



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

May 18, 2006

**S. 1235
Veterans' Housing Opportunity and Benefits Improvement Act of 2006**

*Amended language provided by the House Committee
on Veterans' Affairs on May 12, 2006*

SUMMARY

S. 1235 would make changes to several programs at the Department of Veterans Affairs (VA), primarily for homeless veterans and housing. CBO estimates that implementing this act would cost \$4 million in 2007 and \$149 million over the 2007-2011 period, assuming appropriation of the necessary amounts. In addition, CBO estimates that enacting this legislation would reduce direct spending for veterans programs by \$3 million in 2007, but would increase direct spending slightly in subsequent years for a net change of less than \$500,000 over both the 2007-2011 period and the 2007-2016 period.

S. 1235 contains both intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs for state, local, and tribal governments and the private sector to comply with those mandates would be minimal and well below the annual thresholds established by UMRA (\$64 million and \$128 million in 2006, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1235 is shown in Table 1. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 1235, THE VETERANS' HOUSING OPPORTUNITY AND BENEFITS ACT OF 2006

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	50	50	50	*	*
Estimated Outlays	4	34	49	46	16
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	-3	1	1	1	*
Estimated Outlays	-3	1	1	1	*

NOTE: * = Less than \$500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the act will be enacted around the start of fiscal year 2007 and that the necessary amounts will be appropriated for each year. Most of the legislation's budgetary effects would fall within the discretionary spending category, but a few provisions would affect direct spending.

Spending Subject to Appropriation

Homeless Veterans Reintegration Program. Section 203 would extend the Homeless Veterans Reintegration Program through fiscal year 2009 and would authorize the appropriation of \$50 million a year (the same level authorized in previous years) over the 2007-2009 period for the program. (Approximately \$22 million was appropriated in 2006 for this program.) The program provides grants to organizations that offer job counseling and training to homeless veterans. Under current law, the authorization for this program will expire at the end of fiscal year 2006. CBO estimates that implementing this provision would cost \$4 million in 2007 and \$149 million over the 2007-2011 period, assuming appropriation of the authorized amounts.

Other Provisions. The following provisions would have an insignificant impact on spending subject to appropriation:

- Section 103 would permanently extend the Native American Veteran Housing Loan Pilot Program. Under the program, which is scheduled to expire at the end of calendar year 2008, VA makes direct loans to veterans living on trust lands for the purchase, construction, or improvement of a home. The program currently has a negative subsidy rate of 13.8 percent and an estimated annual loan level of about \$5 million. CBO estimates that enacting S. 1235 would lower spending on loan subsidies by about \$700,000 a year over the 2009-2011 period. CBO also estimates that VA's administrative expenses would continue after 2008 under the act, and would average \$660,000 a year over the 2009-2011 period, assuming the availability of appropriated funds. In total, CBO estimates that implementing section 103 would reduce spending subject to appropriation by about \$40,000 a year over the 2009-2011 period.
- Section 301 would extend the amount of time a totally disabled veteran could remain covered under the Servicemembers Group Life Insurance (SGLI) program after separation from active-duty military service from one year to two years for servicemembers separating before September 30, 2011, and to 18 months for those separating on or after October 1, 2011. According to VA, this change would not have a significant impact on the SGLI program.
- Section 402 would require VA to prepare a biennial plan for the outreach activities to identify veterans who are not registered with VA as well as inform veterans and their dependents of the available services and benefits through VA. Based on information from VA, CBO estimates that implementing this provision would cost less than \$500,000 a year, subject to appropriation of the necessary amounts.

Direct Spending

S. 1235 contains provisions that would increase and decrease direct spending for veterans programs. In total, CBO estimates enacting this legislation would decrease direct spending for veterans programs by \$3 million in 2007, and by less than \$500,000 over the 2007-2016 period (see Table 2).

TABLE 2. ESTIMATED IMPACT OF S. 1235 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CHANGES IN DIRECT SPENDING										
Fees for Home Loan Program										
Estimated Budget Authority	-4	0	0	0	0	0	0	0	0	0
Estimated Outlays	-4	0	0	0	0	0	0	0	0	0
Specially Adapted Housing Grants										
Estimated Budget Authority	1	1	1	1	*	*	*	*	*	*
Estimated Outlays	1	1	1	1	*	*	*	*	*	*
Total Changes										
Estimated Budget Authority	-3	1	1	1	*	*	*	*	*	*
Estimated Outlays	-3	1	1	1	*	*	*	*	*	*

NOTE: * = Less than \$500,000.

Fees for Home Loan Program. Section 101(f) would increase the fee paid by veterans who use the VA home loan program more than once from 3.30 percent to 3.35 percent for fiscal year 2007. CBO estimates this provision would reduce direct spending by \$4 million in that year.

Specially Adapted Housing (SAH) Grants. VA currently provides two grants to assist certain severely disabled veterans to acquire housing that is adapted to their disabilities or to modify their existing housing. Under current law, veterans who are classified by VA as totally disabled and who have certain mobility limitations are entitled to receive housing grants of up to \$50,000. Totally disabled veterans who are blind or have lost the use of their hands are entitled to receive grants of up to \$10,000. Each grant may be used to adapt only one house, and, in the case of the larger grant, the veteran must at least be a partial owner of the house. Section 101 would allow recipients to use up to \$14,000 from the larger grant or \$2,000 from the smaller grant to adapt the home of a family member when the veteran resides with that family member temporarily. This provision would expire at the end of fiscal year 2012. CBO estimates that enacting this provision would increase direct spending for veterans readjustment benefits by \$1 million in 2007, \$4 million over the 2007-2011 period, and \$4 million over the 2007-2016 period.

Because current law allows a qualified veteran to use the \$10,000 grant to adapt a residence that is not owned by the grant recipient, CBO does not expect the proposed change to have a significant impact on how those loans would be used.

However, CBO estimates that the proposed change would affect both participation and usage patterns for the larger grant. Under the provision, CBO anticipates that some veterans who would not otherwise use that grant would choose to modify a relative's home. Such veterans may be currently living with a relative but are not a partial owner of the relative's home or they may reside in an assisted care facility. Based on information from the Department of Defense (DoD) and VA, CBO expects that enacting this provision would cause about 100 veterans who are currently entitled to the \$50,000 grant to spend about \$14,000 each over the next several years to modify a relative's home. Similarly, CBO estimates that each year about 20 veterans who would become newly eligible for this grant but not use it for the reasons stated above would spend about \$14,000 to modify a relative's home.

Some veterans who become eligible for the larger grant postpone using that grant for several years until they can live independently or complete vocational rehabilitation. CBO estimates that, of these eligible veterans, about 30 veterans each year would use \$14,000 of the \$50,000 grant to modify a relative's home and reside there temporarily. Since CBO expects that under current law these veterans will use the full \$50,000 grant to modify their own homes, enacting this provision would likely speed up usage of a portion of the \$50,000 grant. Thus, CBO estimates that outlays for adaptive housing grants for this group of veterans would increase by about \$400,000 a year over the 2007-2010 period, and after that period the spending to modify the homes of relatives would be offset by reduced spending for the adaptation of the veterans' homes.

SAH Grants for Active-Duty Members. Section 105 would allow members of the armed forces who become severely disabled to receive SAH grants while still on active duty. Based on information from VA and DoD, CBO estimates that each year about 30 servicemembers would separate from the armed forces and qualify to receive such grants. Some of those members would not apply for SAH grants, but some would seek partial grants (of up to \$14,000, under section 101 of this act) to modify a family member's home in which the veteran would reside, while others would seek full grants (averaging around \$45,000) to modify their own housing.

Under section 105, these servicemembers could receive such SAH grants as much as six months earlier than under current law. Thus, about half of the recently separated veterans who would have received SAH grants in 2008 could receive those grants in 2007, increasing 2007 outlays by about \$300,000. Since additional grants paid in 2008 and in subsequent years would be offset by an equivalent number of grants shifted back one year earlier, CBO

estimates that enacting this proposal would affect outlays by an insignificant amount each year over the 2008-2016 period.

