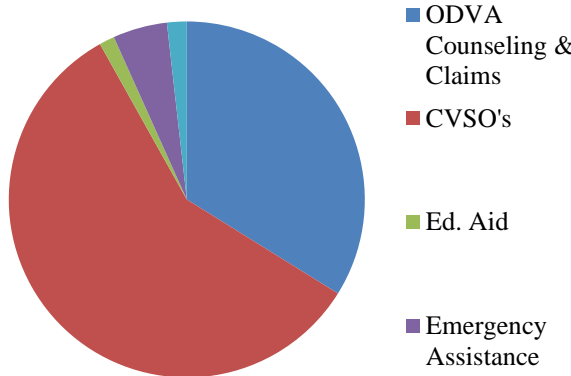


DEPARTMENT OF VETERANS' AFFAIRS

The Department of Veterans' Affairs works to provide essential services to meet the needs of veterans and their families, including the following: counseling and claims; conservatorship of assets of incapacitated veterans; educational aid; emergency assistance; support for National Veterans' Service organizations; support of county veterans' service officers; operational and construction oversight of veterans home nursing facilities in The Dalles and Lebanon; and the provision and administration of affordable home loans for veterans.

VETERANS' AFFAIRS	2009-11 Actuals	2011-13 Leg. Approved	2013-15 Current Service Level	2013-15 Governor's Budget	2013-15 Co-Chairs' Budget (1.0)	% Change 2011-13 LAB to 2013-15 CSL
General Fund	5,887,682	6,562,195	6,237,138	7,791,637	0	-5.0%
Other Funds	39,692,961	55,711,219	47,550,792	43,779,888	0	-14.6%
Other Funds NonLimited	496,940,215	443,095,385	335,225,000	335,225,000	0	-24.3%
Federal Funds	1,970,508	19,861,911	0	0	0	-100.0%
TOTAL FUNDS	\$544,491,366	\$525,230,710	\$389,012,930	\$386,796,525	\$0	-25.9%
Positions	109	94	94	82	0	0.0%
FTE	106.79	94.00	93.20	81.20	0.00	-0.9%

Major Revenues	Budget Environment	Comparison by Fund Type
<ul style="list-style-type: none"> • Bond proceeds total \$100 million in 2013-15. • Veteran loan and contract related payments are estimated to amount to \$55 million. • Interest earnings are assumed to be \$100 million. • Administrative fees and late payment charges are estimated at \$340,000. • \$2.1 million General Fund for Claims and Counseling services provided by ODVA on behalf of veterans in the Salem and Portland areas, and for conservatorship. General Fund for special payments include the following: <ul style="list-style-type: none"> ▪ Payments to county veterans' service officers : \$3.6 million ▪ Educational Assistance : \$86,391 ▪ Emergency Assistance: \$305,797 ▪ National Service Orgs: \$110,621 	<ul style="list-style-type: none"> • ODVA has experienced financial losses in the Home Loan program due to low interest rates and investment earnings, higher prepayments, a higher unemployment rate among veterans, and the inability to use bond authority for refinancing of existing loans. • The number of claims submitted on behalf of veterans grew from 44,810 in 2007-09 to 60,296 claims in 2009-11. ODVA estimates that the numbers of claims filed will more than double by 2015-17 as more veterans retire from service in Iraq and Afghanistan, and as more Vietnam-era veterans retire. • Construction of a second Veterans' home is underway in Lebanon, Oregon. The costs are exceeding available local 	

Major Revenues	Budget Environment	Comparison by Fund Type
<p style="text-align: center;">ODVA GF (CSL)</p>  <ul style="list-style-type: none"> • The Governor’s budget includes an additional \$1.6 million GF to support veterans’ services (claims and counseling), effectively ending an ongoing fund shift that began in 1991, when veterans’ services programs began to be partially supported by Home Loan program proceeds. (See issue paper). • The Veterans’ Home Program is financed entirely with Other Funds, consisting of money received from the residents of the Home, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans’ Administration (\$27.2 million). 	<p>matching funds, due to inflation in labor and materials cost since the initial application was submitted and approved by the federal Veterans’ Administration, as well as a transition to a “small house”/neighborhood facility model rather than a traditional “long corridor” nursing home.</p> <ul style="list-style-type: none"> • An increase in federally-funded service connected disability per diem is expected in February 2013, and will help ensure the operation viability of Veterans’ homes, offsetting a portion of increases in private pay rates of residents. • Continued exemption from provider taxes for the Veterans’ home(s) is anticipated in 2013-15. 	

MAJOR CHALLENGES AND DECISION POINTS

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| <ol style="list-style-type: none"> 1. The Governor's budget includes \$1.6 million in additional GF to support Veterans' Services, which since 1991 have been supported by Loan Program Revenue. * - <i>POP 100, 101,102</i> 2. The Governor's budget includes \$21,247 GF and \$4,390 OF to reclassify 6 existing managers that oversee the Veterans' Services program (<i>POP 103</i>). ODVA is in the process of seeking a determination from DAS that these positions should be reclassified based on the duties performed. 3. A one-time 2011-13 GF increase in the amount of \$92,160 for the educational aid program is phased out. This program provides a special payment of \$100 per month to full time veteran students and \$50 per month to part time veteran students who served in the Korean War, or who served subsequent to June 30, 1958 and don't qualify for other federal veterans' educational assistance (primarily Gulf War era vets and those not associated with a particular conflict). Eligibility is also determined by length of service with a limit of 36 months of tuition assistance. ODVA reported a waiting list of an average of 120 students during 2011-13. 4. The Governor's budget includes \$75,000 of OF expenditure limitation to complete the study of the demand for additional skilled nursing care for veterans directed by HB 3208 (2011 session). 5. Legislation forwarded by ODVA with a potential fiscal impact includes the following: <ol style="list-style-type: none"> a. Removing the maximum statutory limit on conservatorship fees (currently 5% of the value of the estate) and allowing ODVA to establish the fees in rule to recover a portion of program costs (HB 2044); b. Allowing the agency to recoup waived conservatorship costs from a veteran's estate should there be an estate from which to recoup (HB 2046). | <ol style="list-style-type: none"> c. HB 2048 directs the Oregon State Lottery Commission to establish lottery games, the proceeds of which would benefit veterans' education and economic development opportunities; d. Allowing administrative fees to be charged for General Fund pass through programs (including aid to counties, educational aid, emergency assistance, and funds for National Service Organizations (HB 2045)). ODVA has indicated that it may not be actively advocating for this legislation. <ol style="list-style-type: none"> 6. An additional \$4 million Other Funds and \$6,840,377 Federal Funds capital construction expenditure limitation is anticipated to be needed for the second Veterans' Home in Lebanon, due to cost overruns. HB 2680 contemplates lottery bond proceeds to be made available for the Lebanon Veterans' home to address this issue. 7. Lottery bond capacity carry-forward; \$11.75 million in Lottery Bond capacity designated for a third Veterans' home was included in SB 5005 (2011 - \$10.5 million is for actual project costs). Due to the impossibility of expending those bond proceeds within required, the bonds were not issued in the spring of 2012. 8. The Governor's budget includes unidentified reductions related to state agency assessments for DAS and the Office of Administrative Hearings, a reduction related to the PERS employer rate, and additional PERS related reductions which assume legislative action. |
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MAJOR CHALLENGES AND DECISION POINTS**Oregon Department of Veterans' Affairs (ODVA)**

Analyst: Deister

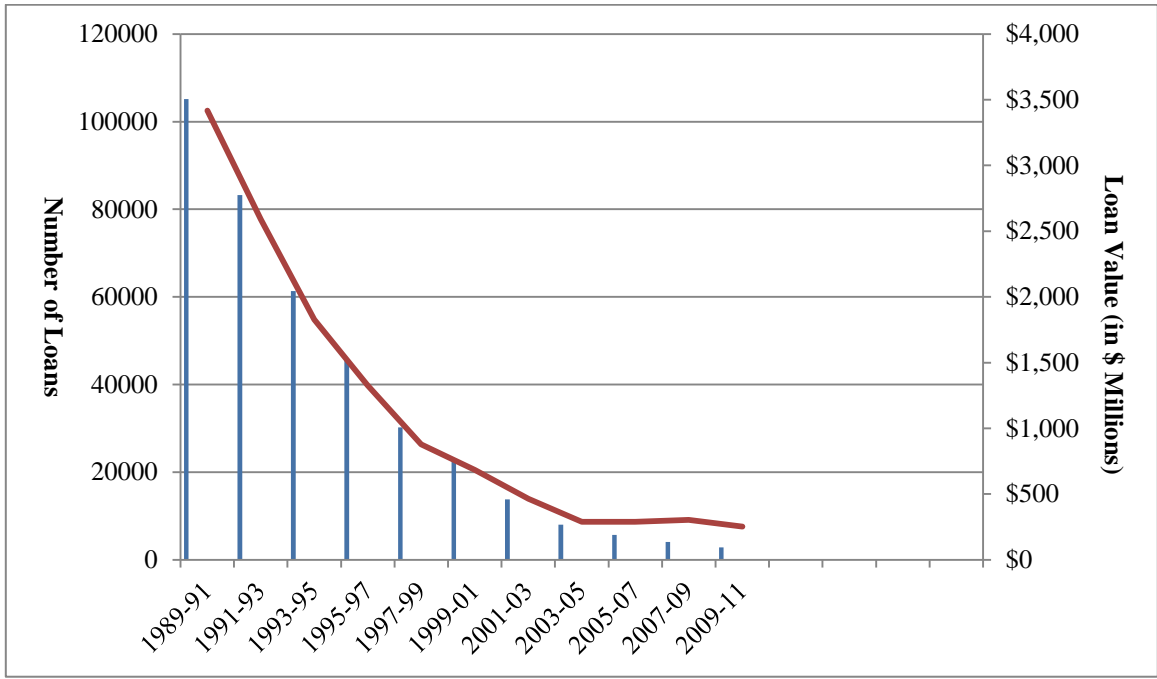
11. Loan program losses of \$3.1 million in 2012 have led ODVA to request shifting the portion of veterans' service officers and associated support personnel funded with loan program reserves to General Fund support. Prior to 1991, the Veteran Services program had been funded entirely with General Fund.

Oregon is one of only five states in the nation that have been grandfathered under federal law to allow a state veteran home loan program (the others are Alaska, California, Texas, and Wisconsin). These states want to provide an enhanced housing benefit to their veterans, which has historically resulted in significantly lower home loan rates than are normally available in the marketplace. The low rates are achieved through issuance of tax-free state General Obligation bonds. Of these state veteran home loan programs, Texas – with its large population of veterans and ability to make loans to active duty service members – is faring best; California just completed a fairly significant downsizing of its loan program, and Wisconsin has suspended its loan program altogether, opting to concentrate on paying off outstanding bonds. Veterans in states without home loan programs may opt for a federal Veterans' Administration loan guarantee program, which serves the borrower as a less expensive form of mortgage insurance; a down payment is not required, and underwriting criteria are slightly less stringent than in the private sector.

ODVA reported loan program losses of \$3.1 million in 2012, (and anticipates further losses in the foreseeable future; for the first quarter of FY 2013, losses amounted to \$750,000) due to a combination of the following factors:

