

SUBCOMMITTEE NO. 4

Agenda

on State Administration and General Government

Senator Richard D. Roth, Chair
Senator Richard Pan
Senator Janet Nguyen



**Thursday, March 5, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room 2040**

Consultant: Brady Van Engelen

<u>Item</u>	<u>Department</u>
8955	California Department of Veterans Affairs

AGENDA – DISCUSSION / VOTE ITEMS

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8955 DEPARTMENT OF VETERANS AFFAIRS

Department Overview: The state performs three primary functions to support the needs of California’s approximately 1.85 million veterans and their families: guidance and representation through the disability and benefits claims process; direct loans for farms and homes; and long-term residential and medical care at California veterans homes. The California Department of Veterans Affairs (CDVA) is designed to support the efforts of the United States Department of Veterans Affairs (USDVA) in providing healthcare and a wide array of other benefits to eligible veterans, including educational benefits, disability compensation, pensions, and guarantees on home loans for eligible veterans. The state and local governments have long played an integral role in assisting the state’s veterans access to benefits provided by the USDVA and, in some cases, provide additional benefits to returning service members. Recognizing that the state can provide an important service to veterans, the state has set aside funds to support the efforts of the USDVA and provide additional benefits, such as long-term residential care and the farm and home loan program.

California remains home to the largest population of veterans in the country. A September 2014 study conducted by the USDVA found that:

- 1,851,470 veterans are living in California.
- Approximately \$4.5 billion in compensation and pension is distributed to California’s veterans annually.

The Governor’s budget proposes total spending of \$426.7 million (\$357.1 million General Fund) for the CDVA. This proposal reflects a \$32.2 million dollar increase over expenditures for 2014-15.

**California Department of Veterans Affairs
Summary of Expenditures**

Program	2014-15	2015-16
Farm and Home Loans to Veterans	\$62,302	\$64,000
Veterans Claims and Rights	18,173	15,274
Care of Sick and Disabled Veterans	313,887	347,172
Total (Dollars in Thousands)	\$394,362	\$426,446

Veterans Homes of California. Over 80 percent of the Governor's proposed budget is dedicated to providing the state's eligible residents with rehabilitative, residential, medical, and support services in a home-like environment. Currently, CDVA maintains campuses in Barstow, Chula Vista, Lancaster, Ventura, West Los Angeles, Yountville, Redding and Fresno. The Redding and Fresno veterans' homes were completed in the spring of 2012. The 2014-15 budget includes an augmentation of \$8.19 million and 132.2 personnel years to complete staffing ramp-up and admission of residents at the state veterans homes in Redding and Fresno.

Each campus is capable of providing varying levels of care, in accordance with USDVA standards, ranging from domiciliary care to skilled nursing. Overall, there are approximately 2,200 licensed beds, and CDVA maintains a physical capacity of almost 3,000 beds. However, projected census totals show that there will be slightly less than 2,000 residents within the CDVA veterans homes. The table below provides a breakdown of the capacity and care level of each campus.

For fiscal year 2015-16 the overall impact to the General Fund will be \$186.3 million. Operations of the veterans homes are supported by the general fund, but there are a number of revenue sources that offset the net General Fund impact. CDVA receives a federal per diem for aid and attendance from U.S. Department of Veterans Affairs at a rate of \$704 per month per veteran, collects member fees, receives reimbursement from both Medi-Cal and Medicare, and receives a small amount of revenue for hospice care, guest meals, rent from employees who live on the grounds, and member services. The table below summarizes revenues for fiscal year 2015-16.

Veterans Homes of California Revenue Estimates

	FY 2014-15	FY 2015-16
Federal Per Diem	\$47,131	\$59,193
Member Fees	\$21,390	\$25,348
Aid & Attendance	\$2,147	\$2,477
Medicare	\$6,216	\$6,801
Medi-Cal	\$5,934	\$7,150
Other	\$440	\$463
GF Expenditure minus Revenues	\$196,759	\$217,808

*dollars in thousands

**Veterans Homes of California
Census and Level of Care Summary**

Campus	Physical Capacity	Licensed Beds	Projected 2015-16 Census	Skilled Care	Intermed. Care	Residential Care	Domiciliary Care
Yountville	1,184	1,187	994	x	x	x	x
Barstow	400	344	212	x	x	x	x
Chula Vista	400	400	290	x		x	x
West LA	396	240	271	x		x	
Ventura	60	60	60			x	
Lancaster	60	60	60			x	
Redding	150	153	124	x		x	
Fresno	300	306	32	x		x	
TOTAL	2,950	2,747	2,144	943	324	634	1,049

In addition to the services highlighted above, the CDVA has been working to provide adult day-health care services in the future at some of the facilities within the CDVA veterans' homes network. While CDVA currently does not offer community-based adult services (CBAS), the Lancaster and Ventura veterans' homes are equipped to provide CBAS.