Other Provisions. The following provisions would have an insignificant impact on direct spending:

- Section 102 would remove a requirement in current law that restricts the annual adjustments to interest rates on adjustable-rate mortgages to 1 percentage point, and give VA discretion in setting such requirements. Based on information from VA, CBO estimates that enacting this provision would not significantly affect default rates or direct spending for veterans' housing programs.
- Section 401 would add heart disease and stroke to the list of diseases currently presumed to be service-connected for certain veterans' who were prisoners-of-war (POWs). On October 7, 2004, VA issued a regulation amending Part 3 of Title 38 of the Code of Federal Regulations to add these two diseases to the list for which entitlement to service-connection is presumed for former POWs. The regulation became permanent on June 28, 2005. Since the regulation has already taken effect, the provision would have no cost.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1235 contains both intergovernmental and private-sector mandates as defined in UMRA. Current law imposes a mandate on public and private-sector entities that provide health insurance by requiring them to allow servicemembers and reservists on active duty to continue policies or reinstate those policies without delay when they return from service. Section 302 would prohibit those entities that provide insurance from raising premiums for servicemembers when they return from active-duty service and choose to reinstate or continue previously held policies.

Section 303 would expand current law to require that certain reservists whose notice for active duty is later cancelled are also eligible to continue or reinstate health policies without delay. That expansion would increase the cost for both public and private-sector providers to comply with an existing mandate.

Based on information from the Department of Defense and industry representatives, CBO estimates that only a small number of servicemembers would benefit from those provisions. The total direct cost for providers to comply with those mandates, thus would be minimal and

well below the annual thresholds established by UMRA (\$64 million and \$128 million in 2006, respectively, adjusted annually for inflation).

PREVIOUS CBO ESTIMATES

On October 27, 2005, CBO transmitted a cost estimate for H.R. 3665, the Veterans Housing and Employment Improvement Act of 2005, as ordered reported by the House Committee on Veterans' Affairs on October 20, 2005. The following provisions in H.R. 3665 are similar to sections in S. 1235:

- Section 101 of H.R. 3665 is very similar to section 101 of the amended language for S. 1235, except that the maximum assistance allowed would be increased from \$10,000 to \$14,000 per grant, increasing CBO's estimate from \$3 million to \$4 million over the 2007-2011 period.
- Sections 102 and 103 of H.R. 3665 are similar to sections 103 and 104 of S. 1235, but their estimated costs are different. CBO had estimated that the extension of the Native American Veteran Housing Loan Pilot Program in H.R. 3665 would reduce direct spending for loan subsidies by less than \$500,000 a year. Since that estimate, CBO received updated data on the program and the Military Quality of Life and Veterans Affairs Appropriations Act of 2006 (Public Law 109-114) provided a loan limitation of \$30 million for 2006. As a result, CBO now estimates that the provisions in S. 1235 would reduce discretionary spending for loan subsidies by about \$700,000 a year.
- Section 301 of H.R. 3665 is similar to section 203 of S. 1235, and their estimated costs are identical.

On August 9, 2005, CBO transmitted a cost estimate for S. 1235, the Veterans Benefits Improvement Act of 2005, as ordered reported by the Senate Committee on Veterans' Affairs on July 28, 2005. The following provisions are similar in both versions of S. 1235:

- Sections 201 and 302 of S. 1235 as ordered reported are similar to sections 102 and 403 of this legislation, as are their estimated costs.
- Section 202 of S. 1235 as ordered reported is similar to section 105 of this legislation. While CBO's estimate is now slightly different because of updated forecasts of disabled active-duty servicemembers and the inclusion of partial SAH grants in this legislation, it still shows an insignificant impact on the federal budget.

- Section 301 of S. 1235 as ordered reported contains provisions similar to section 402 of this legislation. Section 402 of this legislation would create a new chapter in Title 38 of the United States Code that would consist solely of the outreach activities of VA and also require a biennial report on recommendations for VA to improve their outreach activities. Section 301 of S. 1235 as ordered reported would require VA to submit an annual report on recommendations for improving the outreach activities for veterans and their dependents. The costs for both sections are similar.
- Section 303 of S. 1235 as ordered reported is similar to section 401 of this legislation, and the estimated costs are identical.

On May 16, 2005, CBO transmitted a cost estimate for H.R. 2046, the Servicemembers' Health Insurance Protection Act of 2005, as ordered reported by the House Committee on Veterans' Affairs on May 11, 2005. Sections 2 and 3 of H.R. 2046 are identical to sections 302 and 303 of S.1235, as are their estimated costs.

ESTIMATE PREPARED BY:

Federal Costs:

Housing: Sunita D'Monte and Mike Waters

Life Insurance and Other Programs: Dwayne M. Wright

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Allison Percy

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis