

STATEMENT OF ANTHONY J. PRINCIPI
SECRETARY
DEPARTMENT OF VETERANS AFFAIRS
BEFORE THE HOUSE COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON BENEFITS
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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify today on H.R. 801, the "Veterans' Opportunities Act of 2001". We also appreciate the opportunity to comment on the Department of Veterans Affairs' (VA) implementation of section 601 of Public Law 105-368, which established the Pilot Program for VA Guaranteed Loans for Multifamily Transitional Housing for Homeless Veterans.

H.R. 801

First, Mr. Chairman, I would like to provide VA's views on H.R. 801. This is an omnibus bill consisting of three titles that would make changes affecting veterans' education benefits, outreach, and memorial affairs. Many of the changes, though modest in reach, appear significant and beneficial in purpose.

We estimate that H.R. 801 would result in additional benefits cost that, if not fully offset in accordance with the pay-as-you-go (PAYGO) provisions of the Omnibus

Budget Reconciliation Act of 1990, would trigger a sequester. Subject to meeting PAYGO requirements, however, VA supports most provisions of this worthwhile measure, as discussed below.

TITLE I – EDUCATIONAL ASSISTANCE PROVISIONS

Section 101 would increase, from \$2,000 to \$3,400, the maximum allowable annual scholarship a participant in the Senior Reserve Officers' Training Corps (SROTC) program may receive and still be eligible for benefits under the Montgomery GI Bill (MGIB). Before the current \$2,000 ceiling was enacted, officers who had received a commission upon completion of ROTC training were barred from participating in the Montgomery GI Bill (MGIB). The purpose of the bar was to avoid having the Federal government pay for an ROTC cadet's undergraduate degree and then pay for additional education under the MGIB, sometimes based on the same active duty service. However, it became recognized that an increasing number of ROTC students were receiving only partial scholarships, and it seemed unreasonable to apply the "double dip" provision to them. Hence, the statute was amended to allow ROTC students who entered active duty after September 30, 1996, to participate in the MGIB, provided they received less than \$2,000 each school year from their ROTC scholarship.

We agree the current limit is too low. The average scholarship now is reported to be \$3,400 annually. Therefore, amending the law to raise the amount the ROTC cadet can receive each year to that level is a reasonable accommodation.

VA estimates there would be no costs associated with the enactment of this section of H.R. 801.

Section 102 of the bill would increase VA work-study program opportunities by expanding the types of services that may be authorized, to include services for State approving agencies; services related to an individual's academic discipline, performed for the department of the educational institution having jurisdiction for that discipline; and services for State veterans' homes that receive funds from VA. These amendments would be effective on the date of enactment.

Under current law, VA work-study students are limited to performing outreach, preparing or processing necessary VA paperwork at schools or VA facilities, and assisting in VA hospitals and domiciliaries or working at DOD facilities (in certain circumstances). While this limitation on authorized services may have been appropriate when enacted, it now appears to be an impediment both to program participation and effective provision of needed services to other veterans.

For example, we hear from veterans and school officials alike, that, with the ever-increasing costs of education, some veterans have a real need for greater access to resources that can supplement their MGIB benefits. Work-study students have complained about the limited opportunities available to perform the specific services

allowed by law. Small schools can only offer a limited number of positions. Many schools are far from a VA facility, thus shutting out would-be participants.

Mr. Chairman, we believe it is in keeping with the purposes of the VA work-study program that veteran work-study students be provided this additional educational assistance allowance for performing services that do not just narrowly relate to VA activities, but that broadly help other veterans. This proposal would expand the opportunities now available and would not deviate from the purpose of the benefit program. Consequently, we would welcome a statutory amendment permitting VA work-study students to perform in the aforementioned arenas.

Our preliminary cost estimate indicates that section 102 would result in benefit costs of less than \$1.9 million in FY 2002, with a 5-year benefit cost of about \$9.6 million for FYs 2002-2006.

Section 103 of H. R. 801 proposes to amend the definition of "educational institution" to include any entity that provides, directly or under agreement, training required for a license or certificate in a vocation or profession in a technological field. It would become effective the date of enactment.

