



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #800

### **Overview of the 10-Year Solvency Plan for the Veterans Trust Fund (DVA -- Veterans Trust Fund)**

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Assembly Bill 100 contains several items relating to implementing a 10-year solvency plan for the veterans trust fund. The intended purpose of the solvency plan is to ensure that the fund will have sufficient revenues available to meet its anticipated expenditures requirements from the 2004-05 fiscal year until the 2013-14 fiscal year. The Wisconsin Board of Veterans Affairs, which oversees the Department of Veterans Affairs (DVA), approved the solvency plan at its June 18, 2004, meeting.

The Governor has recommended most of the elements of the 10-year solvency plan as part of the 2005-07 biennial budget. A number of these modifications would affect the benefits offered by veterans programs that are currently supported from the fund. The principal thrust of these modifications is to change program eligibility requirements or to adjust the level of benefits provided in order to reduce the annual amount of expenditures from the veterans trust fund for these programs. The Governor has also recommended several initiatives that would have the effect of increasing revenues to the veterans trust fund. The combined effect of these expenditure reductions and revenue enhancements under the Department's projections is to provide a positive cash balance in the fund into the beginning of the 2013-15 fiscal biennium.

The veterans trust fund was created in 1961 through the consolidation of three predecessor funds: the soldiers rehabilitation fund; the post-war rehabilitation fund; and the veterans housing trust fund. The assets of the fund, as of June 30, 2004, amounted to \$97,253,100 and consisted of outstanding loans (\$58,300,100), cash and investments (\$29,356,300), the depreciated value of property and equipment (\$8,385,500) and miscellaneous accounts receivable and prepayments (\$1,211,200). The annual costs of agency administration and current program benefits paid from the fund must be supported from its available balances (cash and investments).

For the 2003-04 fiscal year, the last year for which complete data is available, revenues to the fund (\$20,744,800) consisted primarily of loan repayment amounts (\$16,249,100), interest

payments on those outstanding loans (\$4,059,700), and minor other income and revenue (\$436,000).

Total annual fund disbursements in 2003-04 (\$25,224,300) consisted of agency administrative expenses (\$6,081,200), new loans and related expenses (\$11,808,600), new grants to veterans (\$6,222,600), and new grants to veterans organization, counties, and others (\$1,111,900). For the 2003-04 fiscal year, expenditures from the veterans trust fund exceeded revenues by \$4,479,500. This structural imbalance resulted in a drawdown of the fund's July 1, 2003, opening balance of \$33,835,800 to \$29,356,300 by June 30, 2004.

In recent years, the condition of the fund has been affected by declining interest rates, the continuing expansion of existing programs, and the creation of new programs. Falling interest rates have decreased the amount of earnings that the fund may derive from that source, while various program expansions have increased the draw on the fund. Among the program expansions in the last two years are the following: (1) increasing educational grant reimbursements from 85% to 100% of the UW-Madison resident undergraduate tuition and fees; and (2) funding all museum operations from the veterans trust fund rather than from a mix of the general fund, tribal gaming revenues, and trust fund revenues; (3) partially supporting the Veterans Home Nurses Education Stipend Program from the fund; and (4) increasing the maximum amount of a personal loan program loan from \$15,000 to \$25,000.

In the absence of immediate program adjustments, DVA projected in early 2004-05 that the continuing structural imbalance in the fund would deplete its available cash balance by the 2006-07 fiscal year, based on the agency's estimate of administrative and program costs for the 2005-07 biennium. Table 1 summarizes the Department's projections at that time.

**TABLE 1**

**Projected Veterans Trust Fund Balances (No Solvency Plan)  
(2005-07 Biennium)**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
<b>Revenues</b>			
Beginning Cash Balance	\$29,356,300	\$15,818,500	\$2,205,100
Receipts	<u>15,461,000</u>	<u>15,541,700</u>	<u>15,360,200</u>
Total Available	\$44,817,300	\$31,360,200	\$17,565,300
<b>Expenditures</b>			
Administration	\$6,765,800	\$6,899,100	\$7,020,700
Program Activity	10,233,000	10,256,000	10,279,500
Loans <sup>a</sup>	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>
Total Expenditures	\$18,998,800	\$29,155,100	\$29,300,200
Year-End Balance	\$15,818,500	\$2,205,100	-\$11,734,900

<sup>a</sup> Projected loan originations.

