

U.S. House of Representatives

COMMITTEE ON VETERANS' AFFAIRS

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335 CANNON HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

<http://veterans.house.gov>

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Honorable Jim Nussle
Chairman
House Committee on the Budget
309 Cannon House Office Building
Washington, DC 20515

Dear Mr. Chairman:

As Chairman of the Committee on Veterans' Affairs, I submit this letter on behalf of the Majority in response to the request of the Committee on the Budget that each standing committee submit views and estimates on all matters under its jurisdiction by February 23, 2005, with regard to the President's budget request for fiscal year 2006. The Ranking Minority Member of the Committee will submit a separate letter on behalf of the Minority. With its core values-based assessment of the budget submission for veterans' programs, the Committee on Veterans' Affairs is aware of the difficult choices that must be made at a time when our Nation is at war and faces fiscal constraints.

In establishing priorities for veterans' services and assistance, Congress believes that the same military values that guided servicemembers on active duty should define how services and assistance are provided to them now as veterans. These values are similar for all of the Armed Services: Navy – *Honor, Courage, Commitment*; Marine Corps – *Honor, Courage, Commitment*; Army – *Loyalty, Duty, Respect, Service, Honor, Integrity, Courage*; Air Force – *Integrity First, Service Before Self, Excellence in All that We Do*; Coast Guard – *Honor, Respect and Devotion to Duty*.

Congress restructured the Department of Veterans Affairs (VA) health care system in 1996 to include health care for lower priority, nonservice-connected categories of veterans based on their need and means to pay for those services, and to the extent resources and facilities were available. The 1996 veterans health care eligibility reform of Public Law 104-262 was based on assumptions that providing VA health care to lower priority veterans would be "budget neutral" and at best "revenue enhancing." These assumptions have now proven to be in error. The VA has \$3 billion in uncollected debts. Therefore, it is time for Congress to focus its commitment to veterans based on the clear priorities and ageless military values that should define the VA health

care system. It is contrary to these values to have a system that allows nonservice-connected veterans to compete with service-connected disabled veterans for health care. While we always honor service in and of itself, we should consider the effect of that service on the individual veteran to determine our priorities for VA health care. It follows, then, that disabled, injured, low income, and special needs veterans are to be given priority for their health care.

The prospect is for continuing high levels of demand for government services and assistance, both from veterans of past wars and from servicemembers returning from Iraq, Afghanistan and other fronts of the war on terror. This has led our Committee to begin a comprehensive reevaluation of the programs of the VA and the Veterans' Employment and Training Service at the Department of Labor. The Committee's objective is to ensure that the veterans most in need – those who are disabled, injured, low income, or have special needs – have priority for appropriate services and assistance. The Committee intends to protect the investment of tax dollars in veterans' programs by holding executive departments accountable for their performance by stressing quality and timeliness, and by requiring measurable performance outcomes and streamlining infrastructure.

The President requests a total of \$70.8 billion, including collections, for the fiscal year 2006 veterans' budget, an increase of \$1.5 billion in budget authority. The President requests \$37.4 billion for fiscal year 2006 in mandatory funding for veterans' disability compensation, pension, education, vocational rehabilitation and employment, housing, life insurance, and burial programs. Discretionary programs would receive \$33.4 billion, including \$30.7 billion for veterans' medical care. The President proposes an overall increase in discretionary budget authority of \$880 million, including collections.

The Committee recommends for fiscal year 2006 an increase in discretionary funding for veterans' health care funding of \$317.2 million. The Committee believes an increase in this amount is warranted during the war on terror to ensure adequate health care and mental health services for returning servicemembers and a large population of aging veterans. This amount includes \$293.5 million to continue the strong State-Federal cost sharing partnership which currently exists for State Nursing Homes; \$215 million to offset a reduced estimate of achievable management efficiencies; and \$202.3 million to allow a more balanced and equitable enrollment fee system that takes into account the priority of care as set forth by Congress, and to maintain the current prescription drug co-payment at \$7. Further, the Committee recommends an increase in discretionary funding of \$12.6 million for medical and prosthetic research projects, and an additional \$45.6 million in minor construction to begin a five-year, \$300 million National Shrine Commitment project to repair and restore existing national cemeteries. The Committee recommends an increase in mandatory funding of \$117 million that also allows a more balanced and equitable enrollment fee system and the current prescription drug co-payment amount. The total mandatory and discretionary budget increase for fiscal year 2006 recommended by the Committee is \$434.2 million.

Disability Compensation. – The President requests \$29.8 billion in mandatory funding for compensation payments by the Veterans Benefits Administration (VBA) to disabled veterans, certain survivors and eligible dependent children. The President requests \$751 million in

discretionary funding for administrative expenses and 7,628 full time equivalent employees (FTEE), an increase of 113 FTEE over fiscal year 2005. Also, the President requests \$4.9 million to support new and continuing initiatives to provide better customer service through improved accuracy and access to benefits. The President's request includes a full cost-of-living adjustment (COLA), the same as the Social Security COLA, and estimates it will be 2.3 percent. The Committee supports the President's requests.

Pension Program. – The President requests \$3.5 billion in mandatory funding for pension payments to eligible veterans, and \$147.7 million in discretionary funding for administrative expenses and 1,459 FTEE, an increase of 15 FTEE over fiscal year 2005. The Committee supports the President's requests.

Education Service. – The President requests \$100.3 million in discretionary funding for administrative expenses and 874 FTEE for the Education Service, a decrease of 14 FTEE over fiscal year 2005. VA's education programs assist veterans in readjusting to civilian life by helping them afford a wide range of vocational training and higher education options. These programs also enhance the Nation's competitiveness through the development of a more highly educated and productive workforce. VA projects that participation in its education programs will increase by about 27,000 in 2006. Therefore, the Committee recommends an additional \$1.1 million in discretionary funding for fiscal year 2006 to maintain current staffing levels until the Education Service's new benefits management system, The Education Expert System (TEES), is fully deployed. TEES is designed to allow automated application and processing of VA education benefits to increase payment accuracy and meet VA's timeliness goals.

Vocational Rehabilitation and Employment Service. – The President requests \$147.1 million in discretionary funding to support 1,123 FTEE for the Vocational Rehabilitation and Employment program, an increase of 21 FTEE above fiscal year 2005. VA's Vocational Rehabilitation and Employment (VR&E) program provides services and benefits to more than 55,000 disabled veterans annually to enable them to obtain and maintain suitable employment to the maximum extent possible. VR&E also offers services and benefits for severely disabled veterans who do not have employment potential to achieve the ability to live independently. Performance in the VR&E program continues to be mixed, despite a VA task force established in 2003 to analyze the program's performance and to make recommendations to improve the program's outcomes. One of the main recommendations, the Five-Track Employment Process, focuses on finding suitable employment quickly. This would be a change from the current focus on long-term training and college-level education programs for over 90 percent of those receiving VR&E services and benefits. The Committee commends this concept and intends to monitor closely its implementation. While the Committee supports the President's request, the Committee expects continued improvement in achieving vocational rehabilitation performance goals.

Home Loan Guaranty Service. – The President requests \$156.7 million in discretionary funding for administrative expenses and 1,076 FTEE for this transition benefit. VA loan guarantees help veterans finance the purchase of a home with favorable loan terms and competitive loan rates.

As a result of outsourcing of the property management function and continued improvement in automation, this represents a decrease of 205 FTEE below fiscal year 2005 and enables redistribution of personnel to correct prior imbalances among VBA business lines. The Committee supports the President's request. The Committee believes that the amount of the adaptive housing grant for disabled veterans may be insufficient, and based on oversight findings, may propose an increased level of assistance.