The law defines a "program of education" as a curriculum or combination of unit courses or subjects pursued at an educational institution which is generally accepted as necessary for the attainment of a predetermined and identified educational, professional, or vocational objective. A program of education may be offered at either an institution of higher learning or a non-college degree school. Presently, the law does not permit VA to award benefits for courses offered by commercial enterprises whose

primary purposes are other than providing educational instruction. Certified Network Administrator (CNA) and Certified Network Engineer (CNE) courses offered by Novell, Microsoft, and other companies, for example, are offered either through educational institutions or by designated business centers. Although the courses are identical, regardless of where offered, only those veterans pursuing the courses at an educational institution may receive educational assistance.

This bill would allow VA to award benefits to those veterans taking these courses at a business site. This would permit approval of courses offered by businesses only when the courses are needed to fulfill requirements for the attainment of a license or certificate generally recognized as necessary to obtain, maintain, or advance in employment in a profession or vocation in a technological occupation. We believe providing educational benefits for pursuit of these courses is fully consonant with MGIB purposes, and, given the bill's conditions on approving the courses, adequate safeguards would exist against potential abuse. Consequently, we would support this provision of the bill.

Our preliminary cost estimate indicates that section 103 would result in benefit costs of about \$3.4 million in FY 2002, with a 5-year benefit cost of about \$17.6 million for FYs 2002-2006.

Section 104 would expand the special restorative training (SRT) benefit provided under the chapter 35 Survivors' and Dependents' Educational Assistance program to include certain disabled spouses or surviving spouses. Presently, eligible children entitled to chapter 35 assistance may receive SRT to overcome or lessen the effects of

a physical or mental disability and enable them to undertake a program of education. This same benefit should be extended to the eligible spouse or surviving spouse when there is a reasonable possibility that the handicapping effect of his or her disability can be overcome or lessened through an SRT course. The purpose of such training should be to prepare the person for subsequent education or training. Further, there must be an indication that the person is having difficulty selecting a program because of the disability.

We support this provision of the bill.

Our preliminary cost estimate indicates that section 104 would result in benefit costs of less than \$11,000 in FY 2002, with a 5-year benefit cost of almost \$54,000 for FYs 2002-2006.

Section 105 would permit eligible veterans to receive VA education benefits, effective on the date of enactment, while pursuing noncollege-degree courses that are offered through independent study by institutions of higher learning.

Currently, an eligible veteran may receive educational assistance allowance for pursuit of an accredited independent study program (distance learning), provided that the program leads to a standard college degree. There must be interaction between the student and the faculty by mail, telephone, video conferencing, computer technology (including electronic mail), or personally.

This bill would allow the approval of distance education programs leading to a certificate offered through independent study by institutions of higher learning. This would be similar to the requirements for approval of independent study courses that

lead to a degree, except this provision doesn't specify that the institution of higher learning be accredited . A veteran's educational opportunities currently are limited by the inability to pursue certificate programs offered by independent study. We agree that this should be changed. Nevertheless, as a safeguard to help assure the merit of such training, approval of courses offered by independent study and leading to a certificate should be limited to those offered by an accredited institution of higher learning. We would support this section with such modification.

Our preliminary cost estimate indicates that section 105 would result in benefit costs of about \$1.3 million in FY 2002, with a 5-year benefit cost of almost \$7 million for FYs 2002-2006.

Section 106 of H.R. 801 would add several technical amendments.

(a) The first amendment would rework an ambiguity in the law concerning the period of active duty an individual must serve to become entitled to MGIB benefits consistent with the tiered benefit structure in effect before the enactment of Pub. L. 106-419. Until the enactment of that law, individuals who served at least 3 continuous years of an initial obligated period of 3 or more years established eligibility for MGIB at the highest rate. Those who served an initial obligated period of 2 years received a lesser rate. Pub. L. 106-419 sought to extend eligibility to people whose qualifying period of active duty service was other than the initial obligated period, without affecting requirements as to the length of such service. In so doing, however, it inadvertently amended the

statute to read, in effect, that a person who agrees to serve an obligated period of more than 3 years, under section 3011(a)(1)(A) of title 38, U.S.C., must serve that entire obligated period, not merely 3 years thereof. This amendment makes it clear that the individual need complete only 3 continuous years of active duty to establish full MGIB entitlement. This amendment also clarifies that a person who agrees to serve at least 2, but less than 3, years of active duty may become entitled to the MGIB when that person serves for at least 2 continuous years. This provision would be effective retroactive to November 1, 2000. Since this merely corrects a technical error in Pub. L. 106-419, we support this provision.

