CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 26, 2015

H.R. 475
GI Bill Processing Improvement and Quality Enhancement Act of 2015

As ordered reported by the House Committee on Veterans' Affairs on May 21, 2015

SUMMARY

H.R. 475 would require the Department of Veterans Affairs (VA) to make several changes to its information technology systems. In total, CBO estimates that implementing the bill would cost $3.4 billion over the 2016-2020 period, subject to appropriation of the necessary amounts.

H.R. 475 also would affect the cost of providing certain mandatory veterans' benefits. It would modify educational benefits by reducing the amount that VA pays for flight-training programs, expanding the types of active service for which reservists can earn educational benefits, and authorizing reimbursements for the costs of applying to institutions of higher learning. The bill also would increase the amount of the loan guarantee VA can provide for veterans who use a mortgage to purchase a home. On net, those changes would increase direct spending by $191 million over the 2016-2025 period.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would not affect revenues.

H.R. 475 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit public institutions of higher education that participate in educational programs under the GI Bill. Any costs those entities might incur would be incurred voluntarily as conditions of participating in a voluntary federal program.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 475 are shown in Table 1. The costs of this legislation fall within budget function 700 (veterans benefits and services).

TABLE 1. BUDGETARY EFFECTS OF H.R. 475, THE GI BILL PROCESSING IMPROVEMENT AND QUALITY ENHANCEMENT ACT OF 2015

	By Fiscal Year, in Millions of Dollars					
	2016	2017	2018	2019	2020	2016-2020
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Computer and Server Security						
Estimated Authorization Level	398	406	414	422	430	2,070
Estimated Outlays	398	406	414	422	430	2,070
Phase Out Unsupported or Outdated Systems						
Estimated Authorization Level	1,250	0	0	0	0	1,250
Estimated Outlays	825	425	0	0	0	1,250
Web Applications Security						
Estimated Authorization Level	5	5	5	5	5	25
Estimated Outlays	5	5	5	5	5	25
Reports on Information Security						
Estimated Authorization Level	1	1	1	1	1	5
Estimated Outlays	1	1	1	1	1	5
Claims Processing						
Authorization Level	30	0	0	0	0	30
Estimated Outlays	21	6	1	1	1	30
Information on Benefit Entitlement						
Estimated Authorization Level	5	0	0	0	0	5
Estimated Outlays	4	1	0	0	0	5
Total Changes in Spending Subject to Appropriation						
Estimated Authorization Level	1,689	412	420	428	436	3,385
Estimated Outlays	1,254	844	421	429	437	3,385
CHANGES IN DIRECT SPENDING						
Changes in Direct Spending [a]						
Estimated Budget Authority	27	24	15	16	15	97
Estimated Outlays	27	24	15	16	15	97

a. Enacting H.R. 475 also would have effects beyond 2020. CBO estimates that under H.R. 475 direct spending would increase by $191 million over the 2016-2025 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 475 will be enacted near the beginning of fiscal year 2016, the estimated amounts will be appropriated each year, and outlays will follow historical spending patterns for affected programs.

Spending Subject to Appropriation

H.R. 475 would require VA to make several changes to security requirements for information technology (IT) systems and to systems used for processing and managing educational benefits. In total, CBO estimates that implementing H.R. 475 would cost $3.4 billion over the 2016-2020 period, subject to appropriation of the necessary amounts.

Information Security Matters. Title III would direct VA to improve the security of its network infrastructure, computers and servers, operating systems, web applications, and medical-records system. It also would require VA to report to the Congress on the department's compliance and implementation of the improved processes for network security. VA reports that it has already completed or is in the process of completing some of the requirements contained in title III; thus, implementing those sections would not affect discretionary spending. In total, CBO estimates that implementing the remaining provisions of title III (discussed below) would cost $3.3 billion over the 2016-2020 period, assuming appropriation of the estimated amounts.

Computer and Server Security. Section 303 would direct VA to improve its processes for monitoring computer systems and servers for viruses and intrusions, and to reduce the time the department takes to test and deploy security upgrades to combat those threats. Currently, it takes VA about 90 days to test and deploy security patches. Section 303 would require VA to reduce this time to two days.