Veterans Employment. – The President requests \$224.3 million for Veterans' Employment and Training Service (VETS) programs of the Department of Labor, a \$1.5 million increase above fiscal year 2005. The purpose of VETS is to promote employment and training opportunities for veterans. To do this, VETS administers grants to States, public entities and nonprofit organizations, including faith-based organizations, to help veterans find jobs. The most recent Bureau of Labor Statistics data from 2004 shows that veterans of the U.S. Armed Forces were more likely to be employed than nonveterans, with an overall unemployment rate of 4.6 percent, compared with 5.0 percent for nonveterans, but it is not clear that this is an outcome of the VETS state grant program. The Committee believes that the VETS state grant program to fund Disabled Veteran Outreach Program Specialists and Local Veterans Employment Representatives continues to under perform. The Committee notes that authorization for the Homeless Veterans Reintegration Program (HVRP), administered by VETS, expires at the end of fiscal year 2006. The law currently authorizes up to \$50 million per year for the program. HVRP is intended to provide shelter and a wide range of social and employment services to homeless veterans. The Committee will review the performance of the program as it considers reauthorization. The Committee supports the President's request with the qualifications discussed.

National Cemetery Administration. – The President requests \$170.5 million in mandatory funding for veterans burial benefits and payments, an increase of \$1.9 million over 2005, and \$289.7 million in discretionary funding, an increase of almost \$17 million over fiscal year 2005, for administrative expenses and 1,566 FTEE. The Committee supports the President's requests.

National Cemetery Construction. – The President also requests \$90.3 million for major and minor National Cemetery construction projects. Of the \$25 million for minor construction projects, \$14.4 million would address cemetery infrastructure improvements. Pursuant to Public Law 106-117, VA awarded a contract to Logistics Management Institute (LMI) to conduct an assessment of the current and future burial needs of veterans. The LMI study (Vol. 2), which includes photographs, reveals that many VA national cemeteries are in a deplorable state of disrepair after long neglect. The President requests \$14.4 million to address cemetery infrastructure improvements, but this request would not include any funding for 928 needed full-scale cemetery restoration and repair projects identified by the LMI study and estimated to cost \$279 million. Therefore, the Committee strongly recommends an additional \$45.6 million in minor construction funding for fiscal year 2006 to begin a five-year, \$300 million National Shrine Commitment project to repair and restore existing national cemeteries.

Board of Veterans' Appeals. – The President requests \$53.1 million in discretionary funding for administrative expenses and 434 FTEE, an increase of \$1.8 million above fiscal year 2005.

FTEE would be decreased by 6. The Board's pending appeals backlog at the end of January 2005 was 31,665. The Board is now considering original appeals that were entered into the docket in October 2003. If current trends continue, the number of appeals filed is projected to be higher than dispositions, and the Board's estimated disposition time will increase from 170 days at the end of 2004 to 391 days by the end of 2006. Without additional FTEE, the Committee is concerned that the pending appellate workload will continue to grow and the Board's disposition times will more than double by 2008. Such a deterioration of service would not allow the Board to meet its performance goals. The Committee recommends an additional \$6 million in fiscal year 2006 for an increase of 50 FTEE above the current level.

Veterans Health Care. – The President requests \$30.7 billion in discretionary funding for veterans' health care. The budget request focuses on the Veterans Health Administration's core medical care mission of caring for disabled, injured, low income, and special needs veterans. VA contracted with an actuarial firm, Milliman USA, and utilized modeling techniques similar to those used in the private sector to estimate the resources needed for veterans' health care in 2006. VA's estimates are based on benchmarks that are adjusted to reflect the age, gender, and morbidity of veteran enrollees, their reliance on VA versus other health care providers such as Medicare, and VA management practices. VA also uses health care inflation and utilization trends to develop cost and utilization projections. The Committee will review the modeling and estimating methods that are being employed in making budget projections and proposals.

Returning Servicemembers. – The Committee strongly supports the President's requests for a \$100 million and 627 FTEE increase in discretionary funding for mental health services, and for a \$100 million increase for Prosthetics and Sensory Aids. Thousands of servicemembers are returning from Iraq and Afghanistan. VA must be equipped to provide them with the health care services they need in order to make a successful transition to civilian life.

Medical Care Collections. – VA is authorized to bill some veterans and many health care insurers for nonservice-connected care provided to veterans enrolled in VA health care. These collections are retained in the Medical Care Collections Fund (MCCF) to defray costs of delivering VA medical services. VA projects medical care collections of \$2.2 billion in fiscal year 2006, an increase of 11 percent over fiscal year 2005. The Committee acknowledges VA's collection improvements in the past several years and supports VA's efforts to increase medical care collections. The Committee intends to continue oversight of VA's progress. The Committee recommends an additional \$5 million in discretionary funding for fiscal year 2006 to initiate a total patient financial services pilot program for improvement of medical care collections. The Committee expects to report authorizing legislation for such a pilot program.

Management Efficiencies. – The President's budget request includes management savings of \$1.8 billion in fiscal year 2006, an increase of \$590 million over the estimated savings in fiscal year 2005. The management savings are intended to partially offset the overall cost of VA health care. While the VA has made progress in implementing management efficiencies, the Committee is not confident that savings of this magnitude can be achieved during the fiscal year and recommends that the budget assume only \$375 million in additional efficiencies. The

Committee recommends that discretionary funding for veterans' health care be increased by \$215 million, because in its view, management efficiencies are overestimated.

Medical and Prosthetic Research. – The President requests \$786 million in discretionary funding for Medical and Prosthetic Research, an increase of \$2 million over the 2005 fiscal year level. The Committee recognizes the significant benefit of VA research to improve the clinical treatment needs of veterans and recommends an additional increase of \$12.6 million for medical and prosthetic research projects. The Committee also intends to review the extent to which VA's research programs meet the statutory requirement for conducting research into the injuries and illnesses related to military service.

Major Medical Construction Projects. – The President requests \$750 million for major and minor construction projects. The Committee concurs with the President's request. The Committee expects increased cost sharing activities between the Departments of Veterans Affairs and Defense, and compliments the ongoing sharing projects in Anchorage, Alaska, and El Paso, Texas. The Committee intends to review the progress of planning for sharing and joint activities for future medical facilities in Denver, Colorado; Charleston, South Carolina; and Las Vegas, Nevada.

State Veterans Nursing Homes. – The President proposes legislation to revise eligibility criteria for VA sponsored long-term care in State nursing homes. However, there is a long-standing partnership between VA and States for cost-sharing in caring for veterans in State nursing homes. Further, VA's per diem reimbursement to the States for nursing home care compares favorably to the cost of VA operated and community nursing homes. Therefore, the Committee does not expect to act on the legislative proposal.

Emergency Care for Insured Veterans. – The President proposes legislation to authorize VA to reimburse eligible insured veterans for out-of-pocket expenses for emergency care obtained outside of VA's health care system, less the co-payment the veteran would have paid for care within VA. The Committee does not agree that VA should cover such additional expenses and does not expect to act on this proposal.

Homeless Veterans. – The President's budget requests \$1.33 billion to provide for the treatment, rehabilitation and residential needs of homeless veterans, a \$30.4 million increase over fiscal year 2005. A \$13 million increase in spending for the Homeless Grant and Per Diem (GPD) program is included in this amount. The President also proposes legislation to permanently authorize the GPD program and increase the authorized funding level from \$99 million to \$130 million. The GPD program has sustained significant growth in recent years, with expenditures increasing from \$19.6 million in 2000 to an estimated \$86 million in 2005, over a 400 percent increase. The Committee is concerned that VA's estimate of the number of homeless veterans in 2000 was about 250,000 and currently remains about the same. Therefore, the Committee intends to address the need for better census data and performance outcome measures, and recommends maintaining the GPD program at the fiscal year 2005 level.

Magnet Recognition Program. – The American Nurses Credentialing Center’s Magnet Recognition Program recognizes health care organizations that provide successful professional nursing practices and excellence in nursing care. Magnet Recognition is the organization’s highest level of recognition. The Committee recognizes the importance of VA medical centers establishing magnet status to recruit and retain nursing personnel, and to support a proven level of quality patient care. All VA medical centers should attain magnet status. The Committee recommends an increase in discretionary funding of \$700,000 to allow 20 facilities to achieve this objective. The Committee will consider the legislative proposal on pay comparability for the Director of Nursing Programs when significant progress toward magnet status has been achieved.

Education and Training Programs on Medical Responses to Consequences of Terrorist Activities. – The Committee strongly recommends an additional \$5 million to better support the training of current and future health care professionals in diagnosis and treatment of casualties exposed to chemical, biological or radiological agents, as authorized by Public Law 107-287.

Enrollment Fees and Co-Payments. – The President proposes to require Priority 7 and 8 veterans to assume a greater share of the cost of their health care by paying an annual enrollment fee of \$250 and higher co-payments for prescription drugs, from \$7 to \$15 for a 30-day supply of medication. These lower priority veterans do not have service-connected disabilities, have higher incomes, and as a group are better insured than enrollees in Priorities 1-6. The increased cost-sharing for Priority 7 and 8 enrollees is estimated to generate \$424 million in fees. In order to correct the inequity between DOD TRICARE beneficiaries, who pay an enrollment fee and deductibles and who have higher co-payments, and Priority 7 and 8 non-compensable or nonservice-connected veterans who currently have no enrollment fee or deductible and a lower co-payment, the Committee recommends a \$230 enrollment fee for Priority 7 veterans; however, at this time, the Committee recommends maintaining the present co-payment level for prescription drugs and will not institute a deductible. The Committee recommends a four tiered enrollment fee for Priority 8 veterans based on their income above the geographic means test. The fees would be: Tier 1 -- \$230; Tier 2 -- \$250; Tier 3 -- \$350; Tier 4 -- \$500. The Committee will work with VA to achieve the appropriate income tiers. These enrollment fees would apply to both veterans who are currently enrolled and new enrollees.

Co-payment for Hospice Care. – The President proposes legislation to eliminate required co-payments for hospice care provided in a VA setting. Public Law 108-422 authorized a similar exemption for hospice care delivered only in VA nursing homes. The Committee expects to act on the legislative proposal.

Co-payment for Former Prisoners of War. – The President proposes legislation to exempt former prisoners of war (POWs) from required co-payments for extended care services. The Committee expects to act on the President’s legislative proposal that recognizes the extreme sacrifices of former POWs.

First Party Offset. – The President proposes legislation to clarify that first party co-payment obligations should not be offset by third party reimbursements. Acceptance of this proposal

February 23, 2005

would improve VA's operational performance and reduce administrative burdens. The Committee expects to act on this legislative proposal.

Information Technology. – The President requests approximately \$1.9 billion for information technology (IT) programs throughout VA. VA management of IT programs has been ineffective as a result of their current organization. For example, last year VA experienced the failure of a \$372 million financial management and logistics integration project, CoreFLS, in Bay Pines, Florida. The Department's Chief Information Officer (CIO) subsequently testified before the Committee that VA's IT programs are being reviewed. Therefore, the Committee recommends a reduction of \$400 million for VA information technology programs until the CIO has completed the review. The Committee will consider legislation to provide the CIO direct line and budget authority over the IT budget and associated personnel within the entire Department.

Office of Inspector General. – The President requests \$70.9 million for administrative expenses and 468 FTEE for VA's Office of the Inspector General (OIG). The Committee recommends an increase in funding of \$7.8 million and an additional 37 FTEE to support the OIG's fugitive felon program. This effective program has provided a return on investment of 30:1 and should be provided additional resources.

The Committee believes that its recommendations provide the budgetary resources for veterans' programs necessary to fulfill the Nation's obligations for fiscal year 2006.

Sincerely,



STEVE BUYER
Chairman