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Veterans Trust Fund (Veterans Affairs)

CURRENT LAW

The veterans trust fund (VTF) is a segregated fund that supports programs benefiting Wisconsin veterans and their families, and promoting interests of veterans. The fund receives revenues from various sources, including repayments of loans the Department of Veterans Affairs (DVA) made under the personal loan program, federal grants, and receipts from sales at the Wisconsin Veterans Museum. In 2015-16, the VTF had total revenues of $14.6 million, an amount that includes a $12.0 million transfer from uncommitted revenue in the program revenue appropriation for the state veterans homes. DVA is authorized to transfer uncommitted revenue from the state veterans homes to the VTF and the veterans mortgage loan repayment fund. In 2016-17, the Department has transferred an additional $9.0 million under this authority. No transfers have been made to the veterans mortgage loan repayment fund.

GOVERNOR

No provision.

DISCUSSION POINTS

1. Table 1 shows the estimated fund condition statement for the veterans trust fund for the 2017-19 biennium, reflecting fund appropriations under the bill and estimated revenues. The estimated fund condition for 2016-17 is also shown for comparison.

TABLE 1

Veterans Trust Fund Condition Statement

	2016-17	2017-18	2018-19
Opening Balance	$4,872,000	$1,455,400	$213,300
Revenues			
Federal Aid--Veterans Assistance Program	$1,120,100	$1,120,100	$1,120,100
Veterans Assistance Program Receipts	182,000	182,000	182,000
State Veterans Museum Sales	130,000	130,000	130,000
Loan Repayment, Principal and Interest	766,000	591,000	453,000
Other Revenues	100,000	100,000	100,000
Total Annual Revenues	$2,298,100	$2,123,100	$1,985,100
Interfund Transfers	9,000,000	13,000,000	13,000,000
Total Available	$16,170,100	$16,578,500	$15,198,400
Expenditures			
Chapter 20 Appropriation	$19,514,700	$19,365,200	$19,623,200
Estimated Lapse	-4,800,000	-3,000,000	-4,800,000
Net Appropriation	$14,714,700	$16,365,200	$14,823,200
Closing Balance	$1,455,400	$213,300	$375,200

2. Due to declining annual revenues, the veterans trust fund is reliant on one-time transfers to maintain a positive balance. The interfund transfers shown for the two years of the 2017-19 biennium in the table above are not included as a specific enumeration in the bill, but estimates of the transfers are included to reflect the approximate amounts that would be needed to maintain a positive balance in the fund. Under the bill, it is presumed that these transfers would be made from unappropriated balances in the state veterans homes appropriation account, but the Legislature could also provide a different mechanism for these transfers. The amount shown for interfund transfers in 2016-17 is the actual amount that the Department has transferred to the VTF in the current fiscal year from the state veterans homes.

3. Table 1 shows revenues by major category. Among the ongoing annual revenues to the veterans trust fund, a substantial share is received for particular programs, and so is not available for all VTF-supported programs. Most notably, over one-half of the annual revenues to the fund is federal aid received for the veterans assistance program (VAP) or rent payments made by VAP recipients for subsidized housing. Likewise, museum sales are used for the support of museum operations. The other VTF revenues available to support general programs have declined to minimal levels.

4. Historically, loan repayments under the personal loan program were a significant

source of revenues for the fund. 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 new loans, the Department stopped issuing new loans in 2011. Accordingly, loan repayment revenue has declined steadily in recent years. While total loan repayments exceeded $10 million annually 10 years ago, payments are projected to be less than $0.5 million in 2018-19.

5. The Department also suspended loans under the mortgage loan and home improvement loan programs in 2011. Loan repayments on these programs are deposited into the mortgage loan repayment fund, rather than the veterans trust fund. The mortgage loan repayment fund is used for debt service payments on bonds that were issued to capitalize the loan programs, as well as for administrative expenses for the loan programs. At various times in the past, the margin between loan repayments and debt service costs was large enough to generate a fund surplus, which was then deposited into the veterans trust fund. These transfers occurred primarily in the 1990s, just as many of the loans issued in the post-Vietnam War era were closed. The combination of a large volume of loans that had been issued during that period and significant spread between loan interest rates and debt service costs made these surpluses possible. Although it is possible that there would now be some demand for veterans mortgage loans if DVA resumed making these loans, this does not necessarily mean that the loan program would generate a surplus for the veterans trust fund. With much lower mortgage rates and a smaller population of veterans of home-buying age, a mortgage loan program would not likely generate significant surplus revenues.

6. Because of declining ongoing revenues, VTF expenditures have now exceeded ongoing revenues for much of the past decade. Table 2 shows VTF revenues and expenditures for the past five years, as shown in the state's Annual Fiscal Report. Interfund transfers to the fund are shown separately, in order to illustrate the difference between expenditures and ongoing revenues, which is shown in the final row.

TABLE 2

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

	2011-12	2012-13	2013-14	2014-15	2015-16
July 1 Undesignated Fund Balance	$18,384	$19,777	$15,272	$12,704	$4,501
Revenue	$10,073	$6,577	$3,982	$3,312	$2,609
Expenditures	$13,680	$11,062	$11,850	$11,515	$14,238
Interfund Transfers	$5,000	$0	$5,300	$0	$12,000
June 30 Undesignated Fund Balance	$19,777	$15,272	$12,704	$4,501	$4,872
Difference Between Ongoing Revenue and Expenditures	-$3,607	-$4,485	-$7,868	-$8,203	-$11,629

7. 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 used this authority to transfer $12.0 million in 2015-16 and $9.0 million in 2016-17.

8. The unappropriated balance in the Department's appropriation for institutional operations at the state veterans homes was $50.8 million in 2015-16, and is projected to exceed $54 million in 2016-17. The Department indicates that the homes are expected to generate sufficient excess revenues to support anticipated transfers to the VTF in the 2017-19 biennium.

9. 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.

10. Although the state veterans homes are currently able to generate surplus revenues, it is unclear if the homes will continue to generate sufficient surpluses to support the VTF on an ongoing basis. During testimony before the Committee, the DVA Secretary indicated that the agency would need to examine whether it was feasible to sustain a census exceeding 700 at the King home in light of staffing issues. If DVA eventually determines that it is necessary to lower the number of residents at King or the other homes, then surplus revenues could decrease. However, it is likely that DVA would have sufficient funds to transfer to the VTF in the near future, given current veterans homes revenues and expenditures, as well as the current balance of unappropriated funds in the veterans homes appropriation account.

11. 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, state veterans homes are largely supported by state and federal general revenues, through MA reimbursement, federal per diem payments, and federal service-connected disability payments. With these payments, the state veterans homes are reimbursed for care at a higher level than most nursing homes that rely heavily on public funding sources. Consequently, the homes are able to generate sufficient excess revenues to allow some diversion of the PR balances to the VTF.

12. 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 delete the Department's existing authority to transfer unappropriated balances from the state veterans homes to the veterans trust fund and the veterans mortgage loan repayment fund. Instead, the Committee could make a transfer of $13,000,000 annually from the general fund, which is the estimated amount needed to maintain solvency in the fund [Alternative A 1]. This alternative would involve providing funding in an existing GPR appropriation in DVA for supplementing the VTF (currently unfunded). Including this amount in the 2018-19 base appropriation would establish an ongoing source of revenue for the fund.

13. 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 A 2].

14. Since the VTF's ongoing sources of revenue are well below current VTF expenditures, the fund will be reliant on other sources of revenue for supporting veterans programs. If the Committee approves of the use of revenues generated at the state veterans homes for other veterans programs in principle, all PR revenue could be deposited in the VTF, and the PR appropriations for the state veterans homes could be converted to VTF (SEG) appropriations. In this way, all current VTF revenues would be consolidated with state veterans home revenues, providing long-term stability for the fund [Alternative A 3]. Table 3 shows the current PR appropriations for the homes that would be converted to SEG appropriations under this alternative, including the amounts that would be provided these appropriations under the bill. [The PR appropriations for veterans home cemeteries, gifts and bequests to the homes, state-owned housing, and the home exchange (on-site store) would be maintained under this alternative.]

TABLE 3

PR Appropriations Converted to SEG Under Alternative A3

Appropriation	2017-18	2018-19
Institutional operations	$108,208,900	$108,370,600
Self-amortizing facilities; principal repayment and interest	2,038,500	2,345,000
Electric energy derived from renewable resources	54,000	54,000
Grants to counties*	76,200	76,200
Total	$110,377,600	$110,845,800

*Combined with existing VTF appropriation for county grants.

15. The conversion of state veterans home revenues to VTF revenues under Alternative A 3 would increase estimated SEG revenues by $122,475,000 annually and decrease PR revenues by a corresponding amount. In addition, the transfer of unappropriated balances in the state veterans

home PR account, estimated at $54,000,000 at the end of 2016-17, would also result in increased VTF revenue.

16. Given the limits on ongoing VTF revenues, the Committee may wish to also carefully consider VTF expenditures. During the 2015 session, the Legislature created or extended several veterans programs that had the effect of increasing VTF expenditures. These include a grant program providing $250,000 annually for nonprofit organizations serving veterans, a grant program providing $500,000 annually for veterans employment and entrepreneurship grants, and a grant program for making $500,000 on a one-time basis to technical colleges for veterans jobs training programs. The bill would include several initiatives that would further increase VTF appropriations by nearly $800,000 over the biennium. For a discussion of some of these issues, see LFB Issue Paper #656 (county veterans service officer liaison position), LFB Issue Paper #657 (veterans grant programs), and LFB Issue Paper #658 (crisis intervention services and women veterans study).

17. The Department is required to produce a biennial report on the status of the veterans trust fund, due by June 30 of each even-numbered year. The report is required to include, at a minimum, projected revenues and expenditures for the next fiscal year, although the Department has customarily also included information for the year in which the report is submitted. However, since the report is due by June 30, this information must be compiled before the final financial information for that year is available. In order to provide more complete information for the Legislature on the status of the fund, the due date of the report could be changed to September 15, to coincide with the agency's biennial budget request. In this case, the Department could be required to report actual financial information for the fund in the prior year, in addition to projections for the current year and upcoming biennium [Alternative B 2].

ALTERNATIVES

A. Veteran Trust Fund -- Funding Source

1. Repeal the Department's authority to make transfers from the unappropriated balances in the PR appropriation for the state veterans homes to the veterans trust fund and the veterans mortgage loan repayment fund. Provide $13,000,000 GPR annually in an existing appropriation for supplementing the veterans trust fund.

ALT A 1	Change to Base	Change to Bill
GPR	$26,000,000	$26,000,000

2. Repeal the Department's authority to make transfers from the unappropriated balances in the PR appropriation for the state veterans homes to the veterans trust fund and the veterans mortgage loan repayment fund. Transfer $13,000,000 annually in the biennium from the unappropriated balances in the PR appropriations for state veterans homes to the veterans trust fund to maintain solvency of the fund.

ALT A 2	Change to	
	Base	Bill
PR-Transfer	$26,000,000	$26,000,000

3. Convert the existing PR appropriations for the state veterans homes to SEG appropriations, as shown in the table under Point 14. Increase SEG funding by $110,377,600 in 2017-18 and $110,845,800 in 2018-19 and decrease PR funding by corresponding amounts to reflect this conversion. Increase SEG positions by depositing state veterans homes revenues that are currently credited to those appropriations, including existing unappropriated PR account balances, to the veterans trust fund. Increase estimated PR transfers by $54,000,000 in 2017-18 to reflect the transfer of unappropriated PR balances to the veterans trust fund at the beginning of the 2017-19 biennium and increase veterans trust fund revenues by $176,475,000 in 2017-18 and by $122,475,000 in 2018-19 to reflect this transfer and the receipt of ongoing state veterans home revenues into the fund.

ALT A 3	Change to Base		Change to Bill	
	Funding	Positions	Funding	Positions
PR	- $221,223,400	- 1,141.30	- $221,223,400	- 1,141.30
SEG	221,223,400	1,141.30	221,223,400	1,141.50
Total	$0	0.00	$0	0.00

4. Maintain current law.

B. Veterans Trust Fund -- Biennial Report

1. Modify the current law requirement relating the preparation of a biennial report to specify that the report shall be due by September 15 of each even-numbered year, rather than June 30 of each even-numbered year, and that the report shall contain information on the actual revenues and expenditures in the previous year, as well projections for the current fiscal year and each year of the following fiscal biennium.

2. Maintain current law.

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