The department does not believe it would be possible to achieve such a rapid response time. However, VA estimates that if it increased the number of IT personnel from 5,800 full-time equivalents (FTEs) to about 8,600 FTEs it could reduce to 30 days the time it takes to detect and respond to IT security threats. The average annual compensation for IT employees at VA is about $140,000. On that basis, and taking into account expected inflation, CBO estimates that implementing section 303 in accordance with what VA thinks is feasible would cost almost $2.1 billion over the 2016-2020 period.

Phase Out Unsupported or Outdated Systems. Section 304 would require VA to phase out its information technology systems that are unsupported or outdated. According to VA, there are roughly 20 legacy systems that need to be replaced in order to maintain the current level of services provided by the department. The average cost to develop and deploy a replacement system at VA is about $50 million. (VA estimates that one such system will cost about $300 million to replace.) VA expects that it would take 18 months to install all the new systems; additional maintenance costs would arise in subsequent years. Carrying out section 304 would cost $1.25 billion over the 2016-2020 period, CBO estimates.

Web Applications Security. Section 305 would require VA to secure its web applications against vulnerabilities that could compromise veterans' personal information. Currently, VA employs about 30 people in that capacity and states that it would need to hire an additional 35 people in order to meet the requirements of section 305. Based on the average annual compensation for IT employees at VA ($140,000), CBO estimates that implementing section 303 would cost about $25 million over the 2016-2020 period.

Reports on Information Security. Title III would require VA to provide monthly and bi-annual reports to the Congress. Based on information from VA, CBO estimates that it would cost $5 million over the 2016-2020 period to complete the reports required under title III.

Education Benefits. Title II would require VA to make changes to systems used in claims processing and for providing information to institutions of higher learning.

Claims Processing. Section 207 would require VA to maximize the use of automation and algorithms in systems used to process claims for educational assistance under the Post-9/11 GI Bill (Chapter 33) and would authorize the appropriation of $30 million in 2016 for that purpose. CBO estimates that implementing the provision would cost $30 million over the 2016-2020 period, assuming appropriation of the authorized amount.

Information on Benefit Entitlement. Section 202 would require VA to allow institutions of higher learning to obtain information on the amount of educational assistance to which a veteran is entitled, via a secure IT system. CBO expects that VA could accomplish that requirement by modifying systems that are currently used to provide other information to such institutions. Based on information from VA, CBO estimates that modifying those systems would increase spending by $5 million over the 2016-2020 period, assuming appropriation of the estimated amounts.

Direct Spending

CBO estimates that enacting H.R. 475 would increase net direct spending by $27 million in 2016 and $191 million over the 2016-2025 period (see Table 2). Most of that spending would be for provisions that would modify the education benefits provided by VA. The remaining costs would arise from changes to VA's authority to guarantee mortgages.

TABLE 2. ESTIMATED EFFECTS FOR H.R. 475 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
CHANGES IN DIRECT SPENDING												
Payments for Flight Training												
Estimated Budget Authority	-4	-8	-19	-20	-22	-23	-25	-26	-27	-29	-73	-203
Estimated Outlays	-4	-8	-19	-20	-22	-23	-25	-26	-27	-29	-73	-203
Application Fees												
Estimated Budget Authority	24	25	26	27	28	29	30	31	32	33	130	285
Estimated Outlays	24	25	26	27	28	29	30	31	32	33	130	285
Credit for Time in Medical Care												
Estimated Budget Authority	1	2	3	4	4	5	5	5	5	6	14	40
Estimated Outlays	1	2	3	4	4	5	5	5	5	6	14	40
Loan Guarantee Limit												
Estimated Budget Authority	6	5	5	5	5	6	7	7	8	15	26	69
Estimated Outlays	6	5	5	5	5	6	7	7	8	15	26	69
Total Changes in Direct Spending												
Estimated Budget Authority	27	24	15	16	15	17	17	17	18	25	97	191
Estimated Outlays	27	24	15	16	15	17	17	17	18	25	97	191

Changes to Education Benefits. H.R. 475 would make several changes to education benefits provided under the Post-9/11 GI Bill. On net, the provisions would increase direct spending by $122 million over the 2016-2025 period.

