CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 16, 2013

H.R. 2072
Demanding Accountability for Veterans Act of 2013

As ordered reported by the House Committee on Veterans' Affairs on August 1, 2013

SUMMARY

H.R. 2072 would increase the fees charged to certain veterans who obtain loans guaranteed by the Department of Veterans Affairs (VA). It also would extend VA's authority to verify income reported by recipients of VA pension benefits using data from the Internal Revenue Service (IRS). Those two changes would decrease direct spending by $182 million over the 2014-2018 period and by $191 million over the 2014-2023 period, CBO estimates. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending.

H.R. 2072 also would increase spending subject to appropriation, primarily by allowing VA to pay for eligible veterans to live in medical foster homes. CBO estimates that implementing H.R. 2072 would have a discretionary cost of $170 million over the 2014-2018 period, subject to appropriation of the necessary amounts.

H.R. 2072 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2072 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars					
	2014	2015	2016	2017	2018	2014-2018
CHANGES IN DIRECT SPENDING[a]						
Loan Guarantee Fees						
Estimated Budget Authority	0	0	0	0	-176	-176
Estimated Outlays	0	0	0	0	-176	-176
Income Verification						
Estimated Budget Authority	0	0	0	-3	-3	-6
Estimated Outlays	0	0	0	-3	-3	-6
Total Changes						
Estimated Budget Authority	0	0	0	-3	-179	-182
Estimated Outlays	0	0	0	-3	-179	-182
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Medical Foster Care						
Estimated Authorization Level	0	20	38	60	58	176
Estimated Outlays	0	18	36	57	58	169
Property Conveyance						
Estimated Authorization Level	0	1	0	0	0	1
Estimated Outlays	0	1	0	0	0	1
Total Changes						
Estimated Authorization Level	0	21	38	60	58	177
Estimated Outlays	0	19	36	57	58	170

a. CBO estimates that enacting H.R. 2072 would decrease direct spending by $191 million over the 2014-2023 period.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that the legislation will be enacted near the beginning of fiscal year 2014, that the necessary amounts will be appropriated each year, and that outlays will follow historical spending patterns for similar and existing programs.

Direct Spending

H.R. 2072 would decrease direct spending by increasing some of the fees VA charges for guaranteeing home loans and by extending VA's authority to verify with the IRS income reported by recipients of VA pension benefits.

Loan Guarantee Fees. Under its Home Loan program, VA provides lenders guarantees on mortgages made to veterans; those guarantees enable veterans to get better loan terms, such as lower interest rates or smaller down payments. The loan guarantees provide lenders a payment of up to 25 percent of the outstanding loan balances (subject to some limitations on the original loan amounts) in the event that a veteran defaults on a guaranteed loan. Section 6 would increase some of the fees that VA charges veterans for providing those guarantees. By partially offsetting the costs of subsequent defaults, those fees lower the subsidy cost of the guarantees.[1]

Under current law, the up-front fee varies on the basis of the size of the down payment and whether the veteran has previously used the loan-guarantee benefit. Borrowers who are members of the reserve component pay an additional fee of 0.25 percent of the loan amount. Veterans who receive compensation for service-connected disabilities are exempt from paying the fee. The current fees that would be affected by section 6 are:

- 2.15 percent of the loan amount for loans with no down payment,
- 1.50 percent of the loan amount for loans with a 5 percent down payment, and
- 0.75 percent of the loan amount for loans with a 10 percent down payment.

Those fees are scheduled to decline on October 1, 2017, to 1.40 percent, 0.75 percent, and 0.50 percent, respectively.

Under section 6, that scheduled fee reduction would be delayed by one year, until October 1, 2018. Continuing the fees at their current level in 2018 would increase collections by VA in that year, thereby lowering the subsidy cost of the loan guarantees. Based on data from VA, CBO estimates that enacting section 6 would reduce direct spending by $176 million in fiscal year 2018.

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.

Income Verification. Section 8 would extend VA's authority to verify income reported by recipients of VA pension benefits by allowing it to acquire information on income from the IRS. VA uses that authority to determine if veterans who apply for pensions have income that would render them ineligible for that benefit. The authorization allowing the IRS to provide income information to VA was made permanent by Public Law 110-245, but the authorization allowing VA to acquire the information is scheduled to expire on September 30, 2016. Section 8 would extend VA's authority through May 31, 2017.

Over the last several years, VA saved, on average, $4 million a year in improper pension payments by using the IRS data to verify veterans' incomes. CBO estimates that the incremental savings from utilizing the IRS data to verify incomes for an additional eight months would be about $3 million in 2017. The savings from identifying those ineligible veterans who apply during that eight-month period would continue to accrue in subsequent years. CBO estimates that section 8 would reduce direct spending by $6 million over the 2014-2018 period and $15 million over the 2014-2023 period.

Spending Subject to Appropriation

Medical Foster Care. Section 4 would allow certain veterans whose nursing home care is paid for by VA to live in medical foster homes (MFHs) at VA's expense. MFHs are private homes in which a trained caregiver provides services to a few individuals. VA has an existing program under which it inspects and approves MFHs for veterans. Veterans living in such homes receive VA's Home Based Primary Care services, which includes case management and health care provided in the home. However, VA is not authorized to pay the living expenses of veterans in MFHs.

Section 4 would allow certain veterans who are currently receiving VA-sponsored nursing home care to transfer from nursing homes to MFHs during the 2015-2017 period, and it would cover the total costs for those veterans. CBO expects that once the veterans transfer to foster care, VA will continue to pay for their care in those facilities indefinitely. Section 4 also would allow VA to cover the living expenses of certain veterans currently in MFHs.

Based on information from VA on current usage of MFHs, CBO estimates that, under section 4, about 900 veterans would become eligible to have VA pay for their medical foster care in 2015, and the number of beneficiaries would increase to 1,100 by the end of 2017. The average annual cost of providing such care is roughly $50,000 per veteran. That amount excludes the cost of home-based medical care, inspections, and assessments that VA already covers for veterans currently in MFHs. Thus, CBO estimates that enacting this section would cost an additional $169 million over the 2014-2018 period, assuming appropriation of the necessary amounts.

Property Conveyance. Section 7 would require VA to convey some land and facilities at the Tuskegee Veterans' Hospital to Tuskegee University after 2014. VA would not be compensated for the costs of conveyance or the value of real property. CBO estimates that the administrative costs of preparing the property for conveyance would be around $1 million in 2015.

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. 2072 as ordered reported by the House Committee on Veterans' Affairs on August 1, 2013

	By Fiscal Year, in Millions of Dollars												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013-2018	2013-2023
NET DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	0	0	-3	-179	-2	-2	-2	-2	-2	-182	-191

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2072 contains no intergovernmental or private-sector mandates as defined in UMRA. As a condition of receiving federal financial assistance, the bill would require state and local governments to comply with code and inspection requirements at facilities that provide assistance to homeless veterans. Any costs the governments incur would be voluntary.

ESTIMATE PREPARED BY:

Federal Costs: Ann E. Futrell, David Newman, and Dwayne M. Wright
Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Elizabeth Bass

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis