

August 29, 2003

Honorable Don Nickles
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

As you requested in your letter of July 28, 2003, the Congressional Budget Office (CBO) has prepared the enclosed cost estimates for H.R. 2475, the Veterans Health Care Full Funding Act, and H.R. 2318, the Assured Funding for Veterans Health Care Act of 2003. The legislation and our cost estimates are summarized below. You also requested that CBO estimate the costs for a variation of H.R. 2318 in which the appropriation for veterans' medical care would become a mandatory program and would be inflated by the Consumer Price Index for all Urban Consumers (CPI-U) for medical care. That estimate is contained in this letter, following a summary of the estimates for H.R. 2475 and H.R. 2318.

H.R. 2475. This bill would establish the Veterans Health Care Funding Review Board, which would consist of three people with backgrounds and experience in health care policy or related fields who would be appointed by the Secretary of Veterans Affairs (VA). This board would be responsible for determining the resources necessary to adequately fund health care programs for veterans, under criteria listed in the bill. The board would submit its recommendations to the President and to the Congress. Under the bill, the President would be required to include the full amount determined by the board in his annual budget request to the Congress.

Assuming that the bill is enacted this fall, that the board begins to operate during fiscal year 2004, and that the necessary amounts are appropriated, CBO estimates that expenses would total about \$2 million a year beginning in 2004. These expenses would include compensation for the board members and costs of VA staff support to the board. Enacting the bill would not affect direct spending or receipts. (See the enclosed cost estimate for H.R. 2475 for more information.)

H.R. 2318. This bill would require the Secretary of the Treasury to make available to the Veterans Health Administration (VHA) each fiscal year, beginning in 2005, an amount determined under the bill to be available without fiscal year limitation for VHA's programs, functions, and activities. Under H.R. 2318, the amount in 2005 would be equal to 130 percent of the total obligations made by the VHA in 2003. The amounts in succeeding years would be adjusted for medical inflation and growth in the number of veterans enrolled in VHA's health care system and other nonveterans eligible for care from VHA.

Although the bill would primarily affect funding for health care services provided by VHA by replacing annually appropriated discretionary funding with direct spending, it also would result in some savings in direct spending for other government programs, primarily Medicare and Medicaid.

CBO estimates that enacting H.R. 2318 would result in a net increase in direct spending, totaling about \$30 billion in 2005, \$165 billion over the 2005-2008 period, and \$473 billion over the 2005-2013 period. Under the bill, funding for VHA would be considered direct spending, so CBO estimates that discretionary outlays for VHA and other government programs could decline—relative to baseline projections—by \$7 million in 2004, about \$23 billion in 2005, and \$262 billion over the 2004-2013 period. (See the enclosed cost estimate for H.R. 2318 for more information.)

Variation of H.R. 2318. In your letter, you requested that we estimate a variation of H.R. 2318 in which the appropriation for veterans' medical care would become a mandatory program and would be inflated by the CPI-U for medical care. The bulk of the funding for veterans' medical care is provided through a regular appropriation each year. The Congress appropriated about \$24 billion in 2003 for this function. The remainder of the funding is derived from offsetting receipts that VA collects from veterans and third-party insurance companies. Those offsetting receipts are deposited into the Medical Care Collections Fund, and as specified in law, any receipts to that fund are treated as offsets to discretionary spending to the extent that they are made available for expenditure in appropriation acts. Under our current baseline, CBO estimates that these offsetting receipts for 2003 will total about \$1.4 billion. (Consistent with our estimate for H.R. 2318, we have excluded these offsetting receipts from our baseline estimate of budget authority for this estimate.)

In addition, we use 2005 as a starting point so that our estimate of this variation of H.R. 2318 is comparable to our estimate of H.R. 2318. According to the baseline that underlies the current Congressional budget resolution, CBO estimates that spending for veterans' medical care, excluding offsetting receipts, would be \$25.2 billion in 2005.

If funding for veterans' medical care were made a mandatory program and inflated by the CPI for medical care each year, with no adjustment for the number of veterans actually receiving care from VA, CBO estimates that direct spending for veterans' medical care would increase by \$25.5 billion in 2005, \$108 billion over the 2005-2008 period, and \$270 billion over the 2005-2013 period. Because funding for veterans' medical care would be treated as direct spending in this variation, spending subject to appropriation would decline by about \$23 billion in 2005, \$103 billion over the 2005-2008 period, and \$256 billion over the 2005-2013 period, assuming appropriations are reduced by the amounts estimated in our baseline.

COMPARISON OF H.R. 2318 AND A VARIATION OF H.R. 2318
(By fiscal year, in billions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Spending Under H.R. 2318 for Veterans' Medical Care										
Estimated Budget Authority	0	33.5	41.6	46.9	51.2	55.4	59.2	62.5	65.4	68.3
Estimated Outlays	0	30.2	33.5	46.4	54.6	56.0	58.7	61.7	64.6	67.6
Spending Under a Variation of H.R. 2318 for Veterans' Medical Care										
Estimated Budget Authority	0	25.7	26.7	27.8	28.9	30.1	31.3	32.5	33.8	35.2
Estimated Outlays	0	25.5	26.5	27.6	28.7	29.8	31.0	32.3	33.5	34.9
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Spending Under H.R. 2318 for Veterans' Medical Care										
Estimated Authorization Level	0	-25.9	-26.8	-27.6	-28.5	-29.5	-30.5	-31.5	-32.6	-33.7
Estimated Outlays	0	-23.3	-26.3	27.4	-28.3	-29.2	-30.2	-31.3	-32.3	-33.4
Spending Under a Variation of H.R. 2318 for Veterans' Medical Care										
Estimated Authorization Level	0	-25.4	-26.2	-27.0	-27.9	-28.8	-29.8	-30.8	-31.8	-32.9
Estimated Outlays	0	-22.9	-25.8	-26.8	-27.7	-28.6	-29.6	-30.5	-31.6	-32.6

Comparison of Spending Under H.R. 2318 and a Variation of H.R. 2318.

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The direct spending under this variation would be \$270 billion over the 2005-2013 period, which is much less than the estimated cost under H.R. 2318 of \$473 billion over the same period (see the above table). This difference occurs primarily because, under the variation, the estimated costs reflect adjustments for inflation with no adjustment for the number of veterans who would enroll to receive medical care from VA.

As shown in the above table, the potential discretionary savings under this variation would be \$256 billion over the 2005-2013 period, which is slightly less than the estimated discretionary savings under H.R. 2318 of \$262 billion over the same period. The estimated savings for this variation is a little less than for H.R. 2318 because you asked that we treat only spending for veterans' medical care as a mandatory program. Our estimate for H.R. 2318 also included the potential savings from an administrative account and a prosthetic research account as specified in the bill.

If you have any questions, the CBO staff contact is Sam Papenfuss.

Sincerely,

Douglas Holtz-Eakin
Director

Enclosures: Cost estimates of H.R. 2475 and H.R. 2318

cc: Honorable Kent Conrad
Ranking Member