With the addition of two new veterans' homes in Redding and Fresno, the CDVA is projected to have a physical capacity of nearly 3,000 beds. However, the number of eligible veterans in California continues to decline. This mirrors a trend at the national level. Barring any future conflicts that would require large scale troop commitments, estimates conducted by the U.S. Department of Veterans Affairs have shown that by the year 2035, California will be home to slightly over 1 million veterans. This would represent a significant drop in the overall population of veterans living in California.

Issues Proposed for Discussion / Vote**Issue 1 – Chilled Water Distribution System Renovation**

Governor’s Budget Proposal: The Governor’s budget includes a request for the re-appropriation of \$3.5 million (\$1.7 million lease revenue bonds and \$1.8 million federal trust fund), to renovate the chilled water distribution system located at Veterans Home California – Yountville (VHC- Yountville).

Background: The intent of the chilled water distribution system renovation is to address a number of system deficiencies, and to ensure that the Yountville home has the capacity to maintain a temperature within the Department of Public Health Service’s standards. The Budget Act of 2011 provided CDVA with expenditure authority to address chilled water distribution system deficiencies at the VHC-Yountville facility. The total estimated project cost is \$6.398 million and will be funded by the: 1) Veterans’ Home Bond \$497,000; 2) lease revenue bonds \$2.23 million; and, 3) Federal Trust Fund \$3.66 million.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Steam Distribution System Renovation

Governor’s Budget Request: The Governor’s budget includes a request for the re-appropriation of \$3.38 million (Lease Revenue Bonds) for the preliminary plans, working drawings, and the construction phase of the Veterans Home of California – Yountville (VHC-Yountville) steam distribution system renovation.

Background: The steam distribution system provides hot water to all 120 buildings located within the VHC-Yountville premise. It has been determined that the current steam lines have deteriorated beyond repair. Additionally, the steam lines are insulated with asbestos, which creates an unsafe working condition when repairs are needed on the current steam lines. Total project costs are anticipated to require \$7.5 million, and will use a combination of both lease-revenue bonds and federal funds.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Igo Cemetery Water System Upgrade

Governor’s Budget Request: The Governor’s budget includes a request for \$525,000 (General Fund) to construct a water pressure system at the Veterans Memorial Building – Igo, which is managed by the California Department of Veterans Affairs (CDVA).

Background: In 2010, CDVA entered into an agreement with the California Veterans Assistance Group for the purpose of building a veterans memorial building on the grounds of the Northern California Veterans Cemetery in Igo, which is located in Shasta County. According to terms in the lease agreement, a 2,200 square foot, faith-neutral veterans memorial building is to be donated to CDVA, upon completion. Construction of the memorial building was complete in 2011. Shortly thereafter, CDVA was notified by the Shasta County Fire Marshall that water system upgrades would be required in order to comply with state and local safety standards. CDVA has proposed to install underground piping that will connect to the city’s water district and expand the capacity of the fire sprinklers to meet the minimum required coverage of 1,500 square feet.

Staff Comment: Staff does not have any concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – Central Coast Veterans Cemetery Operations

Governor’s Budget Request: The Governor’s budget includes a request for \$254,000 (\$217,000 California Central Coast State Veterans’ Cemetery at Fort Ord Operations Fund [Operations Fund], \$37,000 Federal Trust Fund) and 2.6 positions for fiscal year 2015-16, and \$452,000 (\$17,000 Operations Fund, \$435,000 Federal Trust Fund) and five positions ongoing to operate the California Central Coast Veterans Cemetery.

Background: AB 3035 (Laird), Chapter 291, Statutes of 2006, authorized the construction of a cemetery to be located at the former site of Fort Ord. The Central Coast Cemetery is designed to support the burial needs of approximately 177,000 veterans living within six surrounding counties; Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. Additionally, the Central Coast Cemetery includes 5,000 columbaria sites; an administration building with public information and restrooms; a maintenance yard and building; a committal shelter; and, a memorial area.

Staff Comment: Construction of the Central Coast Cemetery began in January 2015 and is scheduled for completion in July 2016. The requested funds support partial operation costs, which include an administrator, one office technician, and three additional support staff. The Central Coast Cemetery is expected to be fully operational by fiscal year 2016-17.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Residential Care and Clinical Training

Governor’s Budget Request: The Governor’s budget includes a request for \$3.599 million (General Fund) and 45 permanent positions to further support the care of veterans residing in the veterans homes operated by the California Department of Veterans Affairs (CDVA). Additionally, the Governor’s budget includes a one-time request for \$796,000 (General Fund) in order to train clinical staff. The total amount of support requested for fiscal year 2015-16 is \$4.395 million.