Payments for Flight Training. Section 102 would cap payments for tuition and fees for educational programs that involve flight training. Under current law, VA covers the actual costs for in-state tuition and fees at public institutions of higher learning. Annual payments for education programs at private institutions are capped at about $21,000 for 2016. (That limit is adjusted annually for inflation.)

Flight-training programs require significant expenditures for aircraft purchases, equipment maintenance, aviation fuel, and insurance. In 2014, VA paid an average of $42,000 in tuition and fees for all beneficiaries enrolled in flight-training programs at public institutions. The maximum benefits for tuition and fees for flight trainees at private institutions was $19,400 that year.

Section 102 would apply the limit for private institutions to all flight-training programs. (Students who are enrolled in flight-training programs before enactment of H.R. 475 would not see their education benefits reduced for two years.) Payments for students whose tuition is below the new cap would not be affected. In 2014, the average cost for the 544 students whose tuition and fees exceeded the $19,400 limit applicable to private institutions for that year was about $62,000, a difference of $42,600. (That number excludes students at programs currently precluded from enrolling new students receiving VA education benefits.) In total, payments to schools would decline by $342 million over the 2016-2025 period as a result of the cap.

Under the bill, the savings realized by capping tuition payments would be partially offset because some students may be eligible for additional assistance under the Yellow Ribbon GI Education Enhancement Program (YRP). Institutions participating in the YRP agree to cover a portion of the difference between the student's tuition and the amount that VA would otherwise pay. VA then matches those contributions to further reduce or eliminate the student's out-of-pocket expenses.

Based on data from VA that reflects payments under the YRP, CBO expects that about 90 percent of the institutions affected by the new cap on flight-training costs would make qualifying contributions under the YRP, and those contributions would cover about 45 percent of the difference between the listed amount for tuition and fees and the limit on VA payments for those costs. Thus, reductions in benefit payments for flight training would be about 40 percent less than what they would be in the absence of the Yellow Ribbon Program. VA's matching payments under the YRP would total $139 million over the 2016-2025 period.

On that basis, CBO estimates that in most years about 600 individuals would be affected by the new limit on tuition and fees. The number of students affected would be smaller in 2016 and 2017 because payments for students who enrolled before H.R. 475 was enacted would not be reduced in those years. In 2018, the first year that the cap would apply to payments for all students in flight training, payments for affected students would decline by about $30,000. That amount would increase annually with inflation. CBO estimates that in total enacting section 102 would decrease direct spending by $203 million over the 2016-2025 period.

Application Fees. Section 104 would expand Chapter 33 benefits to include reimbursements for the cost of applying to institutions of higher learning. Such payments would be capped at $750 per person and would be counted against the total benefits to which the individual is entitled. About 900,000 students use Chapter 33 benefits annually. Because benefits are paid for up to four academic years, CBO expects that 25 percent are new enrollees who will incur application expenses for which they could seek reimbursement. Based on survey data regarding the number and cost of applications filed by those seeking to enroll in higher education, CBO estimates that aspiring students submit an average of five applications at a cost of $45 each. CBO expects that about 100,000 people would seek reimbursement annually under section 104—roughly half of those who incur application expenses.

CBO expects that current VA policy will affect a beneficiary's incentive to seek reimbursement. Under that policy, service members and veterans who exhaust their benefits annually during an academic quarter or semester will continue to receive benefit payments for the remainder of the academic term. For those individuals, claiming reimbursement for application fees would result in a net increase in benefits because they would not see their payments truncated by a similar amount at the end of their last term. Also, some enrollees may not plan to use all their benefits so that submitting a claim for application fees would increase the payments they would otherwise receive.

By contrast, dependents with transferred benefits are not eligible to have payments continued for the remainder of a term after their transferred benefits are exhausted. If they would have otherwise exhausted their benefits under chapter 33, the payment would merely shift the timing of benefits, a change that may not be worth the administrative burden required to apply for reimbursement. On that basis, implementing section 104 would increase direct spending by $285 million over the 2016-2025 period, CBO estimates.

