Congressional Budget Office
Cost Estimate

May 13, 2019

At a Glance

H.R. 299, Blue Water Navy Vietnam Veterans Act of 2019

As reported by the House Committee on Veterans' Affairs on May10, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	135	-75
Revenues	0	0	0
Deficit Effect	0	135	-75
Spending Subject to Appropriation (Outlays)	0	70	191

Pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**< $5 billion**	Contains intergovernmental mandate?	**No**
		Contains private-sector mandate?	**No**

The bill would

- Modify home loan programs administered by the Department of Veterans Affairs (VA)
- Increase disability compensation and expand health care for more veterans who served in the seas near Vietnam during the Vietnam War
- Provide disability compensation to certain veterans who served near the Korea Demilitarized Zone
- Provide payments, vocational training, rehabilitation services, and health care to the biological children of certain veterans who served in Thailand during the Vietnam War if those children have been diagnosed with Spina Bifida

Estimated budgetary effects would primarily stem from

- Changes to VA's home loan programs
- Increased disability compensation and health care benefits for certain veterans

Areas of significant uncertainty include

- The number of veterans affected by the bill and the change in their disability ratings

Detailed estimate begins on the next page.

Bill Summary

H.R. 299 would modify the home loan and disability compensation programs administered by the Department of Veterans Affairs (VA). The bill would increase disability compensation for some veterans who served in the seas near Vietnam during the Vietnam War and veterans who served near the Korea Demilitarized Zone (DMZ). In addition, H.R. 299 would improve access to VA medical care for certain veterans and their dependents. Finally, the bill would provide benefits to the biological children of certain veterans who served in Thailand during the Vietnam War if those children have been diagnosed with Spina Bifida.

Estimated Federal Cost

The estimated budgetary effect of H.R. 299 is shown in Table 1. The costs of the legislation fall within budget function 700 (veterans benefits and services).

Table 1.
Estimated Budgetary Effects of H.R. 299

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
	Increases or Decreases (-) in Direct Spending												
Estimated Budget Authority	0	-10	-17	38	63	59	62	63	65	68	-469	135	-75
Estimated Outlays	0	-10	-17	38	63	59	62	63	65	68	-469	135	-75
	Increases in Spending Subject to Appropriation												
Estimated Authorization	0	4	11	17	19	22	23	23	24	25	26	73	194
Estimated Outlays	0	4	10	16	19	21	23	23	24	25	26	70	191

Components may not sum to totals because of rounding.

Basis of Estimate

For this estimate, CBO assumes that the estimated amounts will be appropriated each year, that outlays will follow historical spending patterns for affected programs, and that the bill will be enacted in 2019. The bill specifies that the provisions would take effect on January 1, 2020.

Direct Spending

H.R. 299 would make several changes to VA's home loan programs. It also would increase the disability compensation paid to certain veterans who served in Southeast Asia and Korea and their dependents. On net, enacting the bill would decrease direct spending by $75 million over the 2019-2029 period (see Table 2).

Table 2.
Estimated Increases or Decreases in Direct Spending

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
Increases or Decreases (-) in Direct Spending													
Home Loans													
Loan Guarantee Fees	0	-101	-122	-23	5	4	4	4	5	4	-556	-237	-776
Jumbo Loans	0	36	44	40	35	31	33	34	35	37	61	186	386
Purple Heart Fee	0	2	2	2	1	1	1	1	1	2	1	8	14
Home Loan Appraisals	0	1	1	1	1	1	1	1	1	1	1	5	10
Subtotal Home Loans	0	-62	-75	20	42	37	39	40	42	44	-493	-38	-366
Disability Compensation													
Blue Water Navy Veterans	0	52	58	17	20	21	22	22	22	23	23	168	280
Korea DMZ Veterans	0	*	*	1	1	1	1	1	1	1	1	3	8
Spina Bifida Benefits	0	*	*	*	*	*	*	*	*	*	*	2	3
Subtotal Disability Compensation	0	52	58	18	21	22	23	23	23	24	24	173	291
Total Changes in Direct Spending	0	-10	-17	38	63	59	62	63	65	68	-469	135	-75

Components may not sum to totals because of rounding; DMZ = Demilitarized Zone; * = between zero and $500,000.

Home Loans. Section 6 would modify several provisions of current law related to VA's authority to guarantee and make certain mortgages provided to veterans. In total, those changes would decrease direct spending by $366 million over the 2019-2029 period.

Loan Guarantee Fees. Most significantly, section 6 would increase on net the fees that VA charges veterans for loan guarantees under its home loan program. VA typically provides a lender a payment of up to 25 percent of the outstanding mortgage balance (subject to some limitations on the original loan amounts) in the event that a veteran defaults on a guaranteed loan. The guarantees enable veterans to obtain better loan terms, such as lower interest rates or smaller down payments. Increasing the fees would lower the subsidy cost of the guarantees by partially offsetting the costs of subsequent defaults.[1] Reducing the fees would

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.

have the opposite effect. The subsidy cost of VA loan guarantees are paid from mandatory appropriations. Hence, changing the subsidy cost would affect direct spending.

Under current law, the up-front fee varies, depending on the size of the down payment and whether the veteran has previously used the loan-guarantee benefit. Borrowers who are eligible for the guarantee as a result of service in the selected reserve component of the Armed Forces pay an additional fee. Veterans who receive compensation for service-connected disabilities are exempt from paying the fee. The fees that would be affected by section 6 are currently set as follows:

- 2.15 percent of the loan amount for loans with no down payment or cash-out refinancing loans on the first use of the guarantee benefit,
- 3.30 percent of the loan amount for loans with no down payment or cash-out refinancing loans on subsequent uses of the guarantee benefit,
- 1.50 percent of the loan amount for loans with a 5 percent down payment,
- 1.25 percent of the loan amount for loans with a 10 percent down payment, and
- 0.25 percent of the loan amount if eligibility arises from service in the selected reserve, in addition to the fee based on the amount of the down payment.

Section 6 would increase those fees to 2.30 percent, 3.60 percent, 1.65 percent, and 1.40 percent, respectively. It also would permanently eliminate the additional 0.25 percent fee paid by reservists. The fees would rise on January 1, 2020, and would decline to the current levels on January 1, 2022, through September 30, 2029, after which they would decline to 1.4 percent, 1.25 percent, 0.75 percent, and 0.50 percent, respectively. Under current law, the fees are set to decline to those lower rates a year earlier, on October 1, 2028.

On the basis of our analysis of information from VA about the number and size of loans guaranteed in recent years, the default rate for those loans, the amount of fees collected, and changes in loan volume arising from other provisions of the bill, CBO estimates that the net effect of enacting those fee changes would be to decrease direct spending by $776 million over the 2019-2029 period. The fee increases between January 1, 2020, and January 1, 2022, and extension of fees at the current level in fiscal year 2029 would decrease the net subsidy cost of the loan guarantee program from fiscal year 2020 through fiscal year 2022 and in fiscal year 2029, while the elimination of the 0.25 percent fee for reservists would increase subsidy.

Jumbo Loans. Section 6 also would increase the maximum loan amount for which VA can provide a guarantee of 25 percent. The guaranteed payment from VA is generally capped at 25 percent of the initial loan balance, up to the limit on loan size established by the Federal Home Loan Mortgage Corporation Act. That limit is $484,350 in calendar year 2019. (Loans at or below this level are known as conforming loans; loans in excess are called jumbo loans.

Exceptions are made to the conforming loan limit for certain high-cost areas.) Under this provision, the cap would be eliminated beginning on January 1, 2020, for veterans who do not have an outstanding loan guaranteed by VA, allowing the department to provide a 25 percent guarantee on the full amount of their loans. In the event that a veteran defaulted on a jumbo loan that was guaranteed by VA, payments to the lender would be greater than they would be under current law. Also, CBO expects that more veterans would use the loan benefit if VA could guarantee 25 percent of the full loan amount for all loans; thus, raising the amount guaranteed would increase direct spending.

On the basis of information regarding the number and value of jumbo mortgages VA partially guaranteed during recent years, CBO estimates that VA would guarantee about $5 billion worth of additional loans a year under this provision. That change would increase direct spending by $386 million over the 2019-2029 period.

Purple Heart Fee. Under section 6 service members on active duty who have received the Purple Heart would be exempt from the loan fee. The Purple Heart is presented to service members who have been wounded or killed in action against an enemy of the United States. On the basis of information from the Department of Defense (DoD) on awards of the Purple Hearts and on VA data about the number of loans guarantees provided to service members, CBO estimates that exempting Purple Heart recipients from loan guarantee fees would increase direct spending by $14 million over the 2019-2029 period.