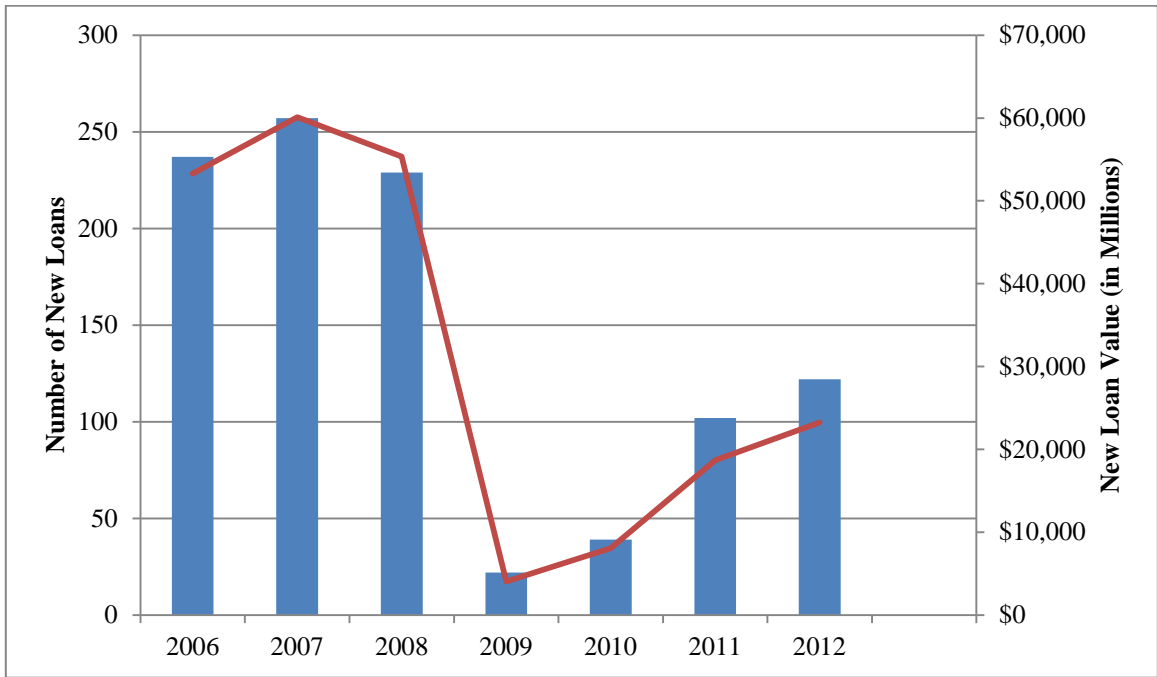
- Low interest rates, which spur accelerated loan prepayments and lower investment earnings;
- The sluggish economy and unemployment rate (higher among veterans) is assumed to be depressing demand for home loans;
- The inability of ODVA to use its bond authority for refinancing (without a change to federal law); ODVA reports that 90% of calls the loan program receives are requests for refinancing;
- Historically, the loan program has been most robust when large numbers of veterans returned to Oregon, such as after WWII, the Korean War, and the Vietnam War; the absence of a large "draft" veteran population combined with a dismal economic picture has resulted in a significant portfolio reduction over time; and
- The use of loan program earnings to subsidize veterans' services programs (including veterans' service officers and related support staff) in the amount of approximately \$1.6 million annually.

These factors have led to compounding losses in the loan program portfolio, as illustrated by the following graphic.



Over the past eight years, ODVA had two significant layoffs – in 2004 and 2012 – attempting to realign personnel costs with reduced revenue. Overall, these actions resulted in the reduction of 36 positions (12 of them in 2012). The agency’s 070 package eliminates these twelve permanent positions from the 2013-15 base budget.

There are some signs that the housing market and the economy is beginning to rebound (see below). Assuming demand for the program expands, ODVA would need a healthy reserve to back the additional bonds it would issue to meet that demand.



In order to ensure the long-term financial soundness of its loan program, ODVA has included three policy option packages (101, 102, and 103) collectively totaling \$1.6 million to shift funding from Other Funds (the source of which is Home Loan Program reserves) to General Fund. Prior to 1991, the Veteran Services program – which includes funding for state and county service officers who submit disability claims to the federal Veterans' Administration, funding for educational and emergency assistance grants, payments to national service organizations, and legal conservatorship services for incapacitated veterans – was funded entirely with General Fund. The fund shift occurred in response to a state revenue shortfall and, despite repeated requests by ODVA, has never been reversed.

The policy decision at hand is whether to help ODVA stem loan program losses by providing up to \$1.6 million in additional General Fund support for Veterans' Services, or to exacerbate the dwindling of loan program reserves (potentially leading to an inability to meet future demand for veteran home loans) in favor of funding other policy priorities.