CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 19, 2018

H.R. 5693
Long-Term Care Veterans Choice Act

As ordered reported by the House Committee on Veterans' Affairs on July 12, 2018

SUMMARY

H.R. 5693 would expand the authority of the Department of Veterans Affairs (VA) to provide long-term care for certain veterans and would reorganize the administration of several veterans benefit programs. CBO estimates that implementing the bill would cost $200 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

In addition, the bill would modify the program that provides mortgage loan guarantees for veterans. CBO estimates that enacting H.R. 5693 would decrease direct spending by $202 million over the 2019-2028 period.

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

CBO estimates that enacting H.R. 5693 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

H.R. 5693 contains no intergovernmental or private-sector mandates as defined in the Unfounded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 5693 are 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. 5693, THE LONG-TERM CARE VETERANS CHOICE ACT

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	0	1	47	48	57	56	n.a.	n.a.	n.a.	n.a.	n.a.	209	n.a.
Estimated Outlays	0	1	42	47	55	55	n.a.	n.a.	n.a.	n.a.	n.a.	200	n.a.
DECREASES IN DIRECT SPENDING													
Estimated Budget Authority	0	-35	-42	-37	-34	-29	-25	0	0	0	0	-177	-202
Estimated Outlays	0	-35	-42	-37	-34	-29	-25	0	0	0	0	-177	-202

n.a. = not applicable.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5693 will be enacted near the beginning of fiscal year 2019 and that the estimated amounts will be appropriated each year. Estimated outlays are based on historical spending patterns for the affected programs.

Spending Subject to Appropriation

H.R. 5693 would authorize VA to provide long-term care to veterans in medical foster homes (MFHs) and establish a new organization in VA to administer readjustment benefits, transition assistance, and several other benefit programs that are currently part of the Veterans Benefits Administration. In total, CBO estimates that implementing the bill would cost $200 million over the 2019-2023 period, assuming appropriation of the necessary amounts (see Table 2).

Medical Foster Homes. For the three-year period beginning on October 1, 2019, section 2 would authorize VA to place up to 900 veterans (on an average daily basis) with severe service-connected disabilities in MFHs and to pay the full cost of their stay in those establishments. A MFH is a private home in which a trained caregiver provides services to a few individuals. VA has an existing program to inspect and approve MFHs for veterans. Veterans currently living in such homes are eligible to receive VA's Home Based Primary Care services, which include case management and health care provided in the home. This bill would authorize VA to also pay for the cost of living (room and board) in MFHs. CBO expects that once veterans are placed in medical foster care under this new program, VA would continue to pay for their stays in those facilities indefinitely so that the costs for the program would continue after 2022.

TABLE 2. ESTIMATE OF THE EFFECTS ON SPENDING SUBJECT TO APPROPRIATION OF H.R. 5693, THE LONG-TERM CARE VETERANS CHOICE ACT

	By Fiscal Year, in Millions of Dollars						
	2018	2019	2020	2021	2022	2023	2019-2023
Medical Foster Homes							
Estimated Authorization Level	0	0	34	41	50	49	174
Estimated Outlays	0	0	30	39	48	48	165
Veterans Economic Opportunity and Transition Administration							
Estimated Authorization Level	0	1	13	7	7	7	35
Estimated Outlays	0	1	12	8	7	7	35
Total Changes in Spending Subject to Appropriation							
Estimated Authorization Level	0	1	47	48	57	56	209
Estimated Outlays	0	1	42	47	55	55	200

Of the 900 veterans eligible for this program, CBO estimates that 600 would become residents of MFHs as a result of the bill's enactment. For those veterans, VA would pay for their living expenses, as well as the costs for Home Based Primary Care services. We estimate that those veterans would receive health care that would cost $16,000 per year more than they would receive under current law because providing care in individual homes is costlier than providing health care at VA medical facilities. Including the costs for living expenses at the MFHs of $42,000 per year, on average, we estimate total costs per new resident of $58,000 per year, on average. On that basis, CBO estimates that total costs for new MFH residents would be about $35 million a year.

