



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #850

Veterans Homes – Energy Costs (DVA -- Homes and Facilities for Veterans)

Bill Agency

[LFB 2007-09 Budget Summary: Page 586, #1]

CURRENT LAW

The Department of Veterans Affairs (DVA) funds the costs of fuel and utilities for the state veterans homes from an appropriation that supports the general operations of these facilities. Base funding for these costs is \$1,291,500 PR for the Veterans Home at King, and \$798,100 PR for the Veterans Home at Union Grove. The PR is supported by member contributions, per diem payments paid by the U.S. Department of Veterans Affairs, and medical assistance (MA) payments.

In addition, DVA funds the costs of fuel and utilities from for the Northern and Southern Veterans Memorial Cemeteries from a single appropriation. Base funding for these costs is \$21,800 SEG from the veterans trust fund.

GOVERNOR

Provide \$1,633,000 (\$1,604,100 PR and \$28,900 SEG) in 2007-08 and \$2,314,900 (\$2,280,900 PR and \$34,000 SEG) in 2008-09 to fund projected increases in energy and utility costs at facilities operated by DVA. This item includes funding to support energy and utility costs at: (a) Northern and Southern Wisconsin Veterans Memorial cemeteries (\$28,900 SEG in 2007-08 and \$34,000 SEG in 2008-09); (b) the Veterans Home at King (\$1,574,200 PR in 2007-08 and \$2,126,800 PR in 2008-09); and (c) the Veterans Home at Union Grove (\$29,900 PR in 2007-08 and \$154,100 PR in 2008-09).

DISCUSSION POINTS

1. The Veterans Home at Union Grove recently completed the construction of a 120-bed skilled nursing facility (Boland Hall). Occupancy of the facility has been growing steadily, and the March 1, 2007 census totaled 44 residents. It is anticipated that utility costs will increase during the 2007-09 biennium in response to occupancy increases and the expansion of services to include the opening of an activities center and operating a food service facility. Based on these assumptions, and expected energy and utility costs for 2006-07 to date, the increase provided under the bill for the Union Grove facility appears reasonable.

2. Base funding to support energy costs for the Veterans Home at King has not been adjusted since it was increased under 2003 Act 33 (the 2003-05 biennial budget act). Fuel and utility expenditures for the King campus have exceeded budgeted amounts each year since 2003-04, and have been supported through a series of requests under s. 16.515 of the statutes for supplemental program revenue funding. The following table compares base funding to actual annual fuel and utility expenditures for the King campus for the last three fiscal years, and for estimated 2006-07 expenditures.

TABLE 1

Fuel and Utility Expenditures for the Veterans Home at King

| | <u>2003-04</u> | <u>Increase</u> | <u>2004-05</u> | <u>Increase</u> | <u>2005-06</u> | <u>Increase</u> | <u>2006-07*</u> |
|--------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|
| Expenditures | \$1,391,500 | 21.3% | \$1,688,400 | 19.3% | \$2,014,600 | 2.3% | \$2,060,400 |
| Base Funding | <u>1,291,500</u> | | <u>1,291,500</u> | | <u>1,291,500</u> | | <u>1,291,500</u> |
| Shortfall | -\$100,000 | | -\$396,900 | | -\$723,100 | | -\$768,900 |

*Estimated

3. In its 2007-09 budget request, DVA assumed that energy costs would continue to increase at the Veterans Home at King at a rate of approximately 19% each year, based on annual cost increases from 2003-04 through 2005-06. The Governor recommended funding energy costs for the facility at the amount requested by the Department.

4. While fuel and utilities costs increased substantially in 2003-04 and 2004-05, costs appear to have stabilized somewhat in 2006-07. Accordingly, the Department of Administration has provided the following estimates of anticipated annual increases in the cost of gas, electricity, and wastewater services for agency budgeting purposes. These guidelines, which were developed based on price index scalers generated by Global Insight as part of their U.S. economic outlook report and on the expected consumer price index for 2007-09, were used by DOA to determine the funding provided for fuel and utilities appropriations for other state facilities. The following table shows the estimated annual fuel and utility cost increases projected by the administration, applied to the estimated utility expenditures for the King campus for 2006-07.

TABLE 2

**Estimated Fuel and Utility Costs at King,
Using Department of Administration Projected Utility Inflation Rates**

| | <u>2006-07</u> | Inflation <u>Rate</u> | <u>2007-08</u> | Inflation <u>Rate</u> | <u>2008--09</u> |
|-------------|----------------|--------------------------|----------------|--------------------------|-----------------|
| Electricity | \$515,800 | 5.00% | \$541,600 | 5.00% | \$568,600 |
| Gas | 1,254,100 | 10.40 | 1,384,600 | 4.00 | 1,439,900 |
| Wastewater | 271,100 | 3.50 | 280,600 | 3.50 | 289,000 |
| Misc. | <u>19,400</u> | | <u>19,400</u> | | <u>19,400</u> |
| | \$2,060,400 | | \$2,226,200 | | \$2,316,900 |

5. The amounts provided under the bill for energy costs at King would increase the base appropriation to \$2,865,700 in 2007-08 and \$3,418,300 in 2008-09. For 2007-08, this represents a 39% increase over anticipated 2006-07 energy costs for the King campus. DVA has argued that substantial energy cost increases in previous years necessitates higher base funding for utility costs.

6. The Committee could chose to provide the funding recommended under the bill for energy and utility cost increases at Union Grove and for the cemetery contracts, but reestimate the increase provided for energy and utility costs at King to reflect adjusted estimates shown in Table 2. Should this amount be insufficient for the Department's needs, DVA retains the option to submit a request under s. 16.515 of the statutes for supplemental program revenue funding. The following table shows the amount of funding that could be provided to fund DVA's reestimated energy and utility costs.

TABLE 3

Reestimated Fuel and Utility Costs

| | <u>2007-08</u> | <u>2008-09</u> |
|--------------------------------|----------------|----------------|
| Utility Increase - King | \$934,700 | \$1,025,400 |
| Utility Increase – Union Grove | 29,900 | 154,100 |
| Cemetery Contracts | <u>28,900</u> | <u>34,000</u> |
| Total Increase | \$993,500 | \$1,213,500 |
| Change to Bill | -\$639,500 | -\$1,101,400 |

7. Currently, most state agencies that operate facilities are budgeted funding to support fuel and utility costs of these facilities in appropriations that were specifically created for this purpose, rather as part of these agencies' general program operations appropriations. Examples of

these agencies include the State Historical Society, the Department of Public Instruction, the University of Wisconsin System, the Department of Corrections, the Department of Health and Family Services, and the Department of Military Affairs. This practice simplifies budgeting for these costs.

In order to conform DVA's appropriation structure to the standard of maintaining separate budgets for fuel and utilities costs from other supplies and services costs, the Committee could create a PR appropriation for DVA's fuel and utilities costs and transfer all funding budgeted for this purpose from the veterans homes general program operations appropriation to the new appropriation.

ALTERNATIVES TO BILL

A. Funding

1. Approve the Governor's recommendation to provide \$1,633,000 (\$1,604,100 PR and \$28,900 SEG) in 2007-08 and \$2,314,900 (\$2,280,900 PR and \$34,000 SEG) in 2008-09 to fund projected increases in energy costs at facilities operated by DVA, including cost for: (a) Northern and Southern Wisconsin Veterans Memorial cemeteries (\$28,900 SEG in 2007-08 and \$34,000 SEG in 2008-09); (b) the Veterans Home at King (\$1,574,200 PR in 2007-08 and \$2,126,800 PR in 2008-09); and (c) the Veterans Home at Union Grove (\$29,900 PR in 2007-08 and \$154,100 PR in 2008-09).

| ALT A1 | Change to Bill Funding | Change to Base Funding |
|--------|---------------------------|---------------------------|
| PR | \$0 | \$3,885,000 |
| SEG | <u>0</u> | <u>62,900</u> |
| Total | \$0 | \$3,947,900 |

2. Provide \$993,500 (\$964,600 PR and \$28,900 SEG) in 2007-08 and \$1,213,500 (\$1,179,500 PR and \$34,000 SEG) in 2008-09 to fund projected increases in energy costs at facilities operated by DVA. (This amount would provide the same amounts for the Veterans Memorial cemeteries and the Veterans Home at Union Grove as included in the bill, but would modify funding provided to the Veterans Home at King to reflect anticipated 2006-07 expenditures increased annually by the estimated inflation adjustment used by other state agencies to budget for energy costs, as shown in Table 2.)

| ALT A2 | Change to Bill Funding | Change to Base Funding |
|--------|---------------------------|---------------------------|
| PR | -\$1,740,900 | \$2,144,100 |
| SEG | <u>0</u> | <u>62,900</u> |
| Total | -\$1,740,900 | \$2,207,000 |

B. Fuel and Utility Appropriation

1. Create a fuel and utilities appropriation for DVA's health facilities. Transfer all funding budgeted for fuel and utilities costs from DVA's general program operations appropriation to the new appropriation.

2. Maintain current law.

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