To address the prospect of a near-term deficit in the veterans trust fund, DVA has developed a 10-year solvency plan for the fund. The plan includes a number of expenditure reductions relating to program benefits and program administration. The principal elements of these expenditure reductions are as follows:

**Personal Loan Program** [*LFB 2005-07 Budget Summary: Page 511, #1*]. Delete \$5,300,000 SEG annually under the personal loan program in connection with the following modifications:

- Reduce the amounts available for personal loans from \$15,000,000 per year to \$10,000,000 per year.
- Reduce loan administrative costs from \$450,000 per year to \$150,000 per year.

[These modifications reflect the Governor's intent. The bill would actually delete \$5,450,000 SEG annually and allocate the reductions in a different manner.]

**Economic Assistance Grants (Health Care Aid Grants and Subsistence Grants)** [*LFB 2005-07 Budget Summary: Page 511, #2*]. Delete \$850,000 SEG annually for Health Care Aid Grants and \$509,300 SEG annually for Subsistence Grants in connection with the following modifications:

- Limit a veteran to a \$5,000 lifetime cumulative grant maximum from both programs.
- Terminate the eligibility of a veteran's spouse, widow, or dependents for benefits under either program.
- Specify that Health Care Aid Grants could be used only for the reimbursement of dental care (subject to a maximum of \$2,500), vision care (subject to a maximum of \$500), and hearing care (subject to a \$1,500 maximum per ear) during any consecutive 12-month period.
- Specify that Subsistence Aid Grants would be subject to a \$2,000 per occurrence maximum during any consecutive 12-month period.

**Administrative Cost Reductions** [*LFB 2005-07 Budget Summary: Page 513, #3*]. Delete \$923,700 SEG and 16.7 SEG administrative and program positions annually supported by the veterans trust fund. In related veterans trust fund administrative cost reduction measures, \$300,000 SEG annually of Wisconsin Veterans Museum operational funding would be shifted to GPR-supported funding, and \$82,400 SEG annually and 1.0 SEG position for American Indian veterans services would be shifted to tribal gaming revenues.

**Educational Grant Programs** [*LFB 2005-07 Budget Summary: Page 513, #4*]. Delete \$760,000 SEG annually in connection with the consolidation of the Tuition and Fee Reimbursement Grant program and the Part-Time Study Grant program.

- Eliminate reimbursements for student fees, except in the case of disable veterans.
- Link the maximum number of credits for which reimbursement may be received to the number of days served on active duty for purposes other than training.
- Establish an overall benefit limitation of 120 credits or eight semesters of reimbursements, whichever comes first.
- Index the income eligibility maximum for the new program to the state's median household income.
- Authorize the Department to adjust the rates of reimbursement based on the availability of appropriated funds, except for disabled veterans whose rate of reimbursement could not be reduced.
- Prohibit any veteran who is eligible for or has received either a National Guard Tuition Grant under the Department of Military Affairs or an education grant provided by the U.S. Department of Defense from receiving a benefit under the DVA educational grants.
- Applicable to participants under the former Part-Time Study Grant program, eliminate program eligibility for graduate study, eliminate reimbursements for the unremarried spouses and dependents of deceased veterans, and stipulate that the veteran must use the grants for courses begun no later than 10 years after separation from service (except that this limitation would not apply for reimbursement of up to 60 credits of part-time classroom study courses).

**Veterans Assistance Program** [*LFB 2005-07 Budget Summary: Page 515, #5*]. Delete \$730,000 SEG annually and provide \$315,500 FED annually of increased federal per diem payments to reflect the partial funding conversion of the veterans assistance program, which provides temporary housing, counseling, access to medical services, and training to homeless veterans.

**Retraining Grant Program** [*LFB 2005-07 Budget Summary: Page 516, #6*]. Delete \$186,000 SEG annually for the veterans retraining grant program in connection with the following changes that would be implemented by administrative rule:

- Limit eligibility to \$3,000 per occurrence.
- Establish a lifetime benefit limit of \$6,000.
- Specify that grants would be provided only for completed training programs.
- Specify that DVA would be the payer of last resort.

**Funeral Honors Program** [*LFB 2005-07 Budget Summary: Page 516, #7*]. Delete \$175,500 SEG annually related to the discontinuation of a the payments of a \$50 stipend to local veterans groups that provide military honor details a veteran's funeral.

In addition to these expenditure reductions, DVA has also proposed statutory modifications that would provide the sources of additional revenue to the veterans trust fund. These revenue-enhancing measures are as follows:

**Veterans and Military Motor Vehicle Registration Specialty Plates** [LFB 2005-07 Budget Summary: Page 517, #8]. Establish an annual \$15 fee for the issuance or renewal of 40 different veterans and military special group license plates. Create a new special group license plate for persons interested in supporting veterans and specify that this new plate would also have an additional issuance and renewal fee of \$15. Provide that these issuance and renewal fees would be credited to the veterans trust fund. DVA estimates that \$500,000 annually would be credited to the veterans trust fund from these fees.

**Veterans Trust Fund Tax Check-Off** [LFB 2005-07 Budget Summary: Page 517, #9]. Create tax check-offs on the individual income tax forms and on the corporate income and franchise tax forms to permit these taxpayers to donate to the veterans trust fund. The taxpayer making such an election would either increase his or her payments or decrease the amount of his or her tax refund by the amount of the designation. DVA estimates that \$500,000 annually would be credited to the veterans trust fund from these designations.

Following the adoption of the 10-year solvency plan by the DVA Board on June 18, 2004, the Department adjusted its target for personal loan program disbursement to \$2,500,000 SEG in 2004-05 to reduce the draw on the veterans trust fund until the necessary legislative modifications to current programs could be authorized by the 2005 Legislature.

Table 2 summarizes what the Department categorizes as its annual administrative costs that are chargeable to the veterans trust fund in 2004-05 and in 2005-06 and 2006-07, as affected by the implementation of the 10-year solvency plan under the bill.

**TABLE 2**  
**Comparative Administrative Costs under the 10-Year Solvency Plan**

<u>Expenditure Purpose</u>	<u>2004-05</u>	<u>AB 100 Amounts</u>	
		<u>2005-06</u>	<u>2006-07</u>
General Program Operations	\$4,159,800	\$3,924,500	\$3,894,200
Museum Operations	1,795,000	1,628,000	1,628,000
Funeral Honors	175,500	0	0
Cemetery Operations	711,300	646,700	646,700
Cemetery Operations Debt Service	99,700	99,200	98,800
American Indian Services Coordinator	<u>57,800</u>	<u>0</u>	<u>0</u>
Total Administrative Costs	\$6,999,100	\$6,298,400	\$6,267,700

Table 3 summarizes what the Department categorizes as its annual non-administrative program funding that is chargeable to the veterans trust fund in 2004-05 and in 2005-06 and 2006-07, as affected by the implementation of the 10-year solvency plan under the bill.

**TABLE 3**  
**Comparative Program Costs under the 10-Year Solvency Plan**

<u>Expenditure Purpose</u>	<u>2004-05</u>	<u>AB 100 Amounts</u>	
		<u>2005-06</u>	<u>2006-07</u>
American Indian Grants	\$15,000	\$0	\$0
County Service Officer Grants	297,500	297,500	297,500
Education Grants	5,589,200	2,600,000	2,600,000
Health Care Aid Grants	1,500,000	650,000	650,000
Loan Administration <sup>a</sup>	821,500	150,000	150,000
Minor Program Allocations <sup>b</sup>	12,500	12,500	12,500
Nursing Grant Stipend <sup>c</sup>	43,700	43,700	43,700
Retraining Grants	378,000	192,000	192,000
Subsistence Grants	681,300	172,000	172,000
Transportation Grants	200,000	200,000	200,000
Veterans Assistance Program	1,501,600	704,400	704,400
Veterans Assistance Program FED Per Diems	519,700	897,100	941,700
Veterans Assistance Program Receipts	80,000	80,000	80,000
Veterans Organizations	<u>177,500</u>	<u>177,500</u>	<u>177,500</u>
Total Program Costs	\$11,817,500	\$6,176,700	\$6,221,300

<sup>a</sup> In 2004-05 includes \$557,600 SEG in bad debt write-offs.

<sup>b</sup> Home for Needy Veterans program and Veterans of World War I program.

<sup>c</sup> Appropriated under the Department of Health and Family Services.

Based on these expenditure adjustments proposed under the bill as part of the 10-year solvency plan, revised revenue projections, and anticipated personal loan originations, Table 4 estimates the available cash balance in the veterans trust fund during for the 2005-07 fiscal biennium.

