CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 23, 2001

S. 1088

Veterans' Benefits Improvement Act of 2001

As ordered reported by the Senate Committee on Veterans' Affairs on August 2, 2001

SUMMARY

S. 1088 would affect several veterans' programs, including education, compensation, pensions, burial benefits, and housing. CBO estimates that enacting this legislation would raise direct spending by $180 million in 2002, $2.6 billion over the 2002-2006 period, and almost $5.6 billion over the 2002-2011 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

In addition, CBO estimates that implementing S. 1088 would increase spending subject to appropriation by $1 million in 2002 and $6 million over the 2002-2006 period, assuming appropriation of the necessary amounts.

S. 1088 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1088 is shown in Table 1. This estimate assumes the legislation will be enacted near the start of fiscal year 2002. The costs of this legislation fall within budget functions 550 (health) and 700 (veterans benefits and services).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 1088

	By Fiscal Year, in Millions Dollars				
	2002	2003	2004	2005	2006
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	180	407	631	656	723
Estimated Outlays	180	407	631	656	723
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	1	1	2	1	1
Estimated Outlays	1	1	2	1	1

BASIS OF ESTIMATE

Direct Spending

The legislation would affect direct spending in veterans' programs for education, compensation, pensions, burial benefits, and housing. Table 2 summarizes those effects, and individual provisions that would affect direct spending are described below.

Veterans' Readjustment Benefits. Several sections of the bill would affect veterans' education and rehabilitation benefits. In total, these provisions would increase direct spending by $161 million in 2002, by $2.3 billion over the 2002-2006 period, and by $6.3 billion over the 2002-2011 period (see Table 3).

Basic Benefit. Under current law, participants in the Montgomery GI Bill (MGIB) program who serve at least three years on active duty are entitled to receive $650 a month if they are full-time students. That stipend is available for a total of 36 months. For part-time students, the monthly benefit is reduced proportionately, but can be spread over a larger number of months up to the equivalent of 36 months of full-time training. Similarly, individuals who serve two years on active duty are entitled to a monthly stipend of $528 for 36 months. In all cases, the benefits increase by an annual cost-of-living allowance (COLA) and expire 10 years after the end of military service.

TABLE 2. ESTIMATED DIRECT SPENDING UNDER S. 1088

	By Fiscal Year, Outlays in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
VETERANS' READJUSTMENT BENEFITS						
Spending Under Current Law	1,693	1,880	2,000	2,107	2,238	2,341
Proposed Changes	0	161	341	574	594	659
Spending Under S. 1088	1,693	2,041	2,341	2,681	2,832	3,000
COMPENSATION, PENSIONS, AND BURIAL BENEFITS[a]						
Spending Under Current Law	21,173	24,501	25,562	26,698	29,736	28,357
Proposed Changes	0	13	60	51	55	56
Spending Under S. 1088	21,173	24,514	25,622	26,749	29,791	28,413
HOUSING						
Spending Under Current Law	-991	262	275	283	288	294
Proposed Changes	0	6	6	6	7	8
Spending Under S. 1088	-991	268	281	289	295	302

a. One provision affecting veterans benefits would also increase spending under the federal Medicaid program, but those costs would not begin to occur until 2009.

Section 101 would increase the monthly stipend of participating veterans who served at least three years on active duty to $700 in 2002, $800 in 2003, and $950 in 2004. Participating veterans with at least two years of active duty would be eligible for a maximum monthly benefit of $560 in 2002, $650 in 2003, and $772 in 2004. The COLAs scheduled for the 2002-2004 period would not occur. Thus, the monthly benefit would increase by 5 percent in 2002, 17 percent in 2003, and 35 percent in 2004.

TABLE 3. ESTIMATED CHANGES IN EDUCATION BENEFITS UNDER S. 1088

Description of Provision	By Fiscal Year, Outlays in Millions of Dollars 2002	2003	2004	2005	2006
Basic Benefit	53	205	472	518	568
Accelerated Payments	98	107	61	19	18
Training for Technological Occupations	4	18	27	39	51
Independent Living Services	6	10	12	15	19
Enrollment of Vietnam-Era Veterans	a	1	2	3	3
Total Changes in Education Benefits	161	341	574	594	659

a. Less than $500,000.

Based on current and past usage rates provided by the Department of Veterans Affairs (VA), CBO estimates that this substantial increase in the MGIB benefit would increase not only the number of veterans who use the program, but also the number of veterans who will choose to attend school on a full-time rather than part-time basis. In 2000, 266,000 veterans received an average annual MGIB benefit of $3,200. Under current law, CBO predicts that in 2011, 335,000 veterans will receive an average annual benefit that will have grown by annual cost-of-living increases to $4,615.

Under section 101, CBO estimates that the number of veterans training under MGIB would rise only slightly in the first couple years, but the number of participants would eventually grow to about 360,000 in 2011, an 8 percent increase over the current-law (or baseline) estimate. CBO estimates that, over the next 10 years, the average annual benefit paid by VA would increase by about 3 percent because more veterans would choose to attend school full time, and by 35 percent because of the benefit increase. CBO estimates the average annual benefit in 2011 would be about $6,400.

MGIB benefits are also available to active-duty members of the armed forces who have completed two years of service. When these servicemembers use MGIB benefits, they receive an amount no greater than the cost of tuition. In many cases, therefore, servicemembers do not receive the full MGIB benefit, and would not be affected by an increase in the benefit levels. Over the last few years, the number of active-duty servicemembers using MGIB has been gradually declining, down to about 14,000 in 2000.

Under current law, CBO expects the number to continue to decline to about 11,800 by 2011. CBO estimates that this provision would partially stem the decline, so that by 2011 there would be about 12,000 servicemember trainees, an increase of 2 percent above the baseline estimate. In 2000, these servicemember trainees received an average annual benefit of $2,200. Under section 101, we estimate the average benefit these trainees would receive would increase to $3,500 in 2011, almost 35 percent above the current projection.

CBO estimates the total cost of section 101 would be $53 million in 2002, about $1.8 billion over the 2002-2006 period, and $5.3 billion over the 2002-2011 period.

Accelerated Payments. Section 102 would permit veterans to receive a lump-sum payment for benefits they would normally receive monthly over a term of their training—for example, a semester in college or, for other forms of training, the period of a course's instruction. CBO estimates that this provision would increase direct spending by about $100 million in 2002, $300 million over the 2002-2006 period, and $365 million over the 2002-2011 period. Increased costs would occur initially as payments from one fiscal year are made instead in the preceding year. The effect would be much smaller in later years when benefit rates would increase mostly from COLAs, because payments shifted to the preceding year would be largely offset by payments shifted from the following year. CBO estimates that about 30 percent of MGIB beneficiaries would elect to receive an accelerated payment in 2002 and that a total of 60 percent would make that election in 2004 and subsequent years.

Training for Technological Occupations. Section 105 would expand education allowed under MGIB to include training required for certification in technological occupations. Section 103 would allow payment of 60 percent of the tuition and fees for such training, when the total cost of the training was more than double the amount that could otherwise be paid under MGIB. The payment would be made in a lump sum and the trainee's remaining months of MGIB entitlement would be reduced accordingly. Based on information from a number of technical training schools about the number of individuals in the general population who undergo training for technological occupations, CBO estimates that about 25,000 veterans a year would eventually participate in such training. Assuming that half of these veterans would have used MGIB benefits even in the absence of this provision, CBO estimates the cost of section 103 would be $4 million in 2002, about $140 million over the 2002-2006 period, and $440 million in the 2002-2011 period.

Independent Living Services. Section 501 would repeal the annual limit on the number of veterans in programs of independent living services and assistance. Although the current annual limit on veterans in these programs is 500, VA reports that 1,987 veterans were enrolled in independent living programs last year, at an average cost of $4,000. VA expects sharp growth in the eligible population, due to the aging of the Vietnam-era veteran population and new rules regarding presumptive disabilities. Absent this provision, CBO assumes that VA will reduce their caseload to come into compliance with the current limitation by 2003. Under section 501, we estimate the caseload for these programs would be about 2,400 in 2002 and would grow to about 8,700 in 2011. CBO estimates the average cost would be about $4,250 in 2002 and would grow to over $5,300 in 2011. Based on these projections, CBO expects the cost of section 501 would be $6 million in 2002, about $60 million over the 2002-2006 period, and $230 million over the 2002-2011 period.

Enrollment of Vietnam-Era Veterans. Section 104 would grant MGIB eligibility to certain Vietnam-era veterans who were not on active duty during the 1985 conversion to MGIB, but later rejoined the armed forces. Based on information from the Department of Defense, CBO estimates that almost 9,000 servicemembers and veterans would qualify. Because this is an older population and many of these veterans have been out of the service for some time, we assume that only 25 percent would become trainees and that they would, on average, train at one-quarter time over a period of four years. Assuming individuals would initiate training over a period of years, as they leave the military or hear about their new eligibility, CBO estimates the cost will be less that $500,000 in 2002, $9 million over the 2002-2006 period, and $18 million over the 2002-2011 period.

Compensation, Pensions, and Burial Benefits. Several sections of the bill would affect spending for veterans' disability compensation, pensions, and burial benefits (see Table 4). In total, the bill would increase spending for these programs by $13 million in 2002 and $235 million over the 2002-2006 period. Over the 2002-2011 period, the bill would reduce net direct spending by $78 million because of the extension of provisions affecting pensions and Medicaid.

Compensation Related to Undiagnosed Illnesses. Section 202 would expand the definition of undiagnosed illness for the purpose of granting service-connected disability compensation to more Persian Gulf War veterans. It also would extend until the end of 2011 the time during which a veteran must exhibit and document signs of an undiagnosed illness. Under current law, veterans who served in the Persian Gulf anytime between August 2, 1990, and the present can be presumed to have a compensable disability if they exhibit symptoms that cannot be attributed to any diagnosable illness before December 31, 2001. This section would expand eligibility to those Gulf War veterans who are diagnosed with any chronic multisymptom illness that cannot be clearly defined and is characterized by two or more of certain signs or symptoms, which include joint pain, headaches, sleep disorders, and respiratory problems. For the purpose of this estimate, CBO assumes that diseases for which veterans could receive service-connected disability include chronic fatigue syndrome (CFS), fibromyalgia, irritable bowel syndrome, multiple chemical sensitivity (MCS), and autoimmune disorder since these diseases are regularly identified in articles and reports regarding "Persian Gulf War Syndrome."

CBO obtained data from the VA on the number of Gulf War veterans who have been diagnosed with ill-defined illnesses like CFS and fibromyalgia and have had their claims for compensation denied. VA was unable to provide similar data for MCS or chronic multisymptom illness because it does not have diagnostic codes for these illnesses. CBO used data from a comprehensive study of Gulf War veterans' health to estimate the incidence of MCS within that population. Because chronic multisymptom illness often exhibits similar symptoms as CFS or fibromyalgia, CBO assumed that most veterans with this illness are likely to have already been diagnosed as having these other diseases. From the data provided by VA, CBO could not estimate the prevalence of autoimmune disorders that might be attributed to service in the Gulf War. VA does not have a single diagnostic code for this illness but, instead, classifies over a dozen widely varying diseases as autoimmune disorders.

TABLE 4. ESTIMATED CHANGES IN COMPENSATION, PENSIONS, AND BURIAL BENEFITS UNDER S. 1088

Description of Provision	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
Compensation Related to Undiagnosed Illnesses	0	46	38	41	43
Extension of Provisions Affecting Pensions and Medicaid [a]	0	0	0	0	0
Burial Allowance	5	5	5	5	5
Incompetent Institutionalized Veterans	4	4	4	5	5
Excluded Income for Pension Purposes	3	3	3	4	4
Grave Markers	3	4	3	2	1
Limited Compensation for Incarcerated Veterans	-2	-2	-2	-2	-2
Other Provisions	b	b	b	b	b
Total Changes in Compensation, Pensions, and Burial Benefits	13	60	51	55	56

a. The extensions of provisions affecting veterans' pensions and Medicaid would have no budgetary impact until 2009.

b. Less than $500,000.

Assuming that some of the diagnoses are overlapping and that some previously denied cases would likely be resubmitted, CBO estimates that enacting this bill would result in about 3,000 additional veterans being granted compensation for a service-connected disability in the first year. CBO estimates that extending this deadline for another 10 years would allow an additional 3,700 claims to be granted over that time. This number is based on recent historical data on the rate of undiagnosed illness claims that have been granted by VA.

Because this section of the bill would take effect on April 1, 2002, and since VA takes an average of six months to adjudicate reopened claims, CBO expects that no payments would be made in 2002. Based on payment data from VA for approved claims for CFS, fibromyalgia, and similar illnesses, CBO estimates the average annual benefit for such illnesses would be about $8,000 in 2003. As a result, CBO estimates that enacting section 202 would increase direct spending by $46 million in 2003, $168 million from 2003 through 2006, and $400 million over the 2003-2011 period. (Under current law, we estimate that disability compensation payments to veterans will total $254 billion over the 10-year period.)

Extension of Provisions Affecting Pensions and Medicaid. Section 209 would extend through 2011 the sunset dates on provisions affecting pensions and Medicaid. One of these provisions would reduce direct spending for veterans' pensions and increase spending for Medicaid, resulting in a net spending reduction of $631 million over the 2009-2011 period. The other provision would lower direct spending by $5 million over the same time period.

- *Veterans in Medicaid nursing homes.* Subsection 209(b) would extend from September 30, 2008, to September 30, 2011, the expiration date on a provision of law that sets a $90 per month limit on pensions for any veteran without a spouse or child, or for any survivor of a veteran, who is receiving Medicaid coverage in a Medicaid-approved nursing home. There are currently about 19,000 veterans and 27,000 survivors who are affected by this provision of law. The average savings is $14,000 per veteran and $9,000 per survivor. Based on these numbers, CBO estimates there would be gross savings for VA of $1.6 billion over the 2009-2011 period. Higher Medicaid payments to nursing homes would offset some of the savings credited to VA. CBO estimates that those costs would total $969 million over the 2009-2011 period, resulting in a net savings of $631 million over the same period.

- *Income verification.* Current law authorizes VA to acquire information on income reported to the Internal Revenue Service (IRS) to verify income reported by recipients of VA pension benefits. This authorization will expire on September 30, 2008. Subsection 209(a) would extend the expiration date to September 30, 2011. CBO's estimate is based on VA's recent experience, which has shown that about $9 million in new savings is achieved annually through this income match. However, the provision of law that allows the IRS to provide the information to VA will expire on September 30, 2003. Because the act does not extend both provisions, savings would be limited to the continuing effects of the current program. Thus, CBO projects a $5 million savings over the 2009-2011 period.

Burial Allowance. Section 401 would increase the allowance to help cover burial and funeral expenses for veterans whose deaths are attributed to a service-connected disability. This benefit would increase from the current rate of $1,500 to $2,000. Based on information from the VA, CBO estimates that this provision would apply to about 9,700 burials per year and would cost $5 million in 2002, $25 million over the 2002-2006 period, and $49 million over the 2002-2011 period.

Incompetent Institutionalized Veterans. Section 208 would eliminate the requirement that VA withhold benefit payments from certain incompetent veterans who are institutionalized at the government's expense and whose estates are valued above $10,180. These veterans cannot have their benefits reinstated until the value of their estates falls to no more than $5,090. Data from VA indicates that about 1,900 veterans covered by this provision have estates valued over $10,180 and would thus begin receiving benefits under this provision. In 1999, the average length of time for which veterans lost their benefit payments was 45 days. Data from VA indicates these veterans have neither a spouse nor a child and receive an average monthly benefit of $1,604. CBO estimates that the annual added costs for veterans' entitlements would be about $4 million in 2002, $22 million over the 2002-2006 period, and $47 million over the 2002-2011 period.

Excluded Income for Pension Purposes. Section 203 would exclude life insurance proceeds and other nonrecurring income from determination of eligibility for a survivors' pension. Under current law, VA considers various forms of income to determine if a surviving spouse of a wartime veteran is eligible to collect a pension, including any life insurance funds. Based on information provided by VA, CBO estimates that an additional 700 survivors would be eligible for a pension in 2002. By 2011, that number would grow to about 2,000 survivors. In addition, survivors who are currently counseled by veterans service organizations to delay applying for a pension to avoid having insurance proceeds considered would be able to collect benefits sooner following the veteran's death. This would result in an additional half a month's benefit. CBO estimates there will be about 14,000 survivors who collect this extra benefit in 2002, with the number growing to about 40,000 in 2011. With an average annual benefit of $3,600 in 2001, CBO estimates that enacting this provision would cost $3 million in 2002, $17 million over the 2002-2006 period, and $62 million over the 2002-2011 period.

Grave Markers. Section 402 would allow VA to provide a bronze marker to be placed on the grave or other appropriate location in a cemetery to commemorate a veteran's military service. Under current law, veterans buried in a private cemetery may only receive a commemorative headstone or marker from VA if the gravesite is not marked. Veterans buried in national or state veterans' cemeteries automatically receive a commemorative headstone or marker. This bill would allow families of deceased veterans who have already provided their own headstone or marker to request a second marker from VA. For those veterans who died before enactment of this bill but after November 1, 1990, (the date when the law was changed to prohibit a second marker), the families have four years from enactment in which to request the marker.

Based on information provided by VA about the number of veterans who have already died, projections about future deaths, and the number of headstones and markers already provided, CBO estimates that about 365,000 requests for bronze markers would be made over the next 10 years. The estimate reflects information from a VA study that showed only 27 percent of private cemeteries allow second markers and an assumption that only half of those eligible will participate in this program. With an average cost of about $50 for each marker, CBO estimates that enacting this provision would result in an increase in spending for burial benefits of $3 million in 2002, $13 million over the 2002-2006 period, and $20 million over the 2002-2011 period.

Limited Compensation for Incarcerated Veterans. Section 207 would reduce compensation payments to veterans who were incarcerated on October 7, 1980, for a felony committed before that date and remain incarcerated for conviction of that felony. Current law allows for reduced payments to veterans who were convicted and incarcerated after October 7, 1980. Incarcerated veterans who have a service-connected disability rating of 20 percent or more are paid at the 10 percent rate. Incarcerated veterans who are rated at 10 percent receive payments of half that amount. VA has identified 230 veterans who were incarcerated prior to enactment of the legislation that provided for these reductions and who meet the criteria stipulated in section 207. Based on information provided by VA on the average annual payment to incarcerated veterans, CBO estimates that this provision would result in an annual savings of about $2 million.

Other Provisions. CBO estimates that the following provisions would have little or no net effect on direct spending:

- *Claims Handling.* Section 204 would modify legislation enacted last year that directed VA to assist veterans in establishing their claims for benefits. This section would allow VA to close claims after a year if the veterans has not cooperated in providing needed information.

- *Income Reporting for Pensions.* Section 205 would change the requirement that veterans and survivors receiving pensions report changes to their income from once a month to once a year. This provision would simplify the administrative process for VA but would have no real savings effects.

- *Eliminate Benefits for Fugitives.* Section 206 would add VA benefits to the list of federal benefits for which fugitive felons are prohibited from receiving. Based on information provided by VA, CBO estimates that any savings that result from this provision would be negligible.

Housing. Title III of the bill would affect direct spending on veterans housing programs; in total these provisions would increase direct spending by $6 million in 2002 and by $34 million over the 2002-2006 period (see Table 5). Over the 2002-2011 period, however, the bill would reduce direct spending by $698 million.

TABLE 5. ESTIMATED CHANGES IN HOUSING UNDER S. 1088

Description of Provision	By Fiscal Year, Outlays in Millions of Dollars				
	2002	2003	2004	2005	2006
Extension of Provisions Affecting Housing [a]	0	0	0	0	0
Increase in Loan Guarantee Amount	6	6	6	7	8
Housing for Members of the Selected Reserves [a]	0	0	0	0	0
Housing for Native American Veterans	b	b	b	b	b
Total Changes in Housing	6	6	6	7	8

a. These provisions would have budgetary effects for 2009 through 2011.

b. Less than $500,000.

Extension of Provisions Affecting Housing. Section 303 would extend through 2011 three provisions that affect housing programs for veterans, thus reducing direct spending by $778 million over the 2009-2011 period.

- *Loan fees.* Subsection 303(c) would reduce the VA loan subsidy by charging veterans a fee surcharge of 0.75 percent of the loan amount at the time the loan is made. CBO estimates this provision would affect 170,000 new loans a year and raise collections by an average of $182 million a year. Under current law, veterans can reuse their home loan guarantee benefit if their previous debt has been paid in full. Subsection 303(c) would require VA to collect a fee of 3 percent of the total loan amount from veterans who reuse their benefit. CBO estimates this provision would affect roughly 22,800 new loans a year and raise collections by an average of $59 million a year for 2009 through 2011.

- *Resale losses.* Subsection 303(d) would extend a provision of law that requires VA to consider losses it might incur when selling a property acquired through foreclosure. Under current law, VA follows a formula defined in statute to decide whether to acquire the property or pay off the loan guarantee instead. The formula requires appraisals that might be valid at the time they are made, but does not account for changes in market conditions that might occur while VA prepares to dispose of the property. The bill would require VA to take account of losses from changes in housing prices that the appraisal does not capture. Losses of this type might be prevalent when housing prices are particularly volatile or if appraisals are biased for other reasons. Based on information from VA, CBO estimates this provision would save $10 million a year over the 2009 through 2011 period.

- *Loan sales.* Subsection 303(b) would extend VA's authority to guarantee the real estate mortgage conduits that are used to sell certain direct loans on the secondary mortgage market. Without this authority, VA could market direct loans under other provisions of current law, but by guaranteeing the certificates issued on a pool of loans, VA obtains a better price for the loans sold. CBO estimates this provision would save VA $8 million a year for 2009 through 2011.

Increase in Loan Guarantee Amount. Section 301 would increase the maximum loan guarantee amount on VA home loans from $50,750 to $63,175, thereby raising the maximum loan amount from $203,000 to $252,700. (For large loan amounts, VA can guarantee no more than 25 percent of the loan amount.) CBO estimates this provision would increase direct spending by $6 million in 2002, $33 million over the 2002-2006 period, and $87 million over the 2002-2011 period.

Based on information from VA, CBO estimates that the bill would result in 8,000 new loans a year over the 2002-2011 period. In addition, roughly 3,000 loans each year would now be made with higher loan amounts—these would not be new borrowers, but veterans who would no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee. By boosting participation in the VA home loan program, the bill would increase direct spending in three different ways. First, added subsidy costs for 11,000 guaranteed loans a year (8,000 new loans and 3,000 loans with larger loan amounts) would average $6.5 million a year over the 2002-2011 period. Second, some of those 11,000 loans will become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. CBO estimates that the subsidy cost of these vendee loans would be less than $500,000 each year until 2011. Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such guarantees would be less than $500,000 each year until 2005, but would eventually reach $4 million a year by 2011.

Housing for Members of the Selected Reserves. Section 303 would extend home loan benefits for reservists and raise fees charged for this benefit through 2011. Under current law, the benefit expires in 2007, and the fees expire in 2008. CBO estimates that enacting this provision would result in VA guaranteeing an additional 7,000 loans a year over the 2008-2011 period, with an average loan amount of $140,000. Because loan fees would more than offset the subsidy cost of additional loan guarantees, CBO estimates that the provision would lower net spending by $2 million annually over the 2008-2011 period.

Housing for Native American Veterans. Section 302 would extend the Native American Veteran Housing Loan Pilot Program through December 31, 2005. Under the program, VA makes direct loans to veterans living on trust lands for the purchase, construction, or improvement of a home. In 1993, Public Law 102-389 provided appropriations of $4.5 million for the subsidy cost of these loans. Since the program's inception, VA has made about 200 loans at a subsidy cost of $2 million. CBO estimates that under the bill, VA would subsidize about 30 loans a year at an annual cost of about $250,000. Because the bill would affect outlays from funds already appropriated and would not depend on future appropriation action, these additional outlays are considered direct spending for scorekeeping purposes. In addition, CBO estimates that VA's administrative expenses, a discretionary cost, would be roughly $500,000 each year.

Spending Subject to Appropriation

Table 6 shows the estimated effects of S. 1088 on discretionary spending for veterans' programs, assuming that appropriations are provided in the amount of the estimated authorizations.