Background: The California Department of Veterans Affairs (CDVA) has requested an additional 45 residential care unit leaders (RCULs) in order to comply with U.S. Department of Veterans Affairs care standards, which mandates that care be provided 24 hours a day, seven days a week. CDVA assessed a number of factors at each campus; including capacity of the facility, distance between buildings, and number of residents per building. From this, CDVA was able to determine that a total of 61 RCUL’s were required. CDVA currently has sixteen RCUL’s on staff, and would require an additional 45 to become compliant. The additional staff will be placed at Yountville (30), Barstow (9), and Chula Vista (6) homes within the CDVA veterans homes network. The requested staff are intended to ensure that 24 hour care can be provided to residents in the domiciliary care and the residential care units. The RCULs are responsible for assisting residents with daily living skills and ensuring that residents are provided with a clean and safe living environment. Many of the tasks performed by the RCULs were previously performed by member helpers, who were also residents that were tasked with additional duties.

In addition to the \$4.599 million requested to provide additional staff to residents of the CDVA network of veterans homes, CDVA has requested that an additional \$796,000 (General Fund) be provided to train clinical staff in accordance with updated standards per the International Classification of Disease (ICD-10). The training will be provided in a just-in-time fashion, beginning on July 1, 2015, and is intended to ensure that electronic health records and business processes are ready to go on October 1, 2015. The training will vary from free basic overview courses to more in-depth specialized long-term training, which can cost up to \$2,000 per individual. CDVA has requested enough funding to cover an average of \$500 dollars per individual.

Staff Comment: Staff has no issue with the requested resources related to the RCUL’s. However, the subcommittee may want to determine what other state entities are seeking resources to train for compliance with ICD-10 during fiscal year 2015-16. If additional state entities are seeking resources to train staff, it may be worth considering if there are opportunities to partner with other state entities to coordinate staff-related training efforts.

Staff Recommendation:

Vote:

Issue 6 – West Los Angeles Food Service

Governor’s Budget Request: The Governor’s budget includes a request to augment the California Department of Veterans Affairs (CDVA) budget by \$1.608 million (General Fund) and 65.5 positions in fiscal year 2015-16, and \$3.165 million (General Fund) and 106 positions, ongoing, in order to convert contracted food service operations at the Veterans Home – West Los Angeles (VHC- WLA) to civil service.

Background: The VHC-WLA campus was designed and constructed without a fully functioning kitchen. During the design phase of the VHC-WLA, an agreement between the U.S. Department of Veterans Affairs and CDVA was reached that would allow for the U.S. Department of Veterans Affairs facility to provide food services to the residents of the VHC-WLA campus. The close proximity to the U.S. Department of Veterans Affairs facility made the arrangement economical for the operation of the VHC-WLA campus. In 2011, the U.S. Department of Veterans Affairs chose not to continue with the agreement and CDVA had to contract with a private food vendor in order to accommodate the residents of the facility. In accordance with Government Code §19130, the CDVA is now required to convert the personal service contracts to civil service positions.

Staff Comment: CDVA began the process of converting 5,000 square feet of storage space to a full-service kitchen in March 2013. The Budget Act of 2014 appropriated \$770,000 (Lease Revenue Bond) in order to expedite the construction of the kitchen at the VHC-WLA facility. The kitchen is expected to be fully operational in the fall of 2015.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – California Veteran Home Loan Program

Background: Since 1921, CDVA has administered the California Veteran Farm and Home Purchase Program, often referred to as the Home Loan Program (Program). The program is designed to provide loans to veterans for the purchase of single-family residences, farms, units in cooperative developments and mobile homes. It estimated that approximately 430,000 veterans have benefited from loans provided by the program.

CDVA finances new and existing single-family homes, farms, condominiums and mobile homes, on land owned by the veteran or in rental parks, by acquiring property selected by the veteran and reselling the property to the veteran under a land sale contract (Contract of Purchase). Under a contract of purchase, the veteran holds an equitable interest, and CDVA holds legal title to the property. The program also provides home improvement loans, construction loans and rehabilitation loans. There are no purchase price restrictions on the properties which can be purchased with CDVA bond funds, nor are there any income limitations on the veteran borrower.

The program itself is financed by General Obligation (GO) bonds. However, the GO bonds operate somewhat like revenue bonds; the bonds are repaid by CDVA loan holders through the payment of principal and interest on their loans. Like all GO bonds, they are backed by the full faith and credit of the State of California and are required to be authorized by a statewide election.

Eligibility for a CDVA loan requires that the veteran received a discharge of either honorable or under honorable conditions, and has served a minimum of 90 days active duty. Historically, the program has provided traditional, single-family residential structures. Due to the recent economic downturn, and the increasing urbanization of the state, several modifications have been made by the Legislature; the Legislature enacted AB 2087 (Torres), Chapter 542, Statutes of 2010, which expands the definition of home under provisions of the Home Loan Program to include residences with two to four units. Additional modifications to the program were made after the passage of AB 1084 (Davis), Chapter 377, Statutes of 2011, which expanded the definition of loan eligible cooperative housing corporation to include a shared equity cooperative.

CDVA Home Loan Program Summary

	Number of Loans Outstanding	Value of Outstanding Loans	Average Loan Amount
2014-15	241	\$66,266,625	\$269,617
2013-14	284	\$71,523,612	\$251,843
2012-13	69	\$8,700,543	\$126,094
2011-12	87	\$11,239,222	\$130,220
2010-11	176	\$21,588,775	\$122,663
2009-10	236	\$35,305,526	\$149,599
2008-09	801	\$192,774,862	\$240,667

Staff Comment: CDVA's home loan program continues to suffer from declining usage. In 2004, the program issued 1,942 new loans; in 2014 the program had issued a total of 284. In fact, the program's entire portfolio has declined: over the same time period, the program's portfolio decreased from a total of \$407,724,000 in 2004 to \$71,641,000 in 2014. The decline of the CDVA home loan program can be attributed to a number of different factors.

Other financing methods may be more competitive. CDVA interest rates are based on the most recent bond offering, compared to U.S. Department of Veterans Affairs home loans, which are more aligned with the mortgage loan market. Historically, CDVA has been capable of offering loans that are competitive with conventional loan mechanisms.

Title held by CDVA. In addition to interest rates not remaining as competitive as what may be available on the open market, CDVA loans may not be as competitive due to the title ownership. Under the current CDVA loan process, CDVA holds the title to the property until the lien is paid in full.

Staff Recommendation: Informational item only, no action necessary.

Vote:

Issue 8 – Veterans Claims and Rights

Background: The Veteran Services Division provides service and assistance to California's veterans, dependents, and survivors. Programs administered consist of: Veterans Dependents Educational Assistance Program, County Veterans Service Office Program, Veterans Outreach Program, Medi-Cal Cost Avoidance Program, Veterans Claims and Appeals Representation, State Veteran Cemeteries, United States Department of Veterans Affairs Joint Claims Initiative, California State Approving Agency for Veterans Education, Disabled Veteran Business Enterprise Program, Veterans Mental Health Program, Homeless Veterans Outreach Program, and the Veterans License Plate Program.

Veterans currently living in California were provided with disability compensation and/or pension benefits totaling \$4.5 billion dollars in 2013. As noted earlier, one of CDVA's primary missions is to assist eligible veterans, and their dependents, in obtaining federal and state benefits by assisting the veteran with a specific claim. CDVA maintains 92.4 positions to assist the state's veterans with benefit representation. However, much of the claims representation process is managed by county veterans' service officers (CVSO). Historically, the Governor's budget has provided \$2.6 million in General Fund to support the efforts of the CVSOs (there are currently CVSOs in 54 of California's 58 counties.) Beginning in fiscal year 2013-14, the Legislature has included a \$3.0 million appropriation to the CDVA in order to augment the CVSO's budget, increasing the state's General Fund contribution to CVSO's to \$5.6 million.

The cost of maintaining a CVSO is primarily a county general fund expense; however, the state general fund has contributed an increased amount to support CVSO operations in recent years. The Budget Act of 2013 (Committee on the Budget), Chapter 20, Statutes of 2013, appropriated \$3 million in General Fund, in addition to the \$2.6 annual appropriation, to support the joint claims initiative, which is a partnership between the state and the U.S. Department of Veterans Affairs to reduce the backlog of pending disability compensation claims. According to CDVA, the additional funding has allowed for the review of over 47,000 claims at the three U.S. Department of Veterans Affairs district offices.

From September 2013 to February 19, 2015:

Total Claims Reviewed	47,288
Total Lump Sum (One-time/Retro) Awards	\$49,671,900
Total Monthly Awards	\$6,405,585
Total Monthly Awards Annualized (amount veterans will receive annually for the rest of their lives)	\$76,867,020

Staff Comment: In addition to the appropriation included in the 2013 budget act, the Legislature included a one-time \$3.0 million General Fund appropriation as part of the Budget Act of 2014 (Committee on Budget and Fiscal Review), Chapter 25, Statutes of 2014. The U.S. Department of Veterans Affairs annual benefits report for fiscal year 2014-15 will not be available to determine what impact the additional funding had on the state's overall compensation and pension benefits level for the state's veterans, but according to CDVA, 79 percent (39 of 53) of the CVSO's have hired additional staff to support the state's veterans through the claims process.

Staff Recommendation: Informational item, no action necessary.

Vote: