



STATE OF WISCONSIN
DEPARTMENT OF VETERANS AFFAIRS

VETERANS TRUST FUND REPORT



Prepared by
The Office of the Secretary
February 2011

Scott Walker, Governor

Kenneth B. Black, Secretary



**STATE OF WISCONSIN
DEPARTMENT OF VETERANS AFFAIRS**

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DATE: February 16, 2011

FROM: Secretary Kenneth B. Black
Wisconsin Department of Veterans Affairs

TO: Veterans Service Organizations Commanders

SUBJECT: Report on the Veterans Trust Fund

On January 12, 2011, Wisconsin Department of Veterans Affairs (WDVA) Secretary Kenneth B. Black met with Commanders and representatives from Wisconsin's Veterans Service Organizations (VSOs) to discuss the impending insolvency of the Veterans Trust Fund and the future of state veterans programs.

The Veterans Trust Fund is our state's primary means of supporting its veterans, and it is on the verge of insolvency. Estimates confirm that the Trust Fund will slip into negative cash flow in 2013, and consequently, a host of programs and services dedicated to our veterans in support of their service and sacrifice to our nation will be subject to severe cutbacks or elimination.

The Veterans Trust Fund has provided essential services to our veterans for decades, including assistance for employment, housing, health care, education, and transportation, and as we welcome home service members who have stood up to repeated deployments, who are returning to a challenging economy, and many of whom have sustained mental and physical trauma, it is absolutely critical that we keep this fund in good standing. It is only right that our veterans should continue to have the services they have earned and the support they need, particularly in this time of war and economic crisis, to help them get back on their feet and contribute to their local communities as productive, independent citizens.

In light of these pressing needs, VSO Commanders tasked the Office of the Secretary to produce a report that answers two overarching questions:

1. How much money is needed annually to forestall the insolvency of the Veterans Trust Fund?
2. How much money is needed annually to provide and operate each WDVA program that receives support from the Veterans Trust Fund?

The Office of the Secretary coordinated with the Office of Policy, Planning and Budget and the Division of Veterans Benefits to provide background information and succinct responses to these questions. The findings are enclosed in this report.

BACKGROUND

The Veterans Trust Fund is our state's primary means of supporting its veterans. It originated in 1961 through the consolidation of three predecessor funds dedicated to veterans services, the Soldiers Rehabilitation Fund, the Post-War Rehabilitation Fund, and the Veterans Housing Trust Fund. It was later funded by ten separate infusions of general purpose revenue (GPR), the last of which occurred in 1988, as well as proceeds from WDVA loan programs. In recent years, the Veterans Trust Fund has steadily decreased in size due to declining interest rates and investment earnings along with increased demand for programs and services.

In 2003, when signs of significant cash flow difficulties began to emerge, WDVA directed that a ten-year solvency plan be implemented in order to prevent a shortfall estimated for 2007. WDVA carried out a variety of measures to consolidate programs, modify benefits, and reduce administrative costs to prolong the viability of the Veterans Trust Fund. In addition, WDVA worked with the Governor and Legislature on a number of initiatives to reduce the amount of outlays and increase the amount of revenues for the Veterans Trust Fund. These actions had the effect of postponing the insolvency of the Trust Fund, but as indicated by the Legislative Fiscal Bureau in a memo to the Joint Committee on Finance dated May 25, 2005, analysts projected that additional program modifications or revenue enhancements would have to be addressed by the Legislature before the 2013-15 fiscal biennium.

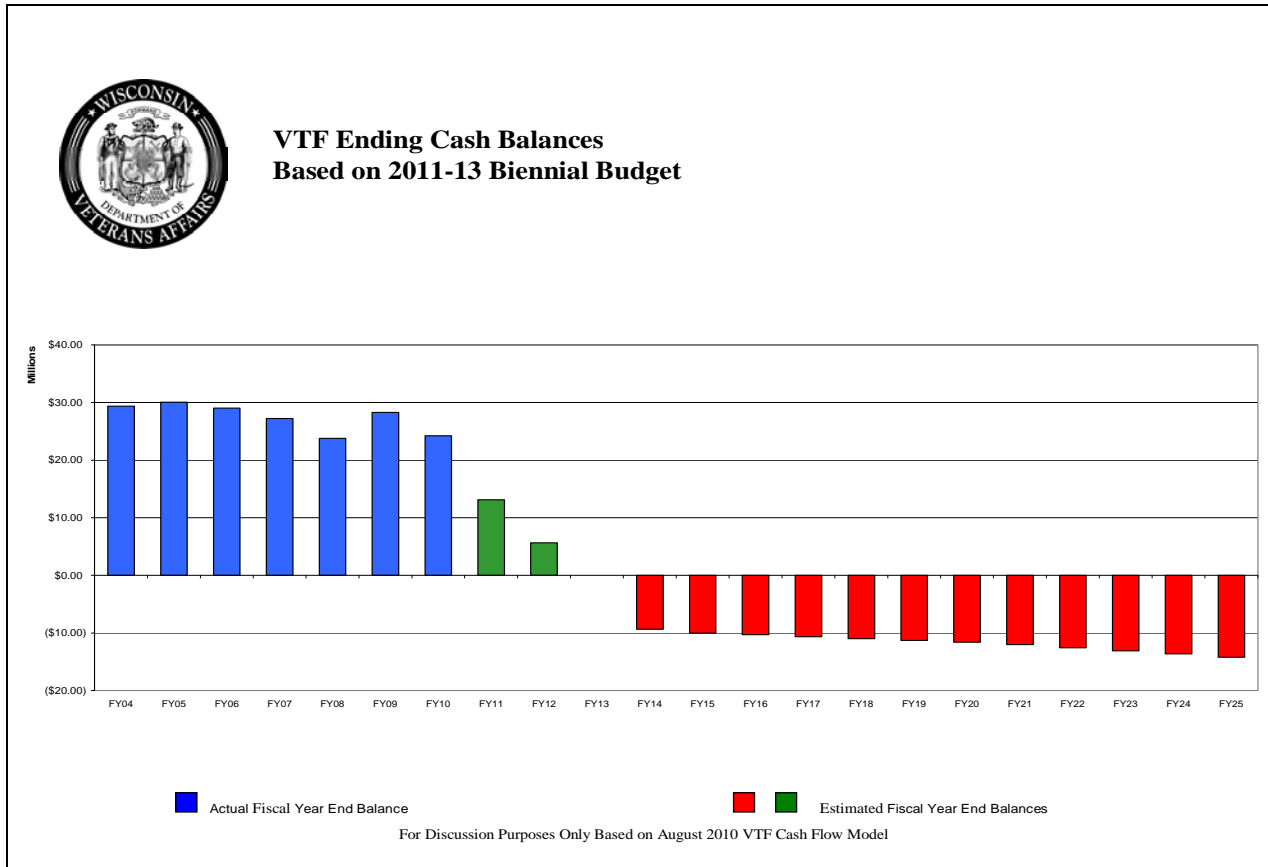
As indicated in Table 1 on page 6, recent analyses confirm that in FY 2013, the Veterans Trust Fund will slip into negative cash flow (-\$8,251,400) and an array of state veterans programs, including job retraining grants, claims assistance, and health care aid will be in serious jeopardy.

While WDVA is taking immediate action to reduce operational costs, generate efficiencies, and prolong the viability of the Trust Fund through the implementation of a comprehensive Reorganization Plan, we have reached a decisive moment in the veterans community, and while unfortunately it coincides with the larger economic downturn, the Veterans Trust Fund can no longer operate without direct legislative action.

In light of the impending shortfall anticipated in FY 2013, WDVA is requesting \$2,944,500 GPR in the second year of the 2011-2013 biennium to maintain basic program operations supported by the Veterans Trust Fund. This is not a permanent solution to stabilize the Veterans Trust Fund; it is the bare minimum needed to continue veterans programming through the upcoming biennium.

The requested supplement has been calculated based on the projected cash shortfall that will exist at the end of FY 2013, assuming all other WDVA budget requests (most notably, transferring funding for the Wisconsin Veterans Museum and Veterans Memorial Cemeteries from the Veterans Trust Fund to GPR) are approved as submitted. In total, WDVA's 2011-13 Biennial Budget Request calls for \$9,449,100 in new GPR support. As Figure 1 indicates, WDVA has requested no more than what is needed to get through the 2011-13 biennium.