Credit for Time in Medical Care. Section 103 would count the time a reservist serves on active duty while receiving medical care or undergoing a medical evaluation, as qualifying active service for accruing benefits under chapter 33. Based on historical data from the Department of Defense regarding such activations, CBO estimates that about 1,000 reservists will be called to active duty for those reasons annually, and spend an average of seven months in that status. That additional active service could result in a roughly 15 percent increase in annual benefits under chapter 33—about $2,500 per person in 2016.

However, some activated reservists would already qualify for the maximum benefit as a result of other time on active service; others would not use their benefits at all. CBO estimates that under section 103, about half of the reservists who are activated for medical care would ultimately use the additional benefits accrued as a result of that service. Section 103 would only apply to active service performed after the date of enactment of the bill; thus, the initial budgetary effect would be small—about $1 million in 2016. As the population of veterans who would benefit from the provision grows over time, annual costs would increase to about $5 million. The additional payments from VA for those benefits would increase direct spending by $40 million over the 2016-25 period, CBO estimates.

In-State Tuition for Dependents. For dependents who receive transferred benefits under chapter 33, section 208 would require public institutions of higher learning to set tuition and fees at rates that are not higher than those charged to state residents. Institutions that decline to do so would no longer be allowed to have their students use VA education benefits. To the extent that public institutions complied and lowered prices for such beneficiaries, the difference between the rate charged by the institution and the amount paid by VA would decline or disappear. Thus VA would not have to provide matching payments under the Yellow Ribbon Program for institutions that would have covered part of that difference, and spending for that program would decline.

Section 208 is similar to a requirement in current law that public institutions must offer in-state tuition for veterans who were discharged within the three-year period preceding their enrollment in the institution. That requirement should similarly reduce mandatory spending under the YRP. However, the Secretary of Veterans Affairs has waived the disapproval of institutions that do not offer in-state tuition to veterans, reducing the incentive for public institutions to offer that lower rate. The Secretary's waiver would similarly apply to dependents who would otherwise be affected by the enactment of section 208. CBO expects that VA will continue to waive the requirement in current law; therefore, enacting section 208 would not affect direct spending.

Loan Guarantee Limit. VA provides partial loan guarantees to lenders that make home loans to veterans. The guarantee payment from VA is capped at 25 percent of the initial loan balance, up to the maximum loan amount established by the Federal Home Loan Mortgage Corporation Act, currently $417,000. (Loans at or below that level are known as conforming loans; loans in excess are called jumbo loans. Exceptions are made to the conforming limit for certain high-cost areas like Hawaii and Alaska.)

Section 104 would eliminate the cap on the loan amount for which VA can provide a guarantee of 25 percent. As a result, VA would provide a larger guarantee amount for some jumbo loans that it will already cover under current law. Additionally, some veterans who would not have used the benefit because of the guarantee limit would do so if section 104 were enacted. From October 2008 to December 2014, the maximum loan amount for which VA could provide a full guarantee was temporarily increased to $729,750. Based on information about the jumbo loans VA guaranteed during that period, CBO estimates that if the loan limit were removed, VA would increase the guaranteed amount by about $100,000 on average for about 5,000 loans a year that it will otherwise guarantee for a lesser amount under current law. Also, VA would guarantee an additional 1,000 loans annually with an average loan amount of about $700,000. As a result, the annual loan volume that VA would guarantee would grow by an average of $1.2 billion. Because the subsidy costs of VA's loan guarantees are considered direct spending, increasing the loan volume would increase direct spending. Based on the experience from VA's loan guarantee program, CBO estimates that enacting section 104 would increase direct spending by $6 million in 2016 and $69 million over the 2016-2025 period.[1]

1. Under the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. Such subsidy costs are calculated by discounting those expected cash flows using the rate on Treasury securities of comparable maturity. The resulting estimated subsidy costs are recorded in the budget when the loans are disbursed.

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. 475 as ordered reported by the House Committee on Veterans' Affairs on May 21, 2015

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
NET INCREASE IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	27	24	15	16	15	17	17	17	18	25	97	191

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 475 contains no intergovernmental or private-sector mandates as defined in UMRA and would benefit public institutions of higher education that participate in educational programs under the GI Bill. Any costs those entities might incur would be incurred voluntarily as conditions of participating in a voluntary federal program.

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