Native American Loan Limit. Lastly, section 6 would eliminate the limit on the loan amount for direct loans made by VA to Native American veterans who purchase homes located on tribal land that are held in federal trust. Under current law, VA can disburse such loans of up to $80,000. It may make loans exceeding this limit if housing costs on tribal lands are significantly higher than the national average. Eliminating the loan limit could result in an increase in direct loans to Native American veterans because VA would be able to make loans to veterans for more than $80,000 on tribal land where housing costs do not exceed the national average. Because such loans are estimated to have a negative subsidy rate, increasing the loan volume would reduce direct spending. VA makes very few loans to Native American veterans residing on tribal land (roughly 20 each year). Under current law, the subsidy costs of those loans reduces direct spending by $1 million each year. Because VA issues so few loans, CBO lacks sufficient basis to determine how many additional loans would be made as a result of section 6. However, even a large increase in loan volume would only decrease direct spending by a small amount.

Home Loan Appraisals. Home appraisals for loans guaranteed by VA must be performed by providers that have been approved by the department. The costs of those appraisals are paid by the borrowers. VA reports that a shortage of approved appraisers in some areas of the country has increased the cost of appraisals and the time it takes to complete them. Section 7 would permit VA-approved appraisers to base their estimates of home values solely on information provided by third parties. That change would allow appraisers to estimate home values without visiting the property through the use of information from property tax records, real estate listings, and similar sources.

On the basis of the number and the average amount of loans that VA guarantees, CBO expects that streamlining the process and reducing closing costs for borrowers would increase the number of loans guaranteed by VA by a few hundred each year. The average subsidy cost of VA loan guarantees, which are paid from mandatory appropriations, is about $3,000. Thus, increasing the number of loans would increase direct spending by $1 million each year and $10 million over the 2019-2029 period, CBO estimates.

Disability Compensation. Sections 2 and 3 would increase compensation benefits for certain veterans who served in Southeast Asia and Korea. In total, those changes would increase direct spending by $291 million over the 2019-2029 period. Those changes also would affect medical care provided to disabled veterans and certain dependents. Those effects are discussed below in the section on "Spending Subject to Appropriation."

Blue Water Navy Veterans. Section 2 would provide disability compensation to certain veterans who served in the waters offshore of Vietnam during the Vietnam War. It also would provide certain benefits to dependents or survivors of those veterans. Prospective and retroactive payments arising from section 2 would increase direct spending by $52 million in 2020, and by $280 million over the 2019-2029 period, CBO estimates.

Generally, VA compensates veterans who have disabilities or diseases that have been determined to be connected to their military service based on military medical records and physical examinations. However, VA is required by statute to presume that exposure to Agent Orange, a blend of herbicides used by DoD to remove dense tropical foliage, causes certain diseases, such as type 2 diabetes, Parkinson's disease, and prostate cancer. If veterans served during specified time periods in designated locations where Agent Orange was used, those illnesses are presumed to be connected to the veterans' service. The veterans only need to provide evidence that they were in the designated locations at the specified times.

Before January 2019, VA presumed that Vietnam War veterans had been exposed to Agent Orange only if they served on land or in the country's inland or coastal waterways. As a result of a decision by the U.S. Court of Appeals for the Federal Circuit in *Procopio v. Wilkie*, VA will also presume that veterans who served in the territorial seas of Vietnam, commonly referred to as the "Blue Water Navy," were exposed to Agent Orange. Because the U.S. Court of Appeals for the Federal Circuit's jurisdiction over veterans' benefits appeals is nationwide, and because VA has chosen not to appeal the decision, CBO considers the ruling current law.

As a result of the decision in *Procopio*, VA will evaluate claims for disability compensation under the presumption that veterans who served in the territorial seas of Vietnam were exposed to Agent Orange. The court determined that territorial seas encompassed an area up to 12 nautical miles from the coast of Vietnam. Under the bill, veterans who served in an area within 12 nautical miles seaward of a line of interconnected coordinates defined in the bill would be eligible for the presumption of exposure to Agent Orange. That geographic area exceeds the area within 12 miles of the shore. Thus, H.R. 299 would extend the presumption of exposure to Agent Orange to more veterans than will be covered under current law.

On the basis of information from the Department of the Navy, VA, and other sources, CBO estimates that about 15,500 service members served offshore in the area between the territorial seas and the geographic area specified in section 2. Of those personnel, CBO estimates about half, or 7,750, are already presumed to have been exposed to Agent Orange. The remaining 7,750 personnel are not presumed to have been exposed to the herbicide. Under H.R. 299, those additional veterans would be presumed to have been exposed to Agent Orange and would be eligible for increased disability compensation if they have one of the conditions VA has determined to be related to that exposure.