Extension of National Academy of Sciences Reports. Section 201(b) would extend for another 10 years the biennial report on Agent Orange and veterans that is produced by the National Academy of Sciences. This comprehensive literature review and analysis of current laboratory studies categorizes specific diseases as to whether they could be caused by herbicide exposure. VA uses this information to establish an automatic presumption of service connection, thereby making all Vietnam veterans with these diseases eligible for compensation benefits. Based on information about the current costs for producing this report, CBO estimates that implementing this section would cost $4 million over the 2002-2011 period, assuming appropriation of the necessary amounts.

Housing for Native American Veterans. Section 302 would extend the Native American Veteran Housing Loan Pilot Program through December 31, 2005. As discussed above, this provision would increase VA's administrative expenses by roughly $500,000 each year.

Court of Appeals for Veterans Claims. Section 601 would allow two extra judges to be appointed to the Court of Appeals for Veterans Claims to compensate for the upcoming retirements of most of the sitting judges. In 2004 and 2005, five of the seven judges on the Court will retire. To ensure that the Court would have enough judges to fill a three-person panel, this section would authorize the appointment of two judges to the Court before September 30, 2004. CBO assumes that one judge will be nominated in 2002 and another in 2003. Since the last appointment of a judge to the Court took 18 months, CBO assumes that 2004 would be the only year in which an extra judge would be on the Court. CBO estimates this would result in an increase in discretionary spending of $1 million for 2004, assuming the availability of appropriated funds. This estimate includes salaries and benefits for the judge, a secretary, and three clerks, plus some modifications to the current offices to create additional office space.

TABLE 6. ESTIMATED SPENDING SUBJECT TO APPROPRIATION FOR S. 1088

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Estimated Authorization Level [a]	1,093	1,143	1,182	1,223	1,264	1,305
Estimated Outlays	1,079	1,138	1,178	1,219	1,260	1,301
Proposed Changes						
Estimated Authorization Level	0	1	1	2	1	1
Estimated Outlays	0	1	1	2	1	1
Spending Under S. 1088						
Estimated Authorization Level [a]	1,093	1,144	1,183	1,225	1,265	1,306
Estimated Outlays	1,079	1,139	1,179	1,221	1,261	1,302

a. The 2001 level is the amount appropriated for that year for General Operating Expenses, the Court of Appeals for Veterans Claims, and administrative expenses for the Native American Veteran Housing Loan Pilot Program. Both the current program and the proposed changes for the Native American Veteran Hosing Loan Pilot program are more than $500,000 but less than $1 million.

The other provisions relating to the Court of Appeals for Veterans Claims would have no net impact on discretionary spending.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 7. ESTIMATED IMPACT OF S. 1088 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	0	180	407	631	656	723	783	829	425	470	464
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1088 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATES

On July 20, 2001, CBO prepared a cost estimate for H.R. 2540, the Veterans Benefits Act of 2001, as ordered reported by the House Committee on Veterans' Affairs on July 19, 2001. Section 202 of S. 1088 is similar to section 202 of H.R. 2540, though the Senate version extends for another 10 years the time in which a Gulf War veteran can make a claim for undiagnosed illnesses. As a result, the Senate version has a higher estimated cost over the 2003-2011 period.

On July 5, 2001, CBO prepared a cost estimate for H.R. 1929, the Native American Veterans Home Loan Act of 2001, as introduced in the House on May 21, 2001. Section 302 of S. 1088 is similar to H.R. 1929, and its costs are identical through 2008; other provisions of S. 1088 would lower costs over the 2009-2011 period.

On June 22, 2001, CBO prepared a cost estimate for H.R. 442, a bill to amend title 38, United States Code, to increase the maximum amount of a home loan guarantee available to a veteran, as introduced in the House on February 6, 2001. Section 301 of S. 1088 is similar to H.R. 442, and its costs are identical through 2008; other provisions of S. 1088 would lower costs over the 2009-2011 period.

On June 15, 2001, CBO prepared a cost estimate for H.R. 1291, the 21st Century Montgomery GI Bill Enhancement Act, as introduced in the House on March 29, 2001. Section 101 of S. 1088 is similar to H.R. 1291, but H.R. 1291 would provide a larger increase in the MGIB benefit, and thus has a higher cost over the 2002-2011 period.

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