CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 1, 1997

H.R. 2206

Veterans Health Programs Improvement Act of 1997

As ordered reported by the House Committee on Veterans' Affairs on September 11, 1997

SUMMARY

H.R. 2206 would extend and modify pilot projects of the Department of Veterans Affairs (VA) that pertain to services provided to homeless and chronically ill veterans. Also, the bill would expand the definition of priority status for Persian Gulf War veterans, allow VA to offer early retirement benefits to certain physicians and dentists, and make other changes to current law. CBO estimates that enacting the bill would lower direct spending in 1998 by $2 million, but raise it by about $49 million over the following three years. H.R. 2206 would raise spending subject to appropriations by $84 million in 1998 and $505 million over the five-year period, assuming appropriation of the necessary sums. These costs do not include additional spending for medical care for veterans of the Persian Gulf War, which CBO cannot estimate on the basis of available data, but which could be significant. The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act, and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2206 is shown in Table 1. The following section-by-section analysis addresses only those sections of the bill that would have a budgetary impact.

Health Services and Housing for Chronically Mentally Ill Veterans. Section 2 of the bill would affect several programs. In total, CBO estimates that it would increase discretionary spending by $43 million in 1998 and $317 million over the 1998-2002 period, assuming appropriation of the necessary amounts.

TABLE 1. BUDGETARY IMPACT OF H.R. 2206, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS ON SEPTEMBER 11, 1998
(By fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002
DIRECT SPENDING					
Spending Under Current Law for Federal Civilian Retirement					
Estimates Budget Authority	43,851	45,994	48,246	40,590	53,092
Estimated Outlays	43,764	45,904	48,151	50,490	52,989
Proposed Changes					
New Retirement Benefits					
Estimated Budget Authority	12	29	22	15	12
Estimated Outlays	12	29	22	15	12
Agency Payments					
Estimated Budget Authority	-14	-33	0	0	0
Estimated Outlays	-14	-33	0	0	0
Total Change in Direct Spending					
Estimated Budget Authority	-2	-4	22	15	12
Estimated Outlays	-2	-4	22	15	12
Spending Under H.R. 2206 for Federal Civilian Retirement					
Estimated Budget Authority	43,849	45,990	48,268	50,605	53,104
Estimated Outlays	43,762	45,900	48,173	50,505	53,001
SPENDING SUBJECT TO APPROPRIATION					
Spending Under Current Law for Veterans' Medical Care					
Estimated Authorization Level [a]	16,313	16,313	16,313	16,313	16,313
Estimated Outlays	16,150	16,150	16,150	16,150	16,150
Proposed Changes for Veterans' Medical Care [b]					
Estimated Authorization Level	91	129	94	97	101
Estimated Outlays	84	129	95	97	100
Spending Under H.R. 2206 for Veterans' Medical Care					
Estimated Authorization Level [a]	16,404	16,442	16,407	16,410	16,414
Estimated Outlays	16,234	16,279	16,245	16,247	16,250

NOTE: The costs of this legislation would fall within budget functions 600 (income security) and 700 (veterans affairs).

a. The current law amounts shown here assume that appropriations under current law remain at the 1997 level. If they are adjusted for inflation, the base amounts would rise by about $500 million a year, but the estimated changes would remain as shown.

b. These costs do not include additional spending for medical care for veterans of the Persian Gulf War that would result from enactment of section 6. CBO cannot estimate such costs on the basis of available data.

Section 2 would permanently extend VA's authority to provide outreach services, medical and psychiatric examinations, and community-based residential treatment to veterans suffering from chronic mental conditions or homelessness. Current authority to provide long-term housing in community-based half-way houses will expire on December 31, 1998, and authority for the other activities, primarily the Homeless Chronically Mentally Ill Veterans (HCMI) program, will expire September 30, 1997. Based on current spending for these programs, CBO estimates these extensions would cost about $37 million in 1998 and $275 million over the 1998-2002 period.

Section 2 also would permanently authorize VA's Compensated Work Therapy/Transitional Residence (CWT/TR) program. This program allows veterans with drug and alcohol problems or mental illness to live in VA-owned and managed housing and will expire on December 31, 1997. In addition, this bill would remove the limit of 50 residences, but would retain the requirements that participants pay rent, that the proceeds be deposited into the General Post Fund, and that VA use the fund for maintenance of facilities and acquisition of new properties. The bill would limit annual spending from this fund for the maintenance and purchase of houses to $500,000 above the proceeds from rent deposited into it.

According to data from VA, the agency obligated $4 million in 1996 from appropriations for medical care for activities and personnel related to the CWT/TR program. Thus, CBO estimates that VA would continue to obligate a comparable amount and spend $3 million for CWT/TR from its medical care appropriations in 1998 and $20 million over the 1998-2002 period. CBO estimates that these provisions would have little or no effect on net expenditures from the General Post Fund.

Finally, section 2 would require VA to establish at least eight new comprehensive service centers for homeless veterans to the extent funds are available. As required for the eight centers it currently operates, VA would be required to coordinate benefits and services for homeless veterans within a geographic area and to hire benefit counselors. Based on spending for the current centers, CBO estimates VA would spend an additional $2 million in 1998 and $22 million over the 1998-2002 period to establish and operate the new centers.

Homeless Veterans Comprehensive Services Program. Section 3 would extend through fiscal year 1999 VA's authority to award grants and make per diem payments to organizations that establish shelters and supervised, therapeutic housing for homeless veterans. In 1997, VA awarded $3 million in grants and spent just over $2 million in per diems to grantee facilities. In 1998, VA plans to phase out these grants completely because many of the grantees' facilities will become operational, accommodating more than 1,400 beds. As a result, VA expects to refer more veterans to facilities in 1998 and 1999 than in 1997. Thus, CBO estimates that VA would spend about $6 million in per diem payments in 1998 and $8 million 1999, assuming VA would be able to refer about 800 veterans in 1998 and 1,000 veterans in 1999 for six- to nine-month stays at a per diem rate of about $41. In total, CBO estimates VA would spend $15 million over the 1998-2002 period.

Homemaker and Home-Health Aide Services. Section 5 would permanently extend VA's authority to furnish homemaker and home-health aide services to veterans on a discretionary basis. VA's authority to furnish this type of noninstitutional care will expire on December 31, 1997. In 1996, VA spent about $22 million on these services. Assuming that VA continues to provide the same volume of care, CBO estimates that the agency would spend about $16 million in the last three-quarters of fiscal year 1998 and $121 million over the 1998-2002 period.

Persian Gulf War Veterans. Through December 31, 1998, current law allows VA to provide priority care to veterans who may have been exposed to toxic substances or environmental hazards in the Persian Gulf. Priority level care can be provided for any disability that may have resulted from such exposure. In the absence of medical evidence linking certain exposures to specific illnesses, the law allows VA to set its own guidelines on the illnesses that could be considered to be related to such exposures.

Section 6 would broaden the current criteria for eligibility for priority care to include all veterans who served in the Persian Gulf and any illness that may be related to such service, but it would not change the expiration date of current authority. In addition, section 6 would authorize $5 million for a demonstration project to test new and improved approaches to treating Persian Gulf veterans who suffer from undiagnosed and ill-defined disabilities.

According to information from VA, the agency spent about $140 million in 1996 on medical care for 83,000 Persian Gulf veterans. We expect that the number of veterans who would qualify for priority care under this bill would be higher than under current law, and that VA's expenditures for medical care would grow commensurately. But available data do not indicate how many Persian Gulf veterans are already receiving priority care and how much that care costs. Consequently, CBO cannot estimate the budgetary impact of this provision. The additional costs, however, could be significant.

Early Retirements with Special Pay. From the date of enactment of the bill to September 30, 1999, section 9 of the bill would allow certain physicians and dentists employed by VA to retire earlier than under current law and to count all of their special pay in computing a retirement annuity. Under current law, physicians and dentists must serve eight years in the special pay program and have worked at the Veterans' Health Administration (VHA) for at least 15 years before 100 percent of their special pay would count toward a retirement annuity. The bill would allow physicians and dentists who have

TABLE 2. DISCRETIONARY SPENDING UNDER H.R. 2206, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS ON SEPTEMBER 11, 1998
(By fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002
Health Services and Housing for Chronically Mentally Ill Veterans					
Estimated Authorization Level	48	63	68	71	73
Estimated Outlays	43	63	68	70	73
Homeless Grants and Per Diems					
Estimated Authorization Level	7	8	0	0	0
Estimated Outlays	6	8	1	0	0
Homemaker and Home-Health Aid Services					
Estimated Authorization Level	18	25	26	27	28
Estimated Outlays	16	24	26	27	28
Persian Gulf War Veterans					
Estimated Authorization Level	5	0	0	0	0
Estimated Outlays	5	0	0	0	0
Early Retirements with Special Pay					
Estimated Authorization Level	14	33	0	0	0
Estimated Outlays	14	33	0	0	0
Total Change in Discretionary Spending					
Estimated Authorization Level	91	129	94	97	101
Estimated Outlays	84	129	95	97	100

NOTE: These costs do not include additional spending for medical care for veterans of the Persian Gulf War that would result from enactment of section 6. CBO cannot estimate such costs on the basis of available data.

at least 13 years of service with VHA and six years in the special pay program to retire early and have all of their special pay count but only if VA determines that their positions are no longer required and that their skills are inappropriate for other positions in the facility where they now work. The bill would also require that VA pay the costs through 1999 of the early retirement annuities out of discretionary appropriations for veterans medical care.

About 2,000 individuals will have enough service to be eligible for the benefit during the period specified in the bill. CBO estimates that the full-time equivalent of about 450 eligible employees in 1998 and about 150 such employees in 1999 would receive and accept an offer for early retirement under the conditions specified in H.R. 2206. We also estimate that 10 percent of these employees would retire during this period even if the bill were not enacted.

According to VA, physicians and dentists with special pay earned an average of about $130,000 in 1997. To calculate retirement costs, CBO assumes that beneficiaries would average 26 years of service. This represents the average service of individuals who would be eligible for early retirement under the bill. CBO estimates that per capita benefit payments would be about $63,000 in 1998 and that those retiring under this bill would, under current law, retire by 2003. As a result, we estimate that additional annuity costs would total $12 million in fiscal year 1998 and $90 million over the 1998-2002 period.

CBO estimates that VA would pay $14 million in 1998 and $33 million in 1999 to cover the annuity costs of all employees who retire with the benefit of the bill. VA's payments in 1998 and 1999 would exceed the additional costs to the retirement accounts in those years because some of the physicians and dentists who would benefit from the bill would retire under current law. Thus, direct spending would decrease by an estimated $2 million in 1998 and $4 million in 1999. In 2000, however, direct spending would increase because VA would no longer make payments to the federal retirement accounts for retirees covered by this bill. Consequently, CBO estimates that direct spending would increase by $22 million in 2000 and $49 million over the 2000-2002 period. The effect on direct spending would get smaller each year after 2000 as retirees reach the time when they would retire under current law. After 2005, direct spending would decline by about $1 million annually because individuals affected by the bill would retire with fewer years of service and thus receive lower annuities than under current law.

Under some buyout programs, an agency achieves savings in costs for salaries, benefits, and related expenses because it is given authority or a mandate to reduce the number or change the mix of employees. Even though this bill would require VA to deem a position unnecessary before a special pay offer could be made to an individual in that position, it does not require the number or mix of VA employees to change from current law. Thus, there is no assurance that savings in appropriated spending for salaries and employment benefits would result from enacting this bill. If VA eliminates every position affected by an early retirement and makes a comparable reduction in the total number of employees, then it could save about $30 million in 1998 and $70 million in 1999 under CBO's assumptions for this estimate. Savings would decline in later years when the positions would become vacant in any event.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Because the bill would affect direct spending, pay-as-you-go procedures would apply. The projected changes in direct spending are summarized in the following table for fiscal years 1998-2007. For purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

Summary of Pay-As-You-Go Effects

	By Fiscal Year, in Millions of Dollars									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Change in outlays	-2	-4	22	15	12	8	4	0	-1	-1
Changes in receipts	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act, and would not affect the budgets of state, local, or tribal governments.

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