CBO estimates that nearly 60 percent, or 4,400, of those 7,750 offshore personnel are still living. VA reports that 52 percent of veterans who served in the Vietnam theater of operations have service-connected disabilities (SCD). Thus, about 2,300 of those Blue Water Navy veterans who are living already have a disability rating. CBO estimates roughly 45 percent of those veterans have a disease that VA considers to be caused by exposure to Agent Orange. On that basis, CBO expects that about 1,000 veterans would have their current disability ratings raised; as a result, their disability compensation would increase by about $11,000 per veteran in 2020. After accounting for cost-of-living adjustments, CBO estimates that disability compensation for veterans with existing SCDs would increase by $109 million over the 2019-2029 period.

The remaining 2,100 living Blue Water Navy veterans would be newly eligible to have disabilities considered service-connected as a result of exposure to Agent Orange. CBO expects that about half of the 1,000 newly eligible veterans with diseases related to Agent Orange exposure (roughly 500 people) would apply to VA for a disability rating throughout the 2020-2024 period. New disability payments would average $12,000 in 2020. Those additional payments would total $48 million over the 2019-2029 period.

Survivors of veterans who die as a result of a SCD are eligible to receive dependency and indemnity compensation (DIC). Because more veterans would be designated as having SCDs, additional survivors would receive DIC payments. Survivors of Blue Water Navy veterans who died before the date of enactment of the legislation also would be eligible for DIC benefits if the veteran had previously applied for disability compensation because of exposure to Agent Orange. On the basis of information about the number of DIC beneficiaries per veteran, CBO estimates that as a result of enacting the bill roughly 165 additional DIC beneficiaries would receive an average of about $19,000 in compensation annually. New DIC payments would total $32 million over the 2019-2029 period, CBO estimates.

Section 2 also would authorize retroactive payments to Blue Water Navy veterans who have previously been denied a disability claim for an eligible condition that is presumed to be caused by exposure to Agent Orange. On the basis of information from VA about the number of veterans denied a SCD rating for Agent Orange exposure, CBO estimates that about 1,500 veterans would receive retroactive payments under this provision. Those retroactive benefits would be paid in a lump sum for the amount of disability compensation due to the veteran or survivor for the period between when they first applied for compensation and the date on which the SCD rating is approved. Using information from VA on the amount of retroactive payments made to veterans and survivors when new presumptive conditions have been added to the list of those connected to Agent Orange exposure, CBO estimates that those payments would average about $61,000 per individual. Retroactive payments would be made in 2020 and 2021, and would total $91 million, CBO estimates.

Section 2 also would improve access to health care benefits for individuals who served in the geographic area specified in the bill and who do not have a disability that is presumed to have been caused by exposure to Agent Orange. The cost of that care is discussed in the "Spending Subject to Appropriation" section of the estimate.

Korea Demilitarized Zone Veterans. Section 3 would require VA to provide disability compensation to certain veterans who served near the Korea Demilitarized Zone at any time during the period between September 1, 1967, and August 31, 1971. Payments also would be made to certain survivors of those veterans.

Under current VA regulations, veterans who served along the Korea DMZ at any time from April 1, 1968, to August 31, 1971, are presumed to have been exposed to Agent Orange. The bill would extend the period for which exposure is presumed to have occurred by seven months.

According to VA, about 1,000 veterans who served outside of Vietnam are receiving compensation for service-connected exposure to Agent Orange. In addition to service in Vietnam and along the Korea DMZ, VA presumes exposure to Agent Orange if the veteran served near the perimeter of military bases in Thailand during the Vietnam era, at locations where Agent Orange was tested or stored outside of Vietnam, and in a few other locations. VA cannot identify by specific location the number of disability claims for Agent Orange exposure that occurred outside of Vietnam. CBO estimates that 70 percent of those 1,000 veterans are receiving compensation payments as a result of service along the Korea DMZ.

Because the bill would extend the eligibility dates for service along the Korea DMZ by 13 percent, CBO estimates a corresponding increase in the number of veterans who would receive disability compensation for exposure to Agent Orange. Those 90 veterans would receive an annual payment of about $12,000 in 2020. Additional DIC costs for survivors of those veterans would be insignificant. In total, after accounting for inflation, section 3 would increase direct spending by $8 million over the 2019-2029 period, CBO estimates.

