



## Legislative Fiscal Bureau

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Joint Committee on Finance

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### **Overview of the Veterans Trust Fund (DVA -- General Agency Provisions)**

Under the bill there are several items that relate to the status of the veterans trust fund, that pertain either to the revenues or the amounts appropriated for a specific purpose. This paper outlines the status of the fund under the bill. There are no alternatives associated with this paper.

The fund's assets include cash on hand, investments, outstanding loans, pre-paid insurance and the depreciated value of its capital assets. The fund's liabilities include outstanding vouchers payable, debt service payable, and employee payroll deductions and payroll taxes payable. The bonds payable represents the principle balance of outstanding bonds.

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. Low investment returns have reduced the annual earnings of the fund at the same time various program expansions increased the draw on the fund.

#### **BACKGROUND**

The veterans trust fund finances the personal loan program and most of the grant and other programs operated by the Department of Veterans Affairs (DVA). In 1961, the veterans trust fund was created by consolidating the assets and liabilities of the soldiers rehabilitation fund, the post-war rehabilitation fund, and the veterans housing trust fund. From 1961 until the creation of the veterans mortgage loan repayment fund in 1974, the veterans trust fund was the only segregated fund for receipt of loan repayments and the disbursement of grants, loans and administrative expenses. Table 1 summarizes the source of veterans trust fund revenues since 1943 through a combination of special taxes, general fund appropriations, and other funding sources.

**TABLE 1****Sources of Veterans Trust Fund Revenues**

<u>Revenues Sources</u>	<u>Amount</u>
Pre-World War II balance	\$32,900
1943 Surtax on Income	7,636,400
1947-51 Liquor Tax Proceeds	<u>18,190,100</u>
Subtotal-Dedicated Revenue	\$25,859,400
1947 General Fund Appropriation	5,000,000
1951 General Fund Appropriation	4,000,000
1971 General Fund Appropriation	6,000,000
1972 General Fund Appropriation	5,900,000
1973 General Fund Appropriation	667,000
1974 General Fund Appropriation	1,033,000
1985 General Fund Appropriation	1,000,000
1986 General Fund Appropriation	400,000
1987 General Fund Appropriation	942,800
1988 General Fund Appropriation	<u>261,900</u>
Subtotal-GPR Appropriations	\$25,204,700
1969 Investment Board Loan	\$6,500,000
1973 General Fund Loan	13,500,000
1974 General Fund Loan	5,300,000
1974 Investment Board Loan	6,000,000
1975 Investment Board Loan	<u>6,000,000</u>
Subtotal-Loans	\$37,300,000
1991 WHEDA Loan Portfolio Proceeds	\$11,231,900
1993 Mortgage Loan Repayment Fund	
	Transfer
	20,000,000
1994 Asset Sale Proceeds	15,591,900
1997 Mortgage Loan Repayment Fund Transfer	5,627,200*
2007 Veterans Homes	1,131,200
2009 Veterans Homes	<u>7,000,000</u>
Subtotal--Other	\$60,582,200
 Total revenues	 \$148,946,300

\*In addition to this cash transfer, a portfolio of \$54.6 million in outstanding mortgage loans and \$7.9 million in home improvement loans were transferred to the veterans trust fund and the repayments may be used to support fund programs.

As indicated in the table, the principal revenue source for the veterans trust fund prior to 1991 was the general fund, which provided \$25.9 million in general tax collection receipts, \$25.2 million in direct appropriations, and \$37.3 million in loans. The loans to the trust fund, totaling

\$18.8 million from the general fund and \$18.5 million from the State of Wisconsin Investment Board have subsequently been fully repaid.

By the early 1990's, ongoing revenue sources for the trust fund were interest payments by veterans on outstanding second mortgage loans, economic assistance loans, and investment earnings on the cash and investment balances of the fund. In recent years, the annual expenditures from the fund have typically exceeded annual revenues. Declining interest rates have also affected the ability of the fund to generate additional revenues on loan repayments.

Periodically, in order to sustain program funding, additional sources of revenue have had to be found. For example, in the 1991-93 biennium, a veterans mortgage loan portfolio held by the Wisconsin Housing and Economic Development Authority (WHEDA) was sold. This sale generated \$11.2 million for the trust fund. There have also been two recent transfers from the veterans homes operating revenues to the trust fund: \$1,131,150 in 2006-07 and \$7,000,000 in 2008-09.

In the 1993-95 biennial budget, funds totaling \$20.0 million were transferred from the excess reserves of the veterans mortgage loan repayment fund to the veterans trust fund to create a one-time consumer loan program. The goal of the loan program (called the veteran trust fund stabilization loan program) was to create a high-demand program so that the funds would be lent quickly, with the repayments providing a flow of new revenue to the veterans trust fund. Because of high demand for the veterans consumer loan program, the original \$20 million was fully committed by October, 1993. Subsequent legislation (1993 Wisconsin Act 254) provided an additional \$15.6 million from the proceeds remaining after the sale of revenue bond mortgages and the retirement of the associated outstanding debt. These latter funds, also utilized for additional consumer loans, were largely depleted by December 31, 1994.

In the 1997-99 budget, a \$68.0 million portfolio of primary mortgage loans, home improvement loans and excess cash reserves was transferred from the veterans mortgage loan repayment fund to the trust fund to provide start-up funding for the new personal loan program (PLP). The transferred portfolio consisted of \$54.6 million in primary mortgage loans, \$7.9 million in home improvement loans and \$5.6 million in excess cash reserves. A purpose of creating the PLP was to generate an on-going revenue source for the veterans trust fund from personal loan interest payments.

Under 2005 Wisconsin Act 468, DVA was authorized to transfer up to \$16 million in 2006-07 from the agency's PR appropriation that supports the institutional operations of the Veterans Home at King and Union Grove to the trust fund, provided that the PR balance in the appropriation account is in excess of the amount needed to fund the operations of the veterans homes and the nurse stipend payments during the 2006-07 fiscal year. Under this provision, Department transferred a total of \$1,131,150 from the veterans homes account to the veterans trust fund in 2006-07.

Under 2007 Wisconsin Act 20 the Legislature authorized DVA to transfer an additional \$7 million during the 2007-09 biennium from the veterans homes to the trust fund, pending

passive review by the Joint Committee on Finance. On January 26, 2009, a transfer of the full \$7 million allotment was approved.

### Current Trust Fund Status

Table 2 shows the DVA's estimated revenues for the trust fund for the 2011-13 and 2013-15 biennia.

**TABLE 2**

### Veterans Trust Fund Revenues

<u>Investment Loan Interest</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Second Mortgage Loan Interest	\$1,489	\$1,130	\$813	\$573
Economic Assistance Loan Interest	156	68	7	0
Personal Loan Program Loan Interest	823,780	748,413	724,873	731,702
Disenfranchised Primary Mortgage Loan Interest	94,531	85,519	76,537	68,042
Home Improvement Loan Program Loan Interest	<u>408</u>	<u>5</u>	<u>0</u>	<u>0</u>
Subtotal	\$920,364	\$835,135	\$802,230	\$800,317
Loan Fees and Related Revenue				
Museum Sales	\$76,200	\$77,700	\$79,300	\$80,900
Gifts and Donations	148,000	151,000	154,000	157,100
Miscellaneous Revenues	188,000	188,000	188,000	188,000
Veterans Assistance Program Receipts, FED Per Diem	1,590,000	1,590,000	1,590,000	1,590,000
Earnings on Investment Pool Shares	39,800	34,000	0	0
Repayment to Trust Fund (GPR)	<u>416,800</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$2,458,800	\$2,040,700	\$2,011,300	\$2,016,000
Principal and Proceeds				
Second Mortgage Loan Principal Payments	\$9,693	\$8,474	\$6,669	\$3,658
Economic Assistance Loan Principal Payments	1,536	1,350	427	0
Personal Loan Program Loan Principal Payments	4,361,805	3,575,927	2,882,580	2,648,265
Home Improvement Loan Program Loan Principal Payments	11,451	578	0	0
Disenfranchised Primary Mortgage Loan Principal Payments	<u>157,370</u>	<u>157,422</u>	<u>153,552</u>	<u>146,333</u>
Subtotal	\$4,541,855	\$3,743,751	\$3,043,228	\$2,798,256
Total Revenues and Loan Collections	\$7,921,019	\$6,619,586	\$5,856,758	\$5,614,573

Table 3 shows the base funding and the modifications recommended under the bill. These amounts represent expenditures of trust fund revenues.

