CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 17, 2016

H.R. 3484
Los Angeles Homeless Veterans Leasing Act of 2016

As ordered reported by the House Committee on Veterans' Affairs on February 25, 2016

SUMMARY

H.R. 3484 would authorize the Department of Veterans Affairs (VA) to lease property at the department's medical campus in Los Angeles to developers who would construct supportive housing and rehabilitation facilities for homeless veterans. Once occupied, the housing would receive operating subsidies from the Department of Housing and Urban Development (HUD). VA personnel would provide a variety of services on an ongoing basis to resident veterans. CBO believes that constructing housing in that manner is a governmental activity that should be recorded in the federal budget. Funding for the construction and operation of that housing would come from a combination of nonfederal contributions, mandatory federal funding, and discretionary appropriations.

CBO estimates that enacting H.R. 3484 would increase net direct spending by $18 million over the 2017-2026 period. In addition, implementing the bill would cost $29 million over the 2017-2021 period and $118 million over the 2017-2026 period, subject to appropriation of the necessary amounts.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would not affect revenues. CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

H.R. 3484 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 3484 is shown in the following table. The costs of this legislation fall within budget functions 450 (community and regional development), 600 (income security), and 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES OR DECREASES (-) IN DIRECT SPENDING												
Equity Contributions and Grants												
Receipts												
Estimated Budget Authority	0	-14	-38	-73	-38	-38	-31	-32	-32	-34	-163	-330
Estimates Outlays	0	-11	-32	-64	-47	-38	-33	-32	-32	-34	-154	-323
Spending												
Estimated Budget Authority	0	14	38	73	38	38	31	32	32	34	163	330
Estimated Outlays	0	5	20	46	54	42	37	32	32	33	125	301
Total												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	-6	-12	-18	7	4	4	*	*	-1	-29	-22
Loans, Bonds, and Advances												
Estimated Budget Authority	0	2	5	10	5	5	4	4	4	5	22	44
Estimated Outlays	0	1	3	6	7	6	5	4	4	4	17	40
Total Changes												
Estimated Budget Authority	0	2	5	10	5	5	4	4	4	5	22	44
Estimated Outlays	0	-5	-9	-12	14	10	9	4	4	3	-12	18
INCREASES IN SPENDING SUBJECT TO APPROPRIATION												
Construction Grants												
Estimated Authorization Level	0	3	8	15	8	8	6	6	6	7	34	67
Estimated Outlays	0	1	4	10	11	9	8	6	6	6	26	61
Operating Subsidies												
Estimated Authorization Level	0	0	0	*	3	7	8	11	13	15	3	57
Estimated Outlays	0	0	0	*	3	7	8	11	13	15	3	57
Total Increases												
Estimated Authorization Level	0	3	8	15	11	15	14	17	19	22	37	124
Estimated Outlays	0	1	4	10	14	16	16	17	19	21	29	118

Note: * = -between $500,000 and $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3484 will be enacted at the start of fiscal year 2017, that the estimated amounts will be appropriated each year, and that outlays will follow historical spending patterns for affected programs.

H.R. 3484 would authorize VA to lease underused federal property (via an arrangement called an enhanced-use lease or EUL) at the department's Greater Los Angeles medical campus to private entities. The nonfederal lessees would design, construct, and operate supportive housing for homeless veterans. Although VA has used its general authority for such leases at about 25 other locations, the Military Construction and Veterans Affairs and Related Agencies Appropriations Act, 2008 (Public Law 100-161) prohibits such leases at the Los Angeles facility.

CBO believes that the cost of designing and operating those facilities should be recorded in the federal budget for the following reasons:

- The facilities would be built on VA property;
- The department would approve construction plans and operating budgets for the facilities;
- VA is prohibited from selling or otherwise divesting the property;
- The housing would be reserved primarily for veterans;
- Ownership of the facilities would revert to the government at the end of the lease term;
- VA personnel would work in the facilities to provide rehabilitation services to resident veterans; and
- The housing would receive ongoing operating subsidies from federal housing programs.

For those reasons, this estimate shows the construction costs financed with private funds as if the government were financing them directly.

According to its master plan for the medical campus, after enactment of H.R. 3484 VA would enter into one or more leases with developers who would construct the housing facilities in phases over the next 10 years. VA's plans call for construction of 60 units initially, about 600 units by 2021, and a total of 1,200 units in phases by 2026. CBO expects that the first lease would be awarded near the end of fiscal year 2017, that construction of housing units would begin in 2018, and that units would be ready for occupancy two years after construction began.

On the basis of information from California's housing agencies, CBO estimates that construction would initially cost $325,000 per unit and an average of $370,000 per unit over the 10-year period after accounting for inflation. In total, the facilities would cost $440 million to design and build, CBO estimates. However, some of those expenditures would occur after 2026. Funding for development of the projects would be derived from federal and nonfederal sources. The projects also would receive federal operating subsidies. Development and operation costs would be covered by both mandatory and discretionary funds.