CBO estimates that the remaining 300 veterans would be those who are already living in MFHs. Because VA currently provides those veterans with in-home health care services, the estimated incremental cost would be $42,000 a year per veteran to cover the expense of living in the MFHs. Those costs would total about $10 million a year for those 300 veterans, CBO estimates.

After accounting for inflation, the appropriate mortality rates, and a gradual implementation period to reflect the necessary time for VA to transition additional veterans into the MFH program, CBO estimates that implementing this bill would cost an additional $165 million over the 2019-2023 period, assuming appropriation of the necessary amounts.

Veterans Economic Opportunity and Transition Administration. Sections 3 and 4 would create a new administration at VA to manage programs for readjustment benefits, home-loan guarantees, and small-business assistance. Beginning in fiscal year 2020, the bill would establish the Veterans Economic Opportunity and Transition Administration (VEOTA). The Veterans Benefits Administration (VBA) currently manages the following benefit programs for veterans and other eligible individuals:

- Disability compensation;
- Pension, dependency and indemnity compensation, burial, and fiduciary programs;
- Readjustment benefits (including education and vocational rehabilitation benefits);
- Home-loan guarantees;
- Small business programs; and
- Insurance.

This bill would transfer some programs that are currently administered by VBA to VEOTA. Under this new organizational structure, all readjustment benefit programs (including employment programs), the home-loan guarantee program, veterans' small business programs, and VA's responsibilities under the transition assistance program would be managed by VEOTA. VBA and VEOTA each would be led by an Undersecretary. Section 3 would limit the total number of full-time equivalent (FTE) positions serving in both administrations to 23,692 in fiscal years 2019 and 2020.

VA reports that about 4,400 VA employees currently oversee and carry out the benefits programs that would transfer to VEOTA under this provision. CBO estimates that those personnel, and the records, property, and budgetary resources currently used by VBA to manage those programs also would be transferred. Using the current operating costs for VBA of $115 million, we estimate a 10 percent increase in 2020 to capture moving expenses, IT costs and other reorganization expenses, and about a 3 percent increase thereafter for ongoing operating expenses. Those estimated additional operating costs would total about $22 million over the 2019-2023 period. In addition, CBO estimates that VEOTA would require an additional 20 FTE positions at an average annual cost of $200,000 to manage the daily operations of the new administration. CBO estimates costs of $13 million for those additional staff.

In total, CBO estimates that establishing VEOTA would cost $35 million over the 2019-2023 period.

Direct Spending

Section 5 would change the fee that VA charges veterans for providing loan guarantees under its home loan program. Under that program, VA provides lenders a payment of up to 25 percent of the outstanding mortgage balances (subject to some limitations on the original loan amounts) in the event that veterans default on guaranteed loans. The guarantees enable veterans to get better loan terms, such as lower interest rates or smaller down payments. The fee varies by several factors such as the type of the loan and the amount of the down payment. Increasing the fee would lower the subsidy cost of the guarantees by partially offsetting the costs of subsequent defaults.[1] (Reducing the fee would 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.

Veterans can refinance VA-guaranteed loans with another loan that also would be guaranteed by VA. Those borrowers pay a fee of 0.50 percent of the new principal if the amount of the new loan is the same as the outstanding principal balance of the prior loan and the interest rate on the new loan is lower. Section 5 would increase that fee to 0.75 percent of the principal amount for loans that are refinanced after December 31, 2018, and before October 1, 2024. After that latter date, the fee would revert to 0.50 percent.

Using information from VA on the number and size of refinancing loans guaranteed in recent years, the default rate for those loans, and the amount of fees collected, CBO estimates that increasing the fees would decrease direct spending by $202 million over the 2019-2028 period.

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 3.

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.

TABLE 3. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS OF H.R. 5693, THE LONG-TERM CARE VETERANS CHOICE ACT, AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON VETERANS' AFFAIRS ON JULY 12, 2018

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
DECREASES IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	-35	-42	-37	-34	-29	-25	0	0	0	0	-177	-202

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 5693 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 5693 contains no intergovernmental or private-sector mandates as defined in UMRA.

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