(b) The second correction would change the way in which MGIB entitlement would be charged for service members who use such entitlement to “top up” their military tuition assistance. Pub. L. 106-398 provided this new opportunity to use the MGIB benefit. Operationally, however, it provided that service members who used the “top up” assistance would retain 36 months of MGIB entitlement, but the monthly rate for that entitlement would be reduced by subtracting the total amount of “top up” money paid from the total the individual was otherwise eligible to receive, and dividing the result by 36. The technical amendment would more accurately measure the use of MGIB benefits for this purpose, as contemplated in Pub. L. 106-398, by having the monthly rate remain constant while the individual’s available months of MGIB entitlement would be reduced by dividing the total amount received in “top up” money by the monthly rate payable.

In other words, similar to the manner in which entitlement is charged for flight training, for each \$650 paid to a service member with a service obligation of 3 years or more, entitlement would be reduced by one month. This would greatly simplify operations and more accurately and understandably assess use of MGIB benefits for “top up” purposes. Therefore, we strongly support this amendment.

(c) The third amendment would clarify the timing and amount of additional monies a service member can contribute to augment his or her monthly rate of MGIB benefits, and provide that the contributions would be collected by the Secretary of the appropriate military department. The law, as amended by Pub. L. 106-419, currently provides that a service member can contribute up to \$600 to increase the monthly MGIB rate. That contribution can be made at any time, in multiples of \$4. Thus, extended to the extreme, the individual could contribute \$4 several times each day. Moreover, current law could be read to require VA to increase the monthly rate effective when each \$4 contribution is received. This is nearly impossible for VA to administer. The H.R. 801 amendment would provide that the contributions could be no more frequent than once per month and must be in multiples of \$20. Further, the increased monthly rate would go into effect on the first day of the enrollment period following receipt of the contribution. These changes are reasonable and would make the benefit augmentation

provision feasible to administer. Consequently, we strongly favor this technical amendment.

(d) The fourth amendment would provide that the amount of contributions made to augment an individual's monthly MGIB benefit would be included in determining the amount of the MGIB death benefit payable to an individual's survivors, in the same manner as would the \$1200 pay reduction. Since this would be in keeping with the purpose of the death benefit, we support this amendment. However, we note that the \$1200 pay reductions included in 38 U.S.C. 3018A, 3018B, and 3018C have never been included in the death benefit, while Pub. L. 106-419 made such provision for pay reductions under 38 U.S.C. 3018C(e). Accordingly, we suggest it would be appropriate at this time to include all such pay reductions in the death benefit.

(e) Pub. L. 106-419 provided that some children eligible for educational assistance under the DEA program could elect the beginning date of their period of eligibility. This provision was enacted to overcome a situation where the child might lose much of the eligibility period while awaiting VA's decision on whether the parent's service-connected disability is permanent and total or the parent's death was service-connected. However, by requiring that the child make the election between ages 18 and 26, the law prohibits an election where it is clearly needed.

For example, assume a veteran dies when the child is age 23. VA doesn't decide that the death is service-connected until after the child's 26th birthday. This child currently cannot make an election. H.R. 801 would overcome this by providing that the election could be made no later than the end of a 60-day period beginning on the day VA notifies the child of the right to make an election. This overcomes a clear inequity in the law and, consequently, has our full support.

VA estimates there would be no costs associated with the enactment of this section of H.R. 801.

TITLE II – TRANSITION AND OUTREACH PROVISIONS

Section 201 contains three provisions that would affect VA's Transition Assistance Program responsibility. The first of these would require VA to provide aid and assistance, as described in section 7722(d) of title 38, United States Code, to service members as part of their transition assistance programs, under section 1144 of title 10, United States Code. This amendment, in effect, would mandate in title 38 what VA now is doing by interagency agreement to implement the Transition Assistance Program (TAP) established under title 10.

