near capacity, as they have been in recent years, the Department expects that revenues will exceed the cost of providing care at those facilities.

Veterans Mortgage Loan Repayment Fund

8. The veterans mortgage loan repayment fund (VMLRF) is used primarily for the payment of debt service on general obligation bonds issued for the purpose of making mortgage and home improvement loans to veterans. Revenues to the fund consist primarily of loan payments from participating veterans. In December of 2011, the Department placed an indefinite moratorium on the issuance of new loans, citing its inability to compete with low conventional market interest rates and a decrease in the demand for loans. Over the past five years, the number of home mortgage loans outstanding declined from over 1,800 to about 700 currently, and the amount of outstanding loan principal went from $180 million to $60 million currently.

9. The general administrative functions of the Department have traditionally been funded partially with an appropriation made from the VTF and partially from an appropriation from the VMLRF. As the loan program activities have decreased, a case can be made that there is no longer a sound rationale for sharing general administrative functions between the Department's two funds. The bill would transfer 33.05 positions to the Department's VTF-funded administrative appropriation, which has the effect of increasing VTF appropriations by $3,180,500 annually. This change is reflected in the VTF condition statement shown on page 2.

10. The transfer of positions and funding responsibility to the VTF has the effect of reducing VMLRF appropriations. The administration cites the declining balance in the VMLRF, and the need to reserve fund revenues for the payment of debt service, as the primary reasons to transfer positions to the VTF appropriation. The following table shows the VMLRF condition statement for the past five years, as shown in the state's Annual Fiscal Report.

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

	2009-10	2010-11	2011-12	2012-13	2013-14
July 1 Undesignated Fund Balance	$71,964	$59,619	$31,849	$31,262	$16,159
Revenue	$58,012	$68,023	$53,583	$41,727	$24,707
Expenditures	$70,243	$95,678	$54,170	$56,830	$29,670
Inter-Fund Transfers	-$114	-$115	$0	$0	$0
June 30 Undesignated Fund Balance	$59,619	$31,849	$31,262	$16,159	$11,196
Difference Between Ongoing Revenue and Expenditures	-$12,231	-$27,655	-$587	-$15,103	-$4,963

11. The transfer of the funding responsibility of DVA administrative functions from the VMLRF appropriation to the VTF appropriation also has the effect of increasing the amount of unappropriated state veterans home PR balances that would have to be transferred to the VTF to maintain the solvency of that fund. If the Committee decides that increasing the PR transfer is not desirable, this item could be deleted [Alternative A2]. However, if the VMLRF-funded administrative functions are not transferred to the VTF, there is a risk that the VMLRF would not have sufficient revenues to pay debt service during the 2015-17 biennium or in future years. Since the bonds that were issued for the purpose of making loans are general obligation bonds (backed by the full faith and credit of the state), any debt service owed on mortgage bonds that is not paid from the VMLRF due to fund insufficiency would instead be paid from the general fund.

Potential Adjustments to VTF Appropriations

12. The Department has several programs for which expenditures are less than the amount appropriated, perhaps reflecting that demand for these assistance programs is less than it had been in earlier years. Consequently, the Department has typically lapsed unspent amounts from these appropriations in recent years. The Committee could make a decision to reduce these appropriations to more accurately reflect the anticipated expenditures in these programs, as well as more accurately reflect the amount of PR balances from state veterans home appropriations that would need to be transferred to the VTF. The next several points outline some potential adjustments.

