

This file contains the following documents that were presented to the Joint Budget Committee:

- March 14, 2007 Memorandum Regarding Staff Comeback on Department of Military & Veterans Affairs - *Department Request for FY 2006-07 Supplemental Addition to the Long Bill*
- January 18, 2007 FY 2006-07 Supplemental: Department of Military and Veterans Affairs

MEMORANDUM

TO: Members of the Joint Budget Committee

FROM: Lauren Saine

SUBJECT: Regarding Staff Comeback on Department of Military & Veterans Affairs
Department Request for FY 2006-07 Supplemental Add-on to the Long Bill

DATE: March 14, 2007

Department Request

On February 16, 2007, the Department of Military and Veterans Affairs submitted a request for a supplemental transfer of \$1 million General Fund to the Veterans Trust Fund for FY 2006-07. The transfer would be shown in a new line item, "Veterans Trust Fund Transfer," within the Division of Veterans Affairs section of the Long Bill. The Department request states that the request "seeks to capitalize on an opportunity to partially restore the funds transferred from the fund," although it does not identify the opportunity referred to.

The Veterans Trust Fund was established in May 2000 with tobacco settlement moneys, to provide funding for grants to veterans service organizations, state veterans nursing homes, and other authorized entities. The Trust Fund was designed to build a principal balance over the anticipated 25 years of tobacco settlement payments that would generate interest to fund veterans grants.

Effective March 5, 2003, the General Assembly transferred the approximately \$2.3 million in the Trust Fund to the General Fund, without a payback provision. It also reduced General Fund support for the Division of Veterans Affairs and then approved an increased level of expenditures from the Trust Fund so that Trust Fund moneys could be used to support the Division. The effect on the Trust Fund balance accumulation was dramatic. As of January 1, 2007, the unreserved fund balance was \$1,213,953. The Department's Trust Fund reconciliation, from its November 1, 2006, budget request, is shown in the table below:

| | FY2004-05 Actual | FY2005-06 Actual | FY2006-07 Estimated | FY2007-08 Projected |
|------------------------|-----------------------------|-----------------------------|--------------------------------|--------------------------------|
| Beginning Fund Balance | \$334,569 | \$624,010 | \$928,507 | \$1,103,592 |
| Appropriation/Transfer | 859,565 | 871,980 | 800,342 | 1,000,000 |
| Other Contributions | 0 | 17 | 0 | 0 |
| Interest | 28,229 | 43,613 | 0 | 0 |
| Total Available | 1,222,363 | 1,540,424 | 1,728,849 | 2,103,592 |
| Fund Expenditures | 598,353 | 611,917 | 625,257 | 775,000 |
| Ending Fund Balance | 624,010 | 928,507 | 1,103,592 | 1,328,592 |

The Department believes that the language in the Colorado State Veterans Trust Fund statute is permissive and allows for the requested transfer and that the requested transfer would fall under the statutory six percent General Fund appropriation limit.

Transfers to the Veterans Trust Fund under current law

A transfer of General Fund to the Trust Fund is not addressed in current law. Section 28-5-709(1)(a) C.R.S., states that the Trust Fund shall consist of:

- moneys transferred from tobacco settlement funds, under Section 24-75-1104.5(1)(g), C.R.S.
- public or private gifts, grants, and donations.

While a transfer of General Fund is not prohibited in current law, if the General Assembly wished to transfer General Fund to the Veterans Trust Fund, the best practice would be to amend current law to specifically authorize such a transfer.

Expenditures from the Trust Fund under current law

Under Section 28-5-709(3)(b)(I)(A), C.R.S., 75 percent of the amount transferred from tobacco settlement funds, plus 100 percent of any interest earned on the principal, is subject to appropriation in FY 2006-07. If the General Assembly were to approve the transfer of \$1 million General Fund to the Trust Fund in the current year, then the amount available for expenditure would increase only by the amount of additional interest earned.

When the Trust Fund was established in 2000, the spending limit was 25 percent of the annual appropriation (now a transfer) from the tobacco settlement funds. During the economic downturn, the General Assembly increased the spending limit to 75 percent. Last year, the General Assembly passed S.B. 06-126, which decreased the spending limit in steps over five years, as follows:

- FY 2006-07 75 percent
- FY 2007-08 65 percent
- FY 2008-09 55 percent
- FY 2009-10 45 percent
- FY 2010-11 35 percent

On July 1, 2011, the spending limit will revert to 25 percent.

The Department has provided its projections of the Trust Fund balance with and without the requested transfer (attached). These projections are based on the maximum possible annual transfer of \$1 million; however, the actual annual transfer amounts have been substantially less.

Budgetary constraints

A transfer of General Fund to the Trust Fund would be subject to the statutory six percent limit on General Fund appropriations. The Department did not identify specific reductions that would offset the transfer of \$1 million General Fund nor explain how the request would be funded within the six percent limit.

Staff Recommendation

Staff recommends that the Committee not approve the request, because the Department did not

identify offsetting reductions and because the Department did not offer a compelling reason to approve the transfer at this stage of the FY 2006-07 budget process, absent specific offsetting reductions. The Committee is in the process of approving a supplemental bill package that appropriates the maximum amount of General Fund allowed for FY 2006-07. If the Committee approved the requested transfer of \$1 million General Fund, it would need to reduce other previously approved or pending supplemental requests by an equal amount, in order to maintain a balanced budget.

The Office of State Planning and Budgeting states that the Governor's FY 2006-07 Executive Budget Request was balanced using the FY 2006-07 negative Medicaid supplemental and that, as such, the General Fund freed-up by that is used in part to support the request. However, the Veterans Trust Fund supplemental request does not identify the negative Medicaid supplemental as the source of funds, and the negative Medicaid supplemental request did not identify the Veterans Trust Fund supplemental as a program that the reduction could be used to fund.

The Office of State Planning and Budgeting states that the rationale for the request is to add to the corpus an amount that will generate an additional \$800,000 in interest over twenty years and that the Department will use the interest earnings, over time, to meet the needs of state veterans by providing funding for 1) capital improvements and maintenance of veteran's facilities, 2) the State Veterans Cemetery, 3) Division expenses, and 4) veterans grant recipients who provide benefits for the State's veterans. While a transfer of General Fund to the Trust Fund is consistent with the intent of the General Assembly in creating the Trust Fund, the Department has provided no compelling reason to make the transfer at this time without specific offsetting reductions in other programs.

If the Committee decides to approve the request, staff recommends the Committee carry a bill authorizing transfers of General Fund to the Colorado State Veterans Trust Fund.

COLORADO GENERAL ASSEMBLY

JOINT BUDGET COMMITTEE



FY 2006-07 SUPPLEMENTAL:

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

**PRIORITIZED AND NON-PRIORITIZED
REQUESTS**

JBC Working Document - Subject to Change

Staff Recommendation Does Not Represent Committee Decision

Prepared By:

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January 18, 2007

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**DEPARTMENT OF MILITARY & VETERANS AFFAIRS
FY 2006-07 SUPPLEMENTAL RECOMMENDATION
JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

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| | FY 2005-06 Actual | FY2006-07 Appropriation | Fiscal Year 2006-07 Supplemental | | |
|--|----------------------|----------------------------|----------------------------------|-----------------------|----------------------------------|
| | | | Requested Change | Recommended Change | New Total with Recommendation |
| DEPARTMENT OF MILITARY & VETERANS AFFAIRS | | | | | |
| Executive Director - Maj. Gen. Mason C. Whitney | | | | | |
| Supplemental #1 - Tuition Assistance | | | | | |
| <i>(1) Executive Director and Army National Guard</i> | | | | | |
| Colorado National Guard Tuition Fund | <u>685,270</u> | <u>606,000</u> | <u>159,074</u> | <u>159,074</u> | <u>765,074</u> |
| General Fund | 175,803 | 175,803 | 0 | 0 | 175,803 |
| Cash Funds Exempt | 509,467 | 430,197 | 159,074 | 159,074 | 589,271 |
| Staff Supplemental - Veterans Trust Fund Expenditures | | | | | |
| <i>(2) Division of Veterans Affairs</i> | | | | | |
| Colorado State Veterans Trust Fund Expenditures | <u>611,917</u> | <u>680,435</u> | <u>0</u> | <u>(55,131)</u> | <u>625,304</u> |
| Cash Funds | 0 | 25,000 | 0 | 0 | 25,000 |
| Cash Funds Exempt | 611,917 | 655,435 | 0 | (55,131) | 600,304 |
| Totals Excluding Pending Items | | | | | |
| TOTALS for ALL Departmental line items | 129,412,781 | 152,527,484 | 159,074 | 103,943 | 152,631,427 |
| FTE | <u>1,184.8</u> | <u>1,187.8</u> | <u>0.0</u> | <u>0.0</u> | <u>1,187.8</u> |
| General Fund | 4,314,373 | 5,273,892 | 0 | 0 | 5,273,892 |
| Cash Funds | 65,912 | 76,413 | 0 | 0 | 76,413 |
| Cash Funds Exempt | 2,416,048 | 1,371,400 | 159,074 | 103,943 | 1,475,343 |
| Federal Funds | 122,616,448 | 145,805,779 | 0 | 0 | 145,805,779 |
| Statewide Supplementals | | | | | |
| (see narrative for more details) | | | | | |
| General Fund | 0 | 0 | (57,044) | (57,044) | (57,044) |
| Federal Funds | 0 | 0 | (13,866) | (13,866) | (13,866) |
| Totals Including Pending Items in Request | | | | | |
| DEPARTMENT OF MILITARY & VETERANS AFFAIRS | | | | | |
| TOTALS for ALL Departmental line items | 129,412,781 | 152,527,484 | 88,164 | 33,033 | 152,560,517 |
| FTE | <u>1,184.8</u> | <u>1,187.8</u> | <u>0.0</u> | <u>0.0</u> | <u>1,187.8</u> |
| General Fund | 4,314,373 | 5,273,892 | (57,044) | (57,044) | 5,216,848 |
| Cash Funds | 65,912 | 76,413 | 0 | 0 | 76,413 |
| Cash Funds Exempt | 2,416,048 | 1,371,400 | 159,074 | 103,943 | 1,475,343 |
| Federal Funds | 122,616,448 | 145,805,779 | (13,866) | (13,866) | 145,791,913 |

**DEPARTMENT OF MILITARY & VETERANS AFFAIRS
 FY 2006-07 SUPPLEMENTAL RECOMMENDATION
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Supplemental # 1 - Tuition Assistance

| | Request | Recommendation |
|-------------------|------------------|-----------------------|
| Total | <u>\$159,074</u> | <u>\$159,074</u> |
| General Fund | 0 | 0 |
| Cash Funds | 0 | 0 |
| Cash Funds Exempt | 159,074 | 159,074 |
| Federal Funds | 0 | 0 |

| | |
|---|------------|
| Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency] | YES |
| The supplemental is needed because new data shows increased usage of the National Guard Tuition Assistance program. | |

Department Request: The Department requests \$159,074 cash funds exempt from the Department of Higher Education, Financial Aid, National Guard Tuition Assistance budget line for the Colorado National Guard tuition fund. See Appendix A for Department of Higher Education numbers pages.

Section 23-3.3-202 C.R.S. provides that, out of any moneys provided for financial assistance, the higher education commission shall first provide tuition assistance to the Colorado National Guard, through a transfer of up to \$650,000. Section 23-5-111.4 C.R.S. provides that any National Guard member who meets eligibility criteria, upon being accepted at a state institution of higher education, may pursue a bachelor's degree, a postgraduate degree, an associate degree, or a certificate of completion and that at least 50 percent but not more than 100 percent of the tuition will be paid by the Department of Military and Veterans Affairs, subject to available appropriations.

While the level of Colorado National Guard deployments for federal active duty abroad has remained steady for the past few months, troop strength has increased, leading to the increased demand for tuition assistance. The purpose of the tuition assistance program is, in part, to encourage enlistments, and the Department believes that the tuition assistance benefit is a factor in the increased troop strength.

The Department's current appropriation will not be sufficient to cover 100 percent of expected tuition expense, if current usage continues. The Department projects tuition expense of \$765,074, a shortfall of \$159,074 from the appropriated amount.

The Department's actual and projected tuition assistance data is shown below.

**DEPARTMENT OF MILITARY & VETERANS AFFAIRS
 FY 2006-07 SUPPLEMENTAL RECOMMENDATION
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

| | Actual Summer 05 | Actual Fall 05 | Actual Spring 06 | Actual Summer 06 | Projected Fall 06 | Projected Spring 07 | Projected Summer 07 | Projected Total 06-07 |
|---------------------|---------------------|-------------------|---------------------|---------------------|----------------------|------------------------|------------------------|--------------------------|
| Students Supported | 96 | 204 | 262 | 48 | 204 | 262 | 96 | 582* |
| Total Tuition | \$95,177 | \$269,274 | \$364,397 | \$43,543 | \$283,729 | \$364,397 | \$95,177 | \$765,074* |
| % Tuition Provided | 100% | 100% | 100% | 85% | 100% | 100% | 100% | |
| Avg Tuition Support | \$ 991 | \$ 1,320 | \$ 1,391 | \$ 907 | \$ 1,391 | \$ 1,391 | \$ 991 | |

*includes amounts for some Summer 06 enrollments

Staff recommends that the Committee approve \$159,074 cash funds exempt from the Department of Higher Education to the Executive Director and Army National Guard, Colorado National Guard Tuition Fund.

**DEPARTMENT OF MILITARY & VETERANS AFFAIRS
 FY 2006-07 SUPPLEMENTAL RECOMMENDATION
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Staff Supplemental - Colorado State Veterans Trust Fund Expenditures

| | Request | Recommendation |
|-------------------|---------|----------------|
| Total | \$0 | (\$55,131) |
| General Fund | 0 | 0 |
| Cash Funds | 0 | 0 |
| Cash Funds Exempt | 0 | (55,131) |
| Federal Funds | 0 | 0 |

| | |
|---|------------|
| Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria? [An emergency or act of God / a technical error in the appropriation / new data / an unforeseen contingency] | YES |
| The supplemental is a needed because new data shows that less money than expected will be transferred to the Veterans Trust Fund this year. | |

Department Request: Staff has received notice that the tobacco settlement moneys coming to the state will be reduced this year because of litigation at the national level. Because of this litigation, the state will receive less settlement money than expected for the current year, thus reducing transfers to the various programs that receive tobacco settlement funds. Funding transferred from the tobacco settlement fund to the Colorado State Veterans Trust Fund will be less than expected. Since the statutory expenditure limit for the trust fund is currently 75% of the amount transferred, plus interest, the amount available for expenditures from the Veterans Trust Fund this year will be \$55,131 less than appropriated, as shown in the table below.

| | FY 2006-07 | Change | FY2006-07 Revised |
|---|----------------|-----------------|-------------------|
| Veterans Trust Fund transfer from tobacco settlements funds | \$873,913 | (\$73,508) | \$800,405 |
| Veterans Trust Fund Expenditures appropriation | <u>680,435</u> | <u>(55,131)</u> | <u>625,304</u> |
| Cash Funds appropriation (interest) | 25,000 | 0 | 25,000 |
| Cash Funds Exempt appropriation (75% of transfer to VTF) | 655,435 | (55,131) | 600,304 |

Staff recommends that the Committee approve (\$55,131) cash funds exempt from the Veterans Trust Fund to Colorado State Veterans Trust Fund Expenditures.

**DEPARTMENT OF MILITARY & VETERANS AFFAIRS
 FY 2006-07 SUPPLEMENTAL RECOMMENDATION
 JBC WORKING DOCUMENT - SUBJECT TO CHANGE**

Statewide Common Policy Supplemental Requests

These requests are not prioritized and are not analyzed in this packet . These items will be acted on separately by the JBC when it makes a decision regarding common policies.

| Department of Military & Veterans Affairs Portion of Statewide Supplemental Request | General Fund | Cash Funds | Cash Funds Exempt | Federal Funds | Total | FTE |
|--|-------------------------|-----------------------|----------------------------------|--------------------------|--------------|------------|
| 1. Capitol Complex Leased Space | \$996 | \$0 | \$0 | \$2,275 | \$3,271 | 0.0 |
| 2. Communications Services Payments | 269 | 0 | 0 | 0 | 269 | 0.0 |
| 3. Purchase of Services from Computer Center | (1,894) | 0 | 0 | 0 | (1,894) | 0.0 |
| 4. Multiuse Network Payments | (85,846) | 0 | 0 | 0 | (85,846) | 0.0 |
| 5 Vehicle Lease Payments | 96 | 0 | 0 | 0 | 96 | 0.0 |
| 6. Payments to Risk Management & Property F | 45,803 | 0 | 0 | 0 | 45,803 | 0.0 |
| 7. Workers Compensation | (16,468) | 0 | 0 | (16,141) | (32,609) | 0.0 |
| Total Statewide Supplemental Requests for Department of Military & Veterans Affairs | (57,044) | 0 | 0 | (13,866) | (70,910) | 0.0 |

Staff Recommendation: The staff recommendation for these requests is pending committee approval of common policy supplementals. Staff asks permission to include the corresponding appropriations in the Department's supplemental bill when the committee approves this common policy supplemental. If staff believes there is reason to deviate from the common policy, staff will appear before the committee later to present the relevant analysis.