Spina Bifida Benefits. VA provides monetary allowances, vocational training, rehabilitation services, and VA-financed health care benefits to the biological children of Korea and Vietnam veterans who served near the DMZ if those children have been diagnosed with spina bifida. Section 4 would expand eligibility for those benefits to the children of certain veterans who served in areas of Thailand where Agent Orange was used between January 9, 1962, and May 7, 1975. On the basis of information from VA about the current population of children receiving benefits for spina bifida and the number of military personnel who served in Vietnam or Thailand, CBO estimates that about 20 individuals per year would receive a monetary allowance under this provision. With an average allowance of $1,100 per month, CBO estimates that enacting section 3 would increase direct spending by $3 million over the 2019-2029 period.

Section 3 also would provide health care benefits for those eligible individuals. The cost of that care is discussed in the "Spending Subject to Appropriation" section of the estimate.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 299 would increase spending on VA medical care and administrative expenses for processing disability claims by a total of $70 million over the 2019-2024 period, assuming appropriation of the necessary amounts (see Table 3).

Health Care for Veterans

Section 2 would increase the disability ratings of some Blue Water Navy veterans who served between the 12-mile limit of territorial seas of Vietnam and the boundary of the geographic area specified in this bill. Additionally, veterans who served in the territorial seas of Vietnam and in the area covered by the bill who do not have a disability connected to exposure to Agent Orange would become eligible to receive a higher priority for care or become newly eligible for care in the VA health care system under the act. As a result, some of those veterans and certain dependents would receive additional health care benefits from VA. In total, CBO estimates that under section 2, spending for VA health care would increase by $66 million over the 2019-2024 period, subject to the availability of appropriated funds.

Veterans whose service-connected disability rating is 50 percent or greater are charged lower copayments for VA medical care than those with a lesser rated disability or no service-connected disability. CBO expects that the reduction in expenses would lead veterans to use more VA-funded medical care and to increase the portion of their medical care that is paid for by VA. Additionally, VA prioritizes the medical treatment of disabilities that are service-connected. Thus, CBO expects that veterans who receive a new or increased SCD rating as a result of presumed exposure to Agent Orange would receive more VA-funded care than if the disability was not connected to their service.

Table 3.
Estimated Increases in Spending Subject to Appropriation

	By Fiscal Year, Millions of Dollars						
	2019	2020	2021	2022	2023	2024	2019-2024
Health Care for Veterans							
Estimated Authorization	0	4	10	16	18	21	69
Estimated Outlays	0	4	9	15	18	20	66
Spina Bifida							
Estimated Authorization	0	*	1	1	1	1	4
Estimated Outlays	0	*	1	1	1	1	4
Total Changes							
Estimated Authorization	0	4	11	17	19	22	73
Estimated Outlays	0	4	10	16	19	21	70

* = between zero and $500,000.

On the basis of data regarding participation rates in the VA health care system, CBO estimates that under the bill about 6,000 veterans who are already enrolled in the VA health care system would be included in a higher priority group, annually, over the next five years. Those veterans would receive an average of about $600 in additional care each year. In total, health care costs for existing enrollees would increase by about $13 million over the 2019-2024 period, CBO estimates.

In addition, CBO expects that about 3,800 veterans would eventually enroll in the VA health care system over the next five years as a result of new eligibility or heightened priority for health care. On the basis of health care costs for current enrollees, CBO estimates that those veterans would receive an average of $4,100 in health care from VA each year. Over the 2019-2024 period, CBO estimates that increases in health care costs for new enrollees would total $52 million, after accounting for the gradual enrollment of new beneficiaries.

DIC recipients are eligible for health care through the Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA), an insurance program paid for by VA. CBO estimates that 110 new DIC beneficiaries would use the CHAMPVA benefits at an average cost of $4,600 in each year. CBO estimates that payments for those beneficiaries would total $1 million over the 2019-2024 period, after accounting for the gradual enrollment of new beneficiaries.

Uncertainty

The cost of the bill depends on the number of veterans who served only in the area between the outer limit of the territorial seas of Vietnam and the boundary of geographic area specified in the bill. Thus, the budgetary impact of the bill could be significantly different than what CBO estimated if the number of those veterans differs from CBO's estimate.

Other factors, such as the number of Blue Water Navy veterans who already have a SCD rating, could also be different than the number CBO used in this estimate. Changes in those inputs also would affect the cost estimate but to a much smaller degree than changes to the size of the affected population.

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 Table 2.

Mandates: None.

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