13. The veterans tuition reimbursement program provides grants to qualifying veterans whose education expenses are not covered under federal education programs or the state's University of Wisconsin and Wisconsin Technical College tuition remission programs for veterans. Expenditures under the program have declined significantly in recent years, likely as a result of more veterans receiving assistance through the federal Post-9/11 G.I. Bill. In 2011-12, the total amount expended for the tuition reimbursement program was $992,000, but that had declined to $468,100 in 2013-14, and spending is on pace to be less than $400,000 in 2014-15. Given this

decline, the Committee may want to adjust the appropriation to more accurately reflect anticipated spending. Base funding for the program is $1,403,100. The bill would reduce funding by $750,000 in 2015-16, providing $653,100 in that year, but would retain base funding in 2016-17. Based on expenditure trends, an appropriation of $500,000 would likely provide sufficient funding to meet anticipated demand under the program. This adjustment would be an appropriation decrease of $153,100 SEG in 2015-16 and $903,100 SEG in 2016-17, relative to the bill [Alternative B1a].

14. The assistance to needy veterans program provides subsistence aid and assistance with the purchase of dentures, hearing aids, and eye glasses for eligible veterans and their families who have income below 180% of the federal poverty level. The program would be funded at the base level of $970,000 annually under the bill, but expenditures for grants under the program have averaged just $420,000 over the past three years. An annual reduction to this appropriation of $470,000 would provide $500,000 annually, which would likely provide sufficient budget authority to make grants during the 2015-17 biennium [Alternative B1b]. If insufficient funds are provided in this appropriation, the Department is authorized to make a request to the Committee for supplemental funding under a 14-day passive review process.

15. The veterans employment grant program is administered by the Department of Workforce Development (DWD), but is funded with a sum-sufficient appropriation from the veterans trust fund. The program provides a grant of $4,000 for an employer who hires a veteran on a full-time basis who has a service-connected disability rating of at least 50% and was receiving unemployment compensation at the time of the hire. Grants of $2,000 are available in each of the next three years if the employer continues to employ the veteran. [Smaller grants are available for employers who hire a qualifying veteran on a part-time basis.] The program was converted from a tax credit program to a DWD grant program by the 2013-15 biennial budget, but DWD has not made any grants to date, and no tax credits had been provided prior to the conversion of the program. The bill would transfer the program to the Department of Veterans Affairs, and DVA believes that the program would be utilized given additional publicity. Nevertheless, a reestimate of the appropriation may be warranted given the low demand for the program. An appropriation of $100,000 would be sufficient to provide full grants to 25 qualifying veterans. This adjustment would reduce VTF appropriations by $400,000 annually [Alternative B1c].

Budget Provisions Related to VTF Solvency

16. The use of the state veterans homes' PR appropriation balances to maintain solvency of the VTF involves diverting funds that could otherwise be used for providing care at the homes, as well as using those funds for a purpose that is different from which they were collected. If the Committee decides that this diversion of funds from the PR balances is inappropriate, it could decide to make a transfer from the general fund instead [Alternative C1]. However, in an environment in which many general fund-supported programs are facing reductions due to an insufficiency of funds, it may be difficult to allocate general fund revenues for this purpose.

17. The use of state veterans homes PR balances may be justified on the grounds that while the funds are collected for the care of veterans at the homes, they are being used for the benefit of all state veterans when transferred to the VTF. Furthermore, since state veterans homes are paid by the MA program at the Medicare upper limit and also receive a federal per diem

payment for residents who are veterans, they are reimbursed for care at a higher level than most nursing homes that rely heavily on public funding sources. Consequently, the state veterans homes may be able to provide a higher level of care than other nursing homes, even with the diversion of PR balances to the VTF.

18. The Committee could decide that a transfer of PR appropriation balances is the best way to maintain the solvency of the VTF, but that such transfers should be a matter over which the Legislature, rather than the Department, should exercise control. In this case, the Committee could decide to delete the Department's authority to make transfers from the PR balances and instead make transfers as part of the bill [Alternative C2].

19. For the presentation of the general fund condition statement, it is typical to assume some amount of appropriation lapses, reflecting the expectation of unspent funds in biennial and annual appropriations. In addition to, or instead of, the appropriation reductions described above, it may be appropriate to also reflect appropriation lapses for the VTF condition statement. In addition, it is likely that the Department will lapse funds from 2014-15 appropriations, which would result in an increase in the 2015-17 opening balance, relative to the statement shown on page 2. Based on current spending patterns and past lapse history, it is estimated that the Department will lapse $3,500,000 from VTF annual and biennial appropriations in 2014-15, in which case the estimated opening balance of the fund would be estimated at $4,914,600. If the Committee adopts the appropriation adjustments described in the previous section, this would reduce VTF appropriations, relative to the bill, by $2,796,200 over the biennium. In addition, based on lapses in prior years, it is estimated the Department would lapse $1,500,000 annually from VTF appropriations. The following table shows the VTF condition statement under these assumptions. The table also includes an amount of supplemental revenues from other sources (GPR or PR transfers) that would be needed to maintain VTF solvency.

Revised Veterans Fund Condition Statement, Including Lapse Assumptions and Appropriation Adjustments

	2015-16	2016-17
Opening Balance, July 1	$4,914,600	$33,500
Revenues	2,990,000	2,766,100
Total Available	$7,904,600	$2,799,600
Appropriations	$17,371,100	$17,638,100
Estimated Lapse	-1,500,000	-1,500,000
Total Expenditures	$15,871,100	$16,138,100
Supplemental Revenue	$8,000,000	$13,500,000
Ending Balance, June 30	$33,500	$161,500

ALTERNATIVES

A. Transfer Mortgage Loan Administrative Functions to Veterans Trust Fund

1. Approve the Governor's recommendation to reduce funding by $3,180,500 SEG and

eliminate 33.05 SEG positions annually in the general program operations appropriation for the veterans mortgage loan program, and provide corresponding SEG funding and position increases in the Department's appropriation for administration of loans and aids to veterans.

2. Delete provision.

B. Veterans Trust Fund Appropriation Adjustments

1. Modify veterans trust fund appropriations to reestimate the amount of funding required for DVA programs, as follows:

a. Reduce funding for the veterans tuition reimbursement program by $153,100 SEG in 2015-16 and by $903,100 SEG in 2016-17, to provide $500,000 annually for the program, the estimated amount needed to provide reimbursement grants during the biennium.

ALT B1a	**Change to Bill**
SEG	- $1,056,200

b. Reduce funding for the assistance for needy veterans program by $470,000 SEG annually, to provide $500,000 annually for the program, the estimated amount needed to provide grants during the biennium.

ALT B1b	**Change to Bill**
SEG	- $940,000

c. Reduce funding for veterans employment grant program by $400,000 SEG annually, to provide $100,000 annually in the sum sufficient appropriation for the program, to reflect an estimate of the amount provided in grants during the biennium.

ALT B1c	**Change to Bill**
SEG	- $800,000

2. Adopt the Governor's recommended funding levels for the three programs. [This alternative would result in an increase in appropriation lapses of $870,000 in 2015-16 and $1,926,200 in 2016-17, relative to the fund condition statement shown under Point #19, based on the assumption that the these funds would be unspent.]

ALT B2	**Change to Bill**
SEG-Lapse	$2,796,200

C. Funding Supplements for the Veterans Trust Fund

1. Transfer $8,000,000 in 2015-16 and $13,500,000 in 2016-17 from the general fund to the veterans trust fund to maintain solvency of the fund.

ALT C1	Change to Bill
GPR-Transfer	$21,500,000
SEG REV	$21,500,000

2. Delete the current law provision that gives the Department of Veterans Affairs the authority to transfer unappropriated balances from the PR appropriations for the state veterans homes. Transfer $8,000,000 in 2015-16 and $13,500,000 in 2016-17 from the unappropriated balances in the PR appropriations for state veterans homes to the veterans trust fund to maintain solvency of the fund.

ALT C2	Change to Bill
PR Transfer	$21,500,000
SEG REV	$21,500,000

3. Maintain current law. [Under this alternative, it is assumed that DVA would transfer unappropriated balances from the PR appropriations as needed to maintain the solvency of the fund.]

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