[Under section 1144, the Departments of Labor \(DOL\), Defense \(DoD\), and Veterans Affairs have entered into a Memorandum of Understanding \(MOU\) outlining joint, as well as individual agency responsibilities. Under this MOU, VA is responsible](#)

for providing a point of contact and coordinators; highly qualified benefits counselors, instruction aides and course materials for each participant at locations where the program is conducted; a VA training curriculum and support to the National Veteran Training Institute and DOL TAP staff; as well as guidance on the role of all veterans' service organizations. VA is also responsible for monitoring its TAP and Disabled Transition Assistance Program (DTAP) delivery to maintain a high-quality program. Program responsibility is assigned to the Demand Management Staff, Compensation and Pension Service. It should be noted that the last MOU was signed in December 1994, and that the Agencies' program coordinators are working together in developing an updated MOU. However, no major changes are anticipated in VA responsibilities.

During FY 2000, VBA military services coordinators conducted over 5,200 briefings through the Transition Assistance Programs, Retirement Services Program, and other separation activities. Over 214,000 service members and spouses attended these programs. Almost 89,000 personal interviews were conducted with active duty personnel during that same period.

VA, thus, is fully committed to its TAP responsibilities. We believe this provision merely may be intended to reaffirm that commitment. Nevertheless, we are concerned that the provision, as drafted, creates an independent mandate for VA that could limit our flexibility in providing TAP services in conjunction with our other partners, DOL and DoD. We would be pleased to work with the Committee staff to clarify the intent of this provision.

The second provision of section 201 requires VA to establish offices on military installations outside of the United States as VA determines necessary. Currently, VA provides transition assistance services to overseas active duty personnel through VBA's Overseas Military Services Program (OSMP). This program operates under a separate Memorandum of Agreement between the Departments of Defense and Veterans Affairs. Under the OSMP, VA representatives are placed at key transition sites in Europe and the Far East. These are temporary tours of duty logistically supported by the DoD which include office space, lodging, per diem, and travel costs. During 9 months of coverage provided in FY 2000, overseas military services coordinators conducted 414 briefings, attended by almost 11,000 active duty personnel and spouses. In addition, overseas military services coordinators conducted over 4,400 personal interviews with service members.

Expanding overseas transition assistance services with permanent VA Offices located on military installations would allow us to extend the Benefits Delivery at Discharge program to service members being separated overseas. Through the Benefits Delivery at Discharge program, VA assists service members in filing claims with the ultimate goal of rating cases and awarding benefits within 30 days of the member's discharge from service. Benefits Delivery at Discharge programs are currently operational at 114 military installations in the United States. During the first quarter of FY 2001, VA conducted over 8,000 pre-discharge examinations and finalized nearly 5,000 claims through the Benefits Delivery at Discharge program.

Although we have no objection to being given express statutory authority to maintain offices on Armed Forces installations overseas, we find that, as with the previous provision, the mandatory language of this provision does not allow VA sufficient discretion in our use of resources. Again, we would be pleased to work with the staff to draft appropriate language to effect the objective here.

The third provision of section 201 would clarify VA's authority, under section 7724 of title 38, to outstation VA personnel on military installations to provide counseling and outreach services to veterans and other eligible persons. We have read section 7724 broadly as already giving VA that authority, and further note that section 701 of Public Law 102-83 also gives VA this authority for purposes of providing information and assistance concerning veterans' benefits to service members approaching discharge or release from active military, naval, or air service. Moreover, since the implementation of the pilot Transition Assistance Program (TAP) in 1990 (PL 101-237) and the permanent TAP established under PL 101-510, VBA military services coordinators have been located at many military bases throughout the country to provide transition assistance. Thus, this provision would not seem necessary. Nevertheless, we have no objection to the addition of this explicit authority in title 38.

VA estimates there would be no costs associated with the enactment of this section of H.R. 801.

Section 202 provides for pre-separation counseling by Department of Defense personnel of each member of the armed forces whose discharge or release from active

duty is anticipated. Since this is a matter within their purview, VA defers to the DoD on this provision.

Section 203 of H.R. 801 would require each State approving agency (SAA) to conduct outreach programs and provide outreach services to veterans and eligible persons about education and training benefits available to them under federal or state law. Both VA and the SAA's believe such information is important in helping service members and veterans decide how to best use their benefits. Consequently, many SAA's are already doing this as an ancillary duty. We support this provision since it would require the remaining SAA's to begin outreach efforts. We recognize it is possible that SAA's staffed by only one or two persons may have difficulty taking on this added function. Consequently, if this provision were enacted, we would monitor these SAA's to assure it would have no adverse impact on their ability to perform their approval and oversight duties.