**TABLE 3**

**Base Funding and Modifications Under the Bill**

	<u>2011-12</u>	<u>2012-13</u>	<u>Positions</u>
Total Veterans Trust Fund Base Funding	\$19,083,200	\$19,083,200	84.92
<b>Veterans Assistance Program</b>			
Standard Budget Adjustments	28,600	28,600	
Increase Employee Contributions for Pensions and Health Insurance	-18,400	-18,400	
Eliminate Long-Term Vacancies	-68,600	-68,600	-1.00
<b>Veterans Assistance Program</b>	-296,300	-296,300	
Veterans Assistance Program Receipts	26,500	30,000	
<b>Facilities</b>			
Standard Budget Adjustments	-52,800	-52,800	
Veterans Museum Master Lease	52,800	52,800	
<b>Administration of Loans and Aids to Veterans</b>			
Standard Budget Adjustments	311,100	311,100	
Increase Employee Contributions for Pensions and Health Insurance	-233,600	-233,600	
Eliminate Long-Term Vacancies	-75,600	-75,600	-1.27
Transfer State Approving Agency Functions	-74,400	-74,400	-1.00
Public Information Funding	44,400	29,600	
Document Imaging	30,400	16,000	
<b>Wisconsin Veterans Museum Sales Receipts</b>			
Increase Employee Contributions for Pensions and Health Insurance	-100	-100	
Veterans Museum Store Receipts	72,400	37,400	
<b>Assistance to Needy Veterans</b>			
Assistance to Needy Veterans	-271,800	-271,800	
<b>Payments to Veterans Organizations</b>			
Payments to Veterans Organizations	-67,500	-67,500	
<b>Operation of Wisconsin Veterans Museum</b>			
Standard Budget Adjustments	95,600	95,600	
Increase Employee Contributions for Pensions and Health Insurance	-44,800	-44,800	
Museum Storage Facility	248,500	273,100	2.00
Limited-Term Employees for Veterans Museum	60,300	60,300	
Museum Exhibits	62,500	87,500	
<b>Federal Per Diem Payments for Veterans Assistance Program</b>			
Standard Budget Adjustments	10,100	10,100	
Increase Employee Contributions for Pensions and Health Insurance	-6,300	-6,300	
<b>Personal Loan Administration</b>			
Personal Loan Program	-100,000	-100,000	
<b>Personal Loans</b>			
Personal Loan Program	-2,000,000	-2,000,000	
<b>Cemetery Administration and Maintenance</b>			
Standard Budget Adjustments	32,000	32,000	
Increase Employee Contributions for Pensions and Health Insurance	-20,700	-20,700	
Veterans Cemetery Funding	-159,800	-135,600	
<b>Debt Service for Veterans Memorial Cemeteries</b>			
Debt Service Reestimate	<u>-3,600</u>	<u>-4,200</u>	
Change to Base	-\$2,419,100	-\$2,406,600	-1.27
Budget Bill Total	\$16,664,100	\$16,676,600	83.65

As shown in Table 3, a total of \$2,419,100 in 2011-12 and \$2,406,600 in 2012-13 and 1.27 positions would be deleted under the bill, resulting in total appropriations of \$16,664,100 in 2011-12 and \$16,676,600 in 2012-13.

It is anticipated that these revenues would be insufficient to cover the costs of either base expenditure levels or the amounts appropriated under the bill. Table 4 outlines the amounts appropriated under the bill compared to the above revenue estimates for the next two biennia (2011-13 and 2013-15). For comparison purposes it is assumed that 2013-15 expenditures would equal the amount proposed under the bill for 2012-13.

**TABLE 4**

**Veterans Trust Fund Balances**

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
<b>Revenues</b>				
Beginning Cash Balance	\$15,939,300	\$6,800,000	-\$3,685,300	-\$14,933,442
Estimated Yearly Revenues	<u>7,921,000</u>	<u>6,619,600</u>	<u>5,856,758</u>	<u>5,614,573</u>
Total Revenues	\$23,860,300	\$13,419,600	\$2,171,458	-\$9,318,869
<b>Expenditures</b>				
Administration of Loans and Aids to Veterans	\$5,481,500	\$5,452,300	\$5,452,300	\$5,452,300
Subsistence Grants	100,000	100,000	100,000	100,000
Veterans Assistance Program Receipts	112,000	115,500	115,500	115,500
Payments to Veterans Organizations for Claims Service	110,000	110,000	110,000	110,000
County Grants	342,400	342,400	342,400	342,400
Home for Needy Veterans	10,000	10,000	10,000	10,000
Veterans Assistance Program	289,200	289,200	289,200	289,200
Veterans Transportation Grant	200,000	200,000	200,000	200,000
Veterans Education Grants	1,403,100	1,403,100	1,403,100	1,403,100
Loan Expenses	50,000	50,000	50,000	50,000
Retraining Grant Program	210,000	210,000	210,000	210,000
Federal Per Diem Payments	1,460,600	1,460,600	1,460,600	1,460,600
Assistance for Needy Veterans	870,000	870,000	870,000	870,000
Cemetery Administration and Maintenance	504,100	528,300	528,300	528,300
Cemetery Energy Costs	106,300	106,300	106,300	106,300
Cemetery Repayment of Principal and Interest	86,100	85,500	85,500	85,500
Wisconsin Veterans Museum Sales Receipts	205,700	170,700	170,700	170,700
Operation of Wisconsin Veterans Museum	2,067,800	2,117,400	2,117,400	2,117,400
Museum Facilities	52,800	52,800	52,800	52,800
Veterans of World War I	2,500	2,500	2,500	2,500
Total Expenditures	13,664,100	13,676,600	13,676,600	13,676,600
Veterans Trust Fund Loans and Expenses	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>
Total Appropriations	\$16,664,100	\$16,676,600	\$16,676,600	\$16,676,600
Compensation Reserves	<u>396,200</u>	<u>428,300</u>	<u>428,300</u>	<u>428,300</u>
Total Disbursements	\$17,060,300	\$17,104,900	\$17,104,900	\$17,104,900
Yearly Revenues Minus Expenditures	-\$9,139,300	-\$10,485,300	-\$11,248,142	-\$11,490,327
Estimated Ending Balance	6,800,000	-3,685,300	-14,933,442	-26,423,769

As shown in Table 4, the amounts appropriated are estimated to exceed revenues by between \$9.1 million to \$11.5 million annually over the next four years. This imbalance would lead to a shortfall of approximately \$3.7 million in the 2011-13 biennium and an additional \$22.7 million during the 2013-15 biennia.

The bill would authorize DVA to transfer all or part of the unencumbered balance in any of the following veterans home program revenue appropriations to the trust fund on June 30 of each fiscal year: (a) the home exchange and work therapy program; (b) veterans home cemetery operations; (c) institutional operations; (d) gifts and bequests; (e) gifts and grants intended for geriatric evaluations, research, and education programs; (f) rental fees from state-owned housing at the veterans homes; and (g) revenue from geriatric programs.

Based on the estimates above, it is assumed under the Governor's budget that at least \$3.7 million would need to be transferred from veterans home appropriations on June 30, 2012, in order to have sufficient funds to support the appropriations identified in Table 3.

The veterans homes are funded with program revenue from the following four sources: (a) revenue from private pay residents at the DVA nursing homes and assisted living facilities; (b) the state's medical assistance (MA) program; (c) per diem payments from the U.S. Department of Veteran Affairs (USDVA); and (d) 70 percent or Greater Service Connected Disability per diem payments from USDVA, which are briefly described below.

The Department has not revised its projections of balances in these appropriations to reflect the Governor's budget recommendations. The veterans homes may, however, have funding balances in 2012-13 as a result of the Governor's proposal to contract with a private organization to operate the Veterans Home at Chippewa Falls. To the extent that appropriation authority is reduced for trust fund supported programs or funding is shifted to another source, fewer funds would be needed from the veterans homes.

On May 5, 2011, the Committee modified the Governor's recommendation to allow the transfer of funds from the veterans homes appropriations to the veterans trust fund, by specifying the following: (a) there could not be transfers from the veterans homes gifts and grants appropriation; (b) the transfer could occur only developing the 2011-13 biennium; and (c) a 14-day passive review by the Joint Committee on Finance would be required before any transfer could occur.

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