VETERANS AFFAIRS

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Jim Doyle, Governor
John A. Scocos, Secretary

July 21, 2004

RE: 10-Year Solvency Plan for Wisconsin's Veterans Trust Fund

Dear Colleague:

I would like to take this opportunity to inform you regarding the Wisconsin Department of Veterans Affairs 10-Year Solvency Plan for the state's Veterans Trust Fund. The Plan provides an initiative to ensure the fiscal health of the Veterans Trust Fund by identifying administrative and program efficiencies and plans for revenue enhancement.

INTRODUCTION

The 10-Year Solvency Plan for Wisconsin's Veterans Trust Fund is the culmination of an extensive and inclusive planning process that involved over 150 members of the leadership of the state's veterans service organizations and County Veteran Service Officers, as well as staff of the Wisconsin Department of Veterans Affairs. The process included three internal program review meetings, two stakeholder conferences, and the use of process action teams (PAT's) to develop recommendations to the Secretary for program changes. The plan was presented to, and approved by the Wisconsin Board of Veterans Affairs at its regularly scheduled June meeting on June 18, 2004 as the culmination of this public process.

A financial analysis of the Wisconsin Veterans Trust Fund (VTF) indicates that beginning in FY03 and continuing out into future years, VTF expenses will exceed revenues. Even more significant in terms of VTF solvency is that it has become necessary to draw down on the cash balance in order to cover all expenditures. At current levels of expenditures and revenues, the VTF is projected to run out of cash in FY07. The 10-year plan as presented in this document is intended to extend VTF solvency through 2013.

The plan represents a balance between doing what is right for veterans and ensuring the long-term solvency of the VTF. Based on an extensive financial analysis of both the VTF and the Mortgage Loan Repayment Fund (MLRF), the following findings were identified:

- Current and projected VTF expenditures exceed revenues.
- There is a significant loss of VTF Investment income from SWIB (approximately $1.6 million per year) due to SWIB interest rates declining from over 6.48 percent in November 2000 to 1.0 percent in May 2004.
- The low SWIB interest rates have also created a negative arbitrage situation in the MLRF that has resulted in $7.1 million annual reduction in investment earnings.
- Due to state bond restrictions, WDVA veterans mortgage loans cannot be refinanced. Unprecedented

low interest rates for conventional mortgage loans have resulted in a substantial number of veterans refinancing their WDVA primary mortgage loans with conventional mortgage loans. This has reduced WDVA's loan portfolio from $727 million in FY01 to $304 million in FY04. The erosion of the MLRF loan portfolio prohibits any transfers from MLRF to VTF for several years. During the 1990's, a total of $117 million in cash and assets was transferred from the MLRF to the VTF.

Based on the above findings the direction is clear—WDVA must reduce expenditures and increase revenue in the VTF and take immediate steps to rebuild MLRF loan portfolio. This is in essence the overall strategy of the 10-Year VTF Solvency Plan.

MAJOR ELEMENTS OF THE PLAN

The following are the major elements of the 10-Year Solvency Plan for the Veterans Trust Fund. The proposed program changes for the education grant programs, retraining grant program and the temporary emergency aid program are those recommended by the respective Process Action Teams (PATs). Each PAT considered several alternative courses of action. After thoroughly analyzing each recommended course of action, each PAT provided its recommendations on the best alternatives available at this time.

Reduction in VTF Administrative Costs

The 10-Year Solvency Plan for the Veterans Trust Fund calls for significant administrative cost reductions:

- Institute a 20 percent administrative cut in central office expenses funded by the VTF.
- Provide $300,000 per fiscal year VTF savings by shifting the operating costs for the National Guard Museum to GPR and/or Indian Gaming funds. Over the last two biennia, over $1.3 million in Wisconsin Veterans Museum (WVM) costs have been shifted from GPR and Indian Gaming to the VTF.
- Transfer the cost of the Tribal Coordinator and Native American Grants back to Indian Gaming.
- Shift 40 percent of State Veterans Cemetery costs to federal and program revenue funding, including actions to:
  - Pursue federal legislation to increase the state veterans cemetery burial plot allowance to $670 per burial (current law: $300).
  - Increase fees for state veterans cemetery burial of spouses/dependents (who are ineligible for the federal burial plot allowance).

The proposed administrative cost reductions will together reduce VTF expenditures by approximately $1.3 million per fiscal year. With the exception of the 20 percent reduction in administrative costs, all other changes require statutory changes.

Veteran Education Grants (Vet-Ed)

Under the 10-Year Solvency Plan, the provisions of the current WDVA educational grant reimbursement programs, the full-time Tuition and Fee Reimbursement Grant (TFRG) and Part-Time Study Grant (PTSG), are be combined into a single, online veterans education reimbursement grant program having the following provisions:

- Establish a 'credit bank' of the greater of 120 credits or 8 semesters of study
- Establish 'Credits for service', which equates credit eligibility with the cumulative total duration of active duty service (other than active duty solely for training):

- Less than 90 days of active duty = 0 credits (current law)
- 90 to 180 days of active duty = 30 credits
- 81 days to up to 2 years of active duty = 60 credits
- 2 or more years of active duty = 120 credits

– Index the current program eligibility income cap to state median household income (Current law provides fixed, statutory income limits).
– Establish a 10-year delimiting period (the program must be used within 10 years of the date of discharge from active duty), mirroring the 10-year delimiting period for the federal G.I. Bill, acknowledging the G.I. Bill's philosophical intent of providing educational funding for veterans who voluntarily removed themselves from the educational mainstream to serve their country within a fixed timeframe.
– Dependents and graduate students not eligible. (Current law prohibits reimbursement for graduate study under the TFRG, but allows for it under the PTSG).
– No fee reimbursement. (Reimbursement rates have fluctuated in recent years; 100% tuition and fee reimbursement has been provided only since FY04). Exception: continue to provide 100% tuition and fees for disabled veterans (current law).
– Provide authority to adjust tuition reimbursement rate based on available funding in VTF

The proposed changes will result in an estimated $1.2 million savings per fiscal year. Current law provides for 100% tuition and fee reimbursement for disabled veterans. All other proposed education grant program modifications will require statutory changes.

Retraining Grant Program (RTG)
The restructured Retraining Grant will continue to assist veterans in obtaining gainful employment. Provisions of the program include:

- Limit RTG's to $3,000 per occurrence. (Current law limits RTG to $3,000 per grant).
- Establish a $6,000 lifetime limit per veteran.
- Require verification that the veteran successfully completed the training.
- The RTG program operates on a "payer of last resort" basis.

The estimated saving will be $189,000 per fiscal year. The first two items require statutory changes. The third item will be implemented through a departmental policy change. The final item requires an administrative rule change, and may require additional statutory change.

Temporary Emergency Aid for Low-Income Veterans
The existing temporary emergency aid grant programs, the Health Care Aid Grant (HCAG) and the Subsistence Aid Grant (SAG), are combined into a single program having the following provisions:

- General provisions:
  - $5,000 total lifetime limit for each veteran.
  - Spouses, widows and dependents not eligible.
  - Income limits.
- Health Care Component
  - Limited to dental/dentures, vision and hearing aid assistance
  - Maximum reimbursement:
    - Dental/Dentures $2,500
    - Hearing Aids $1,500
    - Eyeglasses $ 500

  - Proposed annual budget for the health care component for the 2005-07 biennium will be $650,000 per fiscal year.
- Subsistence Aid Component
  - Retain a limited disaster assistance component
  - Maximum award of $2,000 per occurrence during a 12-month period.
  - Proposed annual budget for the subsistence aid component for the 2005-07 biennium will be $172,000 per fiscal year.

All of the proposed changes require statutory changes and will result in an estimated $1.3 million savings per fiscal year.

Veterans Assistance Program (VAP)

- Reduce VTF funding by $800,000 per fiscal year beginning in FY06.
- Eliminate VTF funding in FY08.

The funding reductions will be WDVA biennial budget initiatives for the 2005-07 and 2007-09 biennial budgets respectively. The projected savings are $800,000 per fiscal year through FY07 and $1.5 million per fiscal year beginning in FY08.