VA estimates there would be no costs associated with the enactment of this section of H.R. 801.

Section 204 would expand VA's responsibilities in providing outreach to potential beneficiaries who are eligible dependents of veterans. Specifically, this provision would broaden the definition of eligible dependents to include all spouses, surviving spouses, children, and dependent parents of persons having active service. The provision would also add a new section to title 38 for the stated purpose of ensuring that the needs of eligible dependents are fully addressed. The new provision would require the Secretary to ensure that the availability of outreach services and assistance for eligible

dependents is made known through a variety of means, including the internet, announcements in veterans' publications, and announcements to the media. We agree with the importance of providing outreach to the broadest spectrum of eligible dependents and already have undertaken efforts to reach spouses, surviving spouses, children, and dependent parents of veterans.

In the past, VA has been given latitude in the design, direction, content, and structure of outreach programs. Section 7727 provides specific direction as to the methods to be used for outreach to eligible dependents, to include use of the internet, announcements in veterans' publications, and announcements to the media. The internet has greatly expanded our ability to reach and assist veterans and their dependents. Through VA websites, veterans and dependents can obtain extensive information about VA benefits, print benefit applications, request additional information, or get assistance with specific claim issues. Through the Veterans On-Line Application, veterans can now apply for some benefits on-line. VA also fully utilizes the news media to make targeted groups aware of VA benefits and services. For example, in support of VA efforts to expand outreach to Vietnam veterans exposed to Agent Orange, the North American Precipitation Syndicate (NAPS) Veterans Day Package prepared by the Office of Public Affairs featured an article on Vietnam Veterans and Agent Orange. Camera ready copies were sent to 10,000 newspapers and as a script to several thousand radio and TV stations. Thus, although we favor the objective of section 204, such legislation is not necessary to assure that we will engage in suitable outreach efforts directed toward eligible dependents.

Section 205 would also expand VA's outreach responsibilities by requiring that, whenever a veteran or a dependent first applies for any VA benefit (including a request for burial or related benefits, or an application for life insurance proceeds), the Secretary provide to the applicant information concerning VA benefits and health care services.

VA agrees that outreach to veterans and their dependents is an important part of its mission. We believe our current outreach efforts comply with the intent of the proposed legislation, which is to ensure that veterans and dependents are aware of and understand available benefits and services and are provided timely and appropriate assistance to aid and encourage them in applying for and obtaining such benefits and services.

We assume it is intended that a common-sense approach be taken to administering this provision. In particular, we note that it would require us to provide to a veteran or dependent information concerning benefits and health care services when that person first requests burial or burial-related benefits. This typically would occur when a family member, usually with the help of a funeral director, makes arrangements for the burial of a loved one at a national cemetery or orders a headstone or marker for a loved one. We do not believe that this is the appropriate time to provide a veteran or a dependent information concerning eligibility for other benefits and services. This is a very sensitive period for grieving family members, and we do not believe the process should be encumbered with requirements for provision of information that the family members may not desire at that time. Nonetheless, we support the objective of section 205 and would not oppose its enactment if it were made clear the Department had the

flexibility to use its discretion in the timing and manner of providing information so as to be sensitive as to the needs of the veteran's family members.

We estimate that enactment of section 205 would result in an administrative cost to the National Cemetery Administration of \$250,000 annually. This estimate is based on 325,000 initial contacts annually by veterans and their dependents seeking burial benefits and includes the cost of postage and printing of informational brochures. Additional costs would be incurred by the Veterans Benefits Administration and the Veterans Health Administration. We request that language be included in this provision to authorize VA to use amounts appropriated for compensation and pensions to carry it out.

TITLE III – MEMORIAL AFFAIRS, INSURANCE, AND OTHER PROVISIONS

Section 301(a) would increase the burial and funeral-expense allowances payable for service-connected deaths from \$1,500 to \$2,000 and for nonservice-connected deaths from \$300 to \$500. Section 301(b) would increase, from \$150 to \$300, the plot allowance payable for veterans buried in State or private cemeteries. Pursuant to section 301(c), these amounts would be indexed to increases in Social Security benefits under section 5312 of title 38. The initial increases in the various rates

would be applicable to deaths occurring on or after the date of enactment of this legislation.

The adequacy of the current rates must be judged in the context of the overall package of burial benefits available to veterans, and with reference to other competing needs for finite budget dollars. The Government has responded to veterans' burial needs in recent years by establishing several new National Cemeteries and by significantly enhancing the grant program under which State veterans cemeteries are established. The State Cemetery Grants Program now provides up to 100 percent of the costs of construction associated with the establishment, expansion, or improvement of state veterans cemeteries. This partnership between VA and the states helps to support the Department's strategic goal of providing veterans with reasonable access to burial in a veterans cemetery. Since the 1998 enactment of Public Law 105-368, which in effect increased the permissible grant amount from 50 to 100 percent of construction costs, there has been an increased interest from the states in the program, as reflected in the increased number of pre-applications received.

Given the expanding availability of burial options within both National and State veterans cemeteries, and the competing demands for scarce VA resources, we can at this time support only that portion of Section 301 that would increase to \$2,000 the burial and funeral-expense allowance for service-connected deaths. The last increase (from \$1,000 to \$1,500) occurred in 1988. The greatest obligation is owed to the families of those who have paid the ultimate price for their service, and we believe such an increase is warranted in their case.

Our preliminary cost estimate indicates that section 301 would result in benefit costs of \$35 million in FY 2002 and a total benefit cost of \$201 million for FYs 2002-2006. We estimate that an increase in only the service-connected burial allowance, from \$1,500 to \$2,000, would result in benefit costs of \$5.3 million in FY 2002 and a 5-year benefit cost of \$31.7 million.

Section 302 would add a new section to title 38 to provide automatic Servicemembers' Group Life Insurance (SGLI) coverage to the spouses and certain children of insured, full-time, active-duty servicemembers. Section 302(b)(1) would provide \$10,000 of SGLI coverage for children of eligible servicemembers. This section also would provide a maximum of \$100,000 of SGLI coverage for the spouse of an eligible servicemember unless the servicemember elects not to insure the spouse or to purchase coverage in an amount less than \$100,000 (in a multiple of \$10,000) not to exceed the amount of the servicemember's SGLI coverage.

SGLI coverage for family members would end upon: (1) the written election of the servicemember; (2) 120 days after the member's death; (3) the date on which the servicemember's SGLI coverage is terminated; (4) the date of the dependent's death; or (5) 120 days after the date on which the insured's status as the child or spouse terminates. If a spouse's coverage were terminated by one of these events, the spouse would have the option to convert the SGLI coverage to commercial coverage.

The Secretary of Veterans Affairs would have the authority to set premiums for spouses. No premiums would be charged for SGLI coverage for children. The military departments and the Departments of Transportation, Commerce, and Health and

Human Services, in consultation with VA, would be required to take action to ensure that every servicemember on active duty during the period between enactment of this legislation and the effective date of the bill is furnished information about family SGLI coverage and provided an opportunity to make an election.

VA defers to the Department of Defense regarding the need to offer family SGLI coverage to insured, active-duty servicemembers. VA, however, has a few technical concerns with section 302 as drafted that relate to VA's administration of the SGLI program. New section 1967A would use the term "spouse" and "dependent spouse" interchangeably, but there is no definition of the term "dependent" in the draft bill. In addition, that section uses the terms "dependent" and "insurable dependent" interchangeably.

With regard to termination of a spouse's SGLI, section 302(c)(1)(D) would provide inconsistent time frames for terminating SGLI coverage. New section 1968(a)(5)(A) and (B)(ii) would provide that coverage would terminate immediately upon the member's election or upon termination of the member's SGLI coverage. However, new section 1968(a)(5)(B)(i) and (iv) would provide that coverage would terminate 120 days after the member's death or termination of status as an insurable dependent. In order to maintain consistency, VA recommends that section 302(c)(1)(D) be amended to provide in section 1968(a)(5)(A) and (B)(ii) that coverage would terminate 120 days after an election by a member or termination of an insured's SGLI coverage. VA further recommends that section 302(f) be amended by adding a

sentence to new section 1968(b)(3)(A) stating that the individual policy of insurance would be effective the day after the spouse's SGLI terminates.

Section 302(e) would amend 38 U.S.C. § 1970 by adding a new subsection (h). However, section 1970 currently includes a subsection (h). VA therefore recommends that section 302(e) be amended by redesignating the new subsection it would add to section 1970 as subsection (i).

Finally, section 1968(b), as amended by section 302(f), would provide that, upon the election of a spouse, an SGLI policy "may be converted to an individual policy of insurance as described in" 38 U.S.C. § 1977(e), which pertains to conversion of Veterans' Group Life Insurance (VGLI) to an individual policy of insurance. In order to clarify that a spouse's individual policy would be issued under the same conditions as a plan to which a VGLI insured can convert, VA recommends that new section 1968(b)(3)(A) be amended to provide that the conversion policy would be issued without medical examination.

There would be no costs to the Government associated with section 302.

Section 303 would increase, from \$8,000 to \$9,000, the amount of monetary assistance VA may provide to a certain disabled veterans to facilitate their purchase of automobiles. This monetary allowance was last increased in 1998, from \$5,500 to the present level, by Public Law 105-178. In view of increases in the cost of motor vehicles that have occurred since that time, we believe the proposed increase is reasonable, and we support it.

Our preliminary cost estimate indicates that section 303 would result in benefit costs of \$1 million in FY 2002 and a total benefit cost of \$5 million for FYs 2002-2006.

Section 304 of H.R. 801 would increase the grants authorized by section 2101 of title 38, United States Code, to veterans with qualifying service-connected disabilities. These grants assist the eligible veterans make adaptations to their homes that are necessary because of the nature of the veterans' disabilities. The bill would raise the Specially Adapted Housing Grant, authorized by section 2101(a), from \$43,000 to \$48,000, and the Special Housing Adaptation Grant, authorized by section 2101(b), from \$8,250 to \$9,250.

The current grant amounts were set by Public Law 105-178, effective October 1, 1998. Cost data obtained by VA in 1998 showed that increases of up to \$50,000 and \$8500, respectively, would have been justified. In FY 2000, 99 percent of the veterans determined eligible for these grants used the maximum grant amount and, in most cases, required additional funding to complete their adaptations. Based on our initial research, we believe that the proposed increase in these grant amounts is necessary and appropriate to keep pace with increased costs.

VA, therefore, strongly supports the adjustments contained in H.R. 801. VA estimates that section 304 of H.R. 801 would have an annual cost of approximately \$2.74 million and a 5-year cost of approximately \$13.68 million.

Section 305 would revise standards for determining net worth for purposes of veterans' entitlement to nonservice-connected disability pension. The applicable provision of law, section 1522(a) of title 38, would be amended to include a requirement

that, in determining the corpus of the estate of a veteran, the value of the veteran's and the veteran's spouse's real property would be excluded if the property were used for farming, ranching, or similar agricultural purposes. Because this provision could result in disparate treatment for similarly situated claimants, we do not support it.

The change apparently is intended to benefit farmers or ranchers who may have significant real property holdings, but little available cash or other liquid assets and for whom the real property, while having commercial value, serves as a home.

We do not believe, however, that such claimants should be treated differently from other similarly circumstanced claimants who may own real property with commercial value that may be attached to or in close proximity to their places of residence (for example, a duplex home where one unit is used for rental purposes). In such a case, the value of the rental property (one half the value of the home) would be taken into consideration for purposes of determining the claimant's net worth, while at the same time the value of the agricultural property of another claimant that may equal or exceed the value of the former's duplex rental would be excluded. We believe such a result would be inequitable. In addition, we believe the proposed amendment would unduly add a significant level of complexity to determinations affecting claimants' net worth that would not serve to benefit veterans as a whole.

Section 305 is subject to the PAYGO requirements of the OBRA, and, if enacted, it would increase direct spending. Our preliminary cost estimate indicates that section 305 would result in benefit costs of \$18,286 in FY 2002 and a total benefit cost of \$399,796 for FYs 2002-2006.

Section 306 would make needed technical amendments to section 107 of title 38, to reconcile and clarify recent amendments made by Public Laws 106-377 and 106-419 that affect the rate of payment of burial benefits and compensation to certain Filipino veterans. These amendments are crucial to implementation of the provisions affected