**TABLE 4****Projected Veterans Trust Fund Balances (10-Year Solvency Plan)  
(2005-07 Biennium)**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
<b>Revenue</b>			
Beginning Cash Balance	\$29,356,300	\$24,495,400	\$18,651,600
Receipts	<u>16,455,700</u>	<u>16,631,300</u>	<u>17,030,300</u>
Total Available	\$45,812,000	\$41,126,700	\$35,681,900
<b>Expenditures</b>			
Administration	\$6,999,100	\$6,298,400	\$6,267,700
Program Activity	11,817,500	6,176,700	6,221,300
Loans	<u>2,500,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Total Expenditures	\$21,316,600	\$22,475,100	\$22,489,000
Year-End Balance	\$24,495,400	\$18,651,600	\$13,192,900

While total budgeted expenditures from the veterans trust fund would increase in both fiscal years of the 2005-07 biennium, compared to 2004-05, this increase is attributable to additional activity projected under the personal loan program. The additional loan activity is projected to increase fund revenues from interest earnings over the near term.

**Long-Term Prospects for the Veterans Trust Fund.** Beyond the 2005-07, the Department has projected the estimated revenues from investments, loan repayments, veterans registration plate fees, income tax designations, and miscellaneous income through the 2013-14 fiscal year. The Department's projections for the veterans trust fund through 2013-04 are summarized in Table 5.

Included in these long-term projections are estimates of DVA's estimated administrative and benefit program expenditures over the same period. For each year after 2006-07, the Department has assumed a 2% annual growth in its annual administrative costs. Further, the Department has assumed no growth in the costs of its benefit programs funded from the veterans trust fund during the same period.

It is unlikely that the actual expenditures that the Department will incur over the next several bienniums for administrative and program costs will reflect the Department's projections. Historically, over the last six fiscal years, actual administrative costs have increased at a rate of more than 10% annually, while program costs have increased a rate of more than 13% annually (in part, due to the development of new programs supported by the veterans trust fund, and the expansion of existing programs). While many of the agency's proposed changes under its 10-year solvency plan will undoubtedly slow these rates of growth in future years, it is unlikely that

these rates will fall to the levels currently being projected by the Department. Consequently, it is likely that additional program modifications or revenue enhancements to the veterans trust fund will again have to be addressed by the Legislature before the 2013-15 fiscal biennium.

This office has prepared several papers relating to the 10-year solvency plan for the veterans trust fund (Issue Papers #801 through #805). Although each of these papers presents alternatives for the Committee's consideration, the choices available to the Committee are interrelated.

Prepared by: Darin Renner

**TABLE 5**  
**10-Year Estimate of Revenues and Expenditures**  
**(2004-05 through 2013-14)**

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
<b>Revenue</b>										
Beginning cash balance	\$29,356,300	\$24,495,400	\$18,651,600	\$13,192,900	\$13,985,300	\$13,320,500	\$12,633,400	\$10,440,300	\$7,170,300	\$2,927,500
Revenues and Receipts	<u>16,455,700</u>	<u>16,631,300</u>	<u>17,030,300</u>	<u>17,406,800</u>	<u>16,077,400</u>	<u>15,185,500</u>	<u>13,812,500</u>	<u>11,871,300</u>	<u>9,037,000</u>	<u>6,660,000</u>
Total Available	\$45,812,000	\$41,126,700	\$35,681,900	\$30,599,700	\$30,062,700	\$28,506,000	\$26,446,000	\$22,311,600	\$16,207,300	\$9,587,500
<b>Expenditures</b>										
Administration	\$6,999,100	\$6,298,400	\$6,267,700	\$6,393,100	\$6,520,900	\$6,651,300	\$6,784,400	\$6,920,000	\$7,058,500	\$7,199,600
Benefit Programs	11,817,500	6,176,700	6,221,300	6,221,300	6,221,300	6,221,300	6,221,300	6,221,300	6,221,300	6,221,300
Loans	<u>2,500,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>2,000,000</u>	<u>0</u>	<u>0</u>
Total Expenditures	\$21,316,600	\$22,475,100	\$22,489,000	\$16,614,400	\$16,742,200	\$15,872,600	\$16,005,700	\$15,141,300	\$13,279,800	\$13,420,900
Year-End Balance	\$24,495,400	\$18,651,600	\$13,192,900	\$13,985,300	\$13,320,500	\$12,633,400	\$10,440,300	\$7,170,300	\$2,927,500	-\$3,833,400