Military Funeral Honors (MFH) –

The Military Funeral Honors program provides burial honors for deceased veterans. WDVA provides statewide coordination for military funeral honors, trains and certifies Veterans Service Organization volunteers to provide military funeral honors, provides MFH teams at each of the three state veterans cemeteries, and provides stipends to MFH volunteers. At the time of the program's inception, it was expected that the federal government would ultimately pay those stipends. Proposed changes to the program include:

- Significantly expand the program's volunteer base.
- Eliminate VTF-funded MFH stipends in FY06.

These initiatives will be in WDVA's 2005-07 biennial budget. The proposed changes will result in a $200,000 savings per fiscal year. Conversion of select MFH positions to state veterans cemetery positions will result in additional VTF savings.

Personal Loan Program (PLP)

The Personal Loan Program currently provides two types of loans, which can be used for unlimited purposes since the passage of Act 83 in December 2003: mortgage-secured (a home equity loan); and guarantor-secured (cosigner secured). The Personal Loan Program's VTF-funded loans would be limited as follows:

- – Limit VTF-funded PLP loans to $2.5 million per fiscal year beginning in FY05.
- – Beginning in FY06, VTF-funded PLP loans:
  - $5,000 maximum loan
  - 6% interest rate
  - Maximum of 10-year term
  - Guarantor back loans
- Use non-VTF funding to make "Home Equity Loans". WDVA is currently exploring sources of non-VTF funding. Potential sources of funding included the state Land Commission, SWIB and the MLRF.

Based on current demand, the proposed changes to PLP will save $9.5 million VTF cash per fiscal year. All of the proposed changes will require statutory changes.

VTF Revenue Enhancements

Revenue generating initiatives to be included in WDVA's 2005-07 biennial budget:

- Have revenue from the purchase and renewal of veteran license plates deposited in VTF.
- VTF donation line on state income tax forms, similar to the current "Packers Stadium" and "Endangered Species" donation lines.
- Revenue from underwriting and servicing PLP loans funded with non-VTF dollars.

The estimated additional revenue will vary from $1.1 million in FY06 to $1.4 million in FY13. The first two items listed above require statutory changes and the third requires approval by the State Building Commission and enumerated in the 2005-07 biennial budget.

Increase Assets in MLRF

A key component of the 10-Year Solvency Plan for the Veterans Trust Fund is to increase the assets in the MLRF. Provisions include:

- Pursue federal legislation to extend the Qualified Veteran Mortgage Bond (QVMB) program, which allows federally tax-exempt bonding to issue qualified veterans' home mortgage loans.
- Seek state legislation to authorize state tax-exempt bonding for veteran mortgage loans
- Eliminate maximum loan amount for Home Improvement Loan Program (HILP) loans. (Current law: $25,000).
- When feasible, refinance exiting bonds to create positive arbitrage.

The first item requires federal legislation, the second and third require changes in state statutes, while the last item requires no statutory or code changes. The second item will be delayed until the 2007-09 biennial budget.

SUMMARY

If the proposed 10-Year Solvency Plan is fully implemented, then the VTF could maintain a positive cash balance until 2014. It is important to note that the amount of savings for each program is the amount that is needed in order to attain ten years of solvency. Consequently, if funding for one program is to be increased over what is proposed in the plan, then the funding for another must be reduced in order to maintain ten years of solvency.

Since this is not a perpetual solvency plan, the question may be asked, "What happens after 2013?" The primary reason for developing and implementing a 10-year solvency plan is to buy time for better economic conditions and a better fiscal situation for state government. Under that set of circumstances it should be possible to rebuild the asset base of the MLRF, increase investment earnings for the VTF and MLRF, restore Indian Gaming/GPR for the Veterans Museum, identify new sources of revenue, and achieve cost savings through additional operating efficiencies.

Even with the changes proposed by the 10-Year Solvency Plan, Wisconsin will remain the envy of the other states by providing arguably the most comprehensive package of state benefits to its veterans.

Please feel free to contact me for further information.

Sincerely,
DEPARTMENT OF VETERANS AFFAIRS

JOHN A. SCOCOS
Secretary