Direct Spending

Some of the funding for construction would come from equity contributions, grants, and private borrowing from nonfederal entities. CBO considers such funding to be third-party financing (that is, they are funds raised by a nonfederal entity for a federal activity).[1]

Equity Contributions and Grants. On the basis of information regarding the financing for similar VA housing projects, CBO estimates that about 65 percent of the development funding for the projects ($285 million) would come from equity investments that are made in exchange for federal tax credits for low-income housing projects. Investors in projects that receive such credits recover their principal through tax reductions over a 10-year period. The aggregate amount of credits that are available each year is fixed and applications for the credits exceed the amount available. Thus, CBO does not expect any change in federal revenues if housing projects at the Los Angeles campus are partially financed through such tax credits.

California also allocates state-funded tax credits to attract equity contributions. Public housing agencies and local governments, as well as private entities, provide grants that do not require repayment for low-income housing projects. On the basis of similar contributions for other VA projects, CBO estimates that roughly 10 percent of the development costs ($45 million) would be financed through such nonfederal sources.

In total, those sources would account for $330 million of the estimated development costs. CBO believes that those contributions should be recorded in the budget as offsetting receipts (an offset to direct spending) when they are received on behalf of VA by the

1. For more information on the budgetary treatment of third-party financing, see Congressional Budget Office, *Third-Party Financing of Federal Projects* (June 2005), www.cbo.gov/publication/16554.

project developer and as outlays when the funds are spent on construction. Over time those amounts would have no net effect on the federal budget. However, because the funds would be received before they could be spent and because VA plans to develop housing at the Los Angeles campus over more than 10 years, the net effect of receiving those contributions would be to reduce direct spending by $22 million over the 2017-2026 period, CBO estimates.

Loans, Bonds, and Advances. About 10 percent of the development funding would come from commercial loans, bonds, or advances from the project developer that would be paid back over time from cash flow for the projects that would primarily be derived from federal operating subsidies. CBO treats such third-party financing of a federal activity as mandatory borrowing authority because the project would incur the obligation to repay the borrowing before discretionary appropriations would be available for repayment.

That borrowing would account for $44 million of the development costs and would increase direct spending by $40 million over the 2017-2026 period, CBO estimates. The budgetary effects shown are the projected construction costs that would be financed in this way.

Spending Subject to Appropriation

VA and the Department of Housing and Urban Development would provide construction grants and operating subsidies for the housing projects from annual discretionary appropriations. In total, CBO estimates that implementing those provisions would cost $29 million over the 2017-2021 period and $118 million over the 2017-2026 period, assuming appropriation of the necessary amounts.

Construction Grants. Some additional financing for designing and constructing the housing projects would be derived from appropriations for construction and community development grants. VA would provide amounts to the project developer from its appropriation for minor construction. Additionally, the project would receive funds from Community Development Block Grants and other federal grant programs for housing development. On the basis of information about VA’s other EULs for supportive housing, CBO estimates that those sources would account for approximately 15 percent of the development funding for the housing projects (or $67 million). Spending for those contribution and payments would amount to $26 million over the 2017-2020 period and $61 million over the 2017-2026 period.

Operating Subsidies. The supportive housing units would be reserved for veterans with little or no income, and thus the managers of that housing would be eligible for operating subsidies from federally funded sources such as HUD’s rental assistance programs. VA also uses its appropriated funds to provide a variety of rehabilitative services to veterans living in supportive housing. Project managers typically get a guarantee from VA and HUD to provide the operating subsidies when the EUL is awarded. Projects begin receiving monthly subsidy payments when construction is completed, usually about two years after the lease is awarded. Those subsidies from HUD and VA would increase spending subject to appropriation by a total of $3 million over the 2017-2021 period and $57 million over the 2017-2026 period, CBO estimates.

HUD would subsidize the cost of operating the housing units by providing project-based housing vouchers, which are administered by the local public housing authority. Those vouchers would average about $11,000 per unit annually. In total, housing subsidies would increase discretionary spending by $2 million over the 2017-2020 period and by $35 million over the 2017-2026 period.

Additionally, VA would provide case management, rehabilitation, and other supportive services to residents through the VA Supportive Housing Program. Those services cost about $7,000 per veteran annually. CBO estimates that providing those services to resident veterans at the new housing on the Los Angeles campus would increase costs by $1 million over the 2017-2020 period and by $22 million over the 2017-2026 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 3484 as ordered reported by the House Committee on Veterans' Affairs on February 25, 2016

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET INCREASE OR DECREASE (-) IN THE [ON-BUDGET] DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	-5	-9	-12	14	10	9	4	4	3	-12	18

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3484 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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