Figure 1 – Projected cash position of the Veterans Trust Fund assuming approval of WDVA’s 2011-13 Budget Requests



REPORT RESULTS

While WDVA is working to generate operational efficiencies as a part of a broad Reorganization Plan, and while WDVA has requested GPR to keep the Veterans Trust Fund solvent through FY 2013, additional action will need to be taken to protect veterans programming now and into the future. Accordingly, the responses detailed below are intended to clearly indicate (1) what is needed to maintain state veterans programs and (2) what veterans programs and services will be jeopardized if the Veterans Trust Fund becomes insolvent.

1. How much money is needed annually to forestall the insolvency of the Veterans Trust Fund?

The Department’s Office of Policy, Planning and Budget and Division of Veterans Benefits performed a comprehensive financial analysis of all WDVA programs and operating activities that receive support from the Veterans Trust Fund. The analysis examined current program use and established trends to estimate demand and expenditure needs for the next four years fiscal years (FY 2012 through FY 2015).

As indicated at the bottom of Table 1, the Veterans Trust Fund will have a positive cash balance of \$3,938,700 at the end of FY 2012. But by the end of FY 2013, the Trust Fund will slip into negative cash flow and the ending cash balance is estimated at –\$8,251,400. In FY 2014, the

deficit increases by \$13,278,800 for a total cash balance of -\$21,530,200. In FY 2015, the deficit increases by an additional \$13,774,200 for a total cash balance of -\$35,304,400.

In response to the initial question, \$8.3 million is needed to forestall insolvency in FY 2013, an additional \$13.3 million is needed to forestall insolvency in FY 2014, and an additional \$13.8 million is needed to forestall insolvency in FY 2015.

2. How much money is needed annually to provide and operate each WDVA program that receives support from the Veterans Trust Fund?

Table 1 indicates expenditure needs for WDVA programs and operational activities supported by the Veterans Trust Fund for the next four fiscal years. The estimated amounts are based on current program data and established use trends (see the footnotes on pages 7-9 for more information on the calculation used for each specific item).

To summarize and answer the question, as indicated in Table 1 under “Total Projected Disbursements,” \$17 million is needed to provide and operate WDVA programs in FY 2012, \$17.3 million is needed in FY 2013, \$17.7 million is needed in FY 2014, and \$17.9 million is needed in FY 2015.

CONCLUSION

We have reached a critical moment in the veterans community, and while unfortunately it coincides with the larger economic challenges facing the state, current veterans programs cannot be maintained without direct action to forestall the insolvency of the Veterans Trust Fund. The Trust Fund has provided essential services to our veterans for decades, and with an aging veterans population and an increasing number of younger veterans utilizing reintegration services, it is absolutely critical that we keep this fund in good standing.

While it is very important that WDVA continues to identify efficiencies and explore program modifications to maximize use of existing resources, efficiencies alone will not shore up the Trust Fund. That being the case, it is imperative that the Legislature consider additional measures to protect and support our veterans now and into the future. It is only right that our veterans should continue to have the services they have earned and the support they need, particularly in this time of war and economic crisis, to help them contribute to Wisconsin’s economy as productive, independent citizens.

Though we understand that it will be a challenge to ensure the long-term solvency of the Veterans Trust Fund, Wisconsin has a strong tradition of protecting our veterans, and we are confident that we can work together to identify a solution that supports veterans and serves the best interests of the state.

Thank you for your steadfast dedication to our men and women who have worn the uniform, and we look forward to working with you to better serve our veterans.

**TABLE 1: Estimated Trust Fund Expenditures and
Changes to Cash Balances
2011-12 through 2014-15**

	<u>2011-12</u>	<u>2012-13</u>	<u>2011-13</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
	<u>Budget</u>	<u>Budget</u>	<u>Biennial Total</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
Administration of Loans and Aids to Veterans ¹	\$ 4,029,800	\$ 4,011,500	\$ 8,041,300	\$ 4,029,800	\$ 4,011,500	\$ 4,118,900	\$ 4,131,100
Claims Assistance Services ²	1,010,400	1,012,500	2,022,900	1,010,400	1,012,500	1,041,800	1,044,100
Eligibility Determination Reviews ³	77,900	78,100	156,000	77,900	78,100	80,400	80,600
Program Services Processing ⁴	161,200	161,500	322,700	161,200	161,500	166,300	166,600
Military Funeral Honors Program ⁵	621,300	622,600	1,243,900	621,300	622,600	640,600	642,000
Outreach Program ⁶	185,100	185,400	370,500	185,100	185,400	190,800	191,100
Communication Services ⁷	78,800	79,000	157,800	78,800	79,000	81,200	81,500
Loan Expenses ⁸	150,000	150,000	300,000	150,000	150,000	150,000	150,000
Wisconsin Veterans Museum Operations ⁹	1,973,900	2,003,800	3,977,700	1,973,900	2,003,800	1,968,700	1,973,900
Preservation Storage Facility Operations ¹⁰	181,200	206,700	387,900	181,200	206,700	212,900	212,900
Cemetery Operations and Debt Service ¹¹	1,081,900	1,219,300	2,301,200	1,081,900	1,219,300	1,217,500	1,254,200
Veterans Assistance Program ¹²	707,100	710,000	1,417,100	707,100	708,900	729,000	730,900
Veterans Tuition and Fee Reimbursement Program ¹³	1,403,100	1,403,100	2,806,200	1,647,600	1,746,500	1,851,200	1,962,300
Subsistence Grant Program ¹⁴	172,000	172,000	344,000	102,500	102,500	102,500	102,500
Assistance to Needy Veterans Grant Program ¹⁵	1,069,800	1,069,800	2,139,600	1,069,800	1,134,000	1,202,000	1,274,100
County Veterans Service Officer Grant Program ¹⁶	342,400	342,400	684,800	342,400	342,400	342,400	342,400
Veterans Organization Claims Service Payment Program ¹⁷	177,500	177,500	355,000	177,500	177,500	177,500	177,500
Home for Needy Veterans Grant Program ¹⁸	10,000	10,000	20,000	10,000	10,000	10,000	10,000
Veterans Transportation Grant Program ¹⁹	200,000	200,000	400,000	200,000	200,000	200,000	200,000
Retraining Grant Program ²⁰	210,000	210,000	420,000	148,400	157,300	166,700	176,700
Total Projected Expenditures	\$ 13,843,400	\$ 14,025,200	\$ 27,868,600	\$ 13,956,800	\$ 14,309,500	\$ 14,650,400	\$ 14,904,400
Personal Loan Program ²¹	3,500,000	3,500,000	7,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Total Projected Disbursements	\$ 17,343,400	\$ 17,525,200	\$ 34,868,600	\$ 16,956,800	\$ 17,309,500	\$ 17,650,400	\$ 17,904,400

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Beginning Cash Balance, July 1	\$ 14,880,600	\$ 3,938,700	\$ (8,251,400)	\$ (21,530,200)
Receipts	6,014,900	5,119,400	4,371,600	4,130,200
Disbursements	(16,956,800)	(17,309,500)	(17,650,400)	(17,904,400)
Increase/Decrease in Cash Balance	\$ (10,941,900)	\$ (12,190,100)	\$ (13,278,800)	\$ (13,774,200)
Ending Cash Balance, June 30	\$ 3,938,700	\$ (8,251,400)	\$ (21,530,200)	\$ (35,304,400)
Annual Amount of Cash Needed for Solvency	\$ -	\$ (8,251,400)	\$ (13,278,800)	\$ (13,774,200)

General Notes for Table 1:

- Budgeted and estimated amounts for categories that include salaries and fringe benefits are based on the allocation of those costs as budgeted in the Department's 2011-13 Biennial Budget Request and do not reflect the reallocation of those costs based on the Department's reorganization plan.
- Budgeted and estimated amounts for categories that include salaries and fringe benefits also include estimated reserves for the 27th pay period (fiscal year 2011-12), employee compensation reserves and health insurance reserves.
- Budgeted and estimated amounts do not reflect the changes, if any, mandated by the January 2011 Special Session Senate Bill 11 ("the Budget Adjustment Bill").
- The July 1, 2011 (FY 2012) cash balance for the Veterans Trust Fund assumes 2010-11 expenditures at budgeted levels, except for the Personal Loan Program, which is estimated at \$3,000,000 (\$2,000,000 less than budgeted). It also assumes a lapse from the VTF to the general fund in an amount of \$203,300, which is the same as that required in 2009-10, and investment earnings of 0.22%.
- Investment earnings are estimated at 0.25%, 0.5%, 1.0%, and 1.5% in the period 2011-12 through 2014-15, respectively.

Footnotes:

- ¹ Includes costs for administering the Loans and Aids to Veterans Program, Program 02 in the Department's budget, including accounting, information technology, human resources, budgeting, auditing and executive management personnel costs, as well as rent, utilities, telecommunications, and other supplies and services not specifically included in items 7 through 12. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ² Includes personnel and supplies and services costs for WDVA Claims Office staff. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ³ Includes the portion of personnel and supplies and services costs allocated to the Veterans Trust Fund for staff responsible for making eligibility determinations for Department programs, the Wisconsin GI Bill and Wisconsin Veterans' and Unremarried Surviving Spouses' Property Tax Credit. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.

- ⁴ Includes the portion of personnel and supplies and services costs allocated to the Veterans Trust Fund for staff who receive and process discharge documents and other program documents. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ⁵ Includes the personnel and supplies and services costs for staff that coordinate and provide funeral honors for veterans and former National Guard and reservists. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ⁶ Includes the portion of personnel and supplies and services costs allocated to the Veterans Trust Fund for Agency Liaison positions responsible for outreach activity, excluding the Mission Welcome Home position. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ⁷ Includes the portion of personnel and supplies and services costs allocated to the Veterans Trust Fund for communications positions. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ⁸ Includes amounts needed for the payment of expenses and other costs as a result of being a mortgagee or owner of loans. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, as are those for 2013-14 and 2014-15.
- ⁹ Includes ongoing and one-time costs for operating the Wisconsin Veterans Museum (WVM), including personnel costs, rent, utilities, telecommunications, and other supplies and services. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request (excluding the amount of general purpose revenue adjusted base budget), while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ¹⁰ Includes for one-time financing that will be used to hire limited term employees and project staff to assist with the preparation for and move of the Wisconsin Veterans Museum's manuscripts, collections and archival materials to the Preservation Storage Facility. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ¹¹ Includes the costs of operating the Northern Wisconsin Veterans Memorial Cemetery (NWVMC) at Spooner and Southern Wisconsin Veterans Memorial Cemetery (SWVMC) at Union Grove, which are allocated to the Veterans Trust Fund in the 2011-13 Biennial Budget and excludes amount budgeted or estimated to be paid from dependent burial fees, and VA plot allowance revenue. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an

assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.

- ¹² Includes costs in excess of contracted amounts for the operation of the Veterans Assistance Centers around the state, and personnel costs, rent, utilities, telecommunications, and other supplies and services for the Mission Welcome Home, military medals and records, women veterans, incarcerated veterans, and military discharge upgrade programs. Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, while those for 2013-14 and 2014-15 are augmented to reflect an assumed administrative increase equal to 3% of salaries and fringe benefits, supplies and services from the 2011-13 biennium.
- ¹³ Estimated amounts are based on program data beginning in 2008-09 when the Post 9/11 GI Bill became law and VetEd payments are augmented by 6% annually to reflect projected tuition and fee increases.
- ¹⁴ Estimated amounts are based on program data beginning October 27, 2007, when the annual program cap was increased from \$2,000 to \$3,000 and the Assistance to Needy Veterans Lifetime cap was increased from \$5,000 to \$7,500.
- ¹⁵ Estimated amounts are based on the 2011-12 budgeted amount and augmented at an annual rate of 6% because projections based on data from July 1, 2009 to March 26, 2010 and from September 1, 2010 to December 31, 2010, when the program ran under the rules with the existing limits, indicate that the program is currently being underutilized and not representative of the actual need amongst veterans. Expanded outreach efforts are anticipated to increase program usage to budgeted amounts by the end of 2011-12.
- ¹⁶ Estimated amount is only the portion (45%) of the County Veterans Service Officer Grant Program that is allocated to the Veterans Trust Fund. An additional 45% and 10% of the total program cost is paid from the Mortgage Loan Repayment Fund and Veterans Homes, respectively.
- ¹⁷ Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, as are those for 2013-14 and 2014-15 based on prior experience.
- ¹⁸ Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, as are those for 2013-14 and 2014-15 based on prior experience.
- ¹⁹ Estimated costs for 2011-12 and 2012-13 are as included in the Department's 2011-13 Biennial Budget Request, as are those for 2013-14 and 2014-15 based on prior experience.
- ²⁰ Estimated amounts are based on the number of users from 2005-06 to the present and assumes a 6% annual increase for tuition and fee increases.
- ²¹ Estimated amounts are based on an analysis of loan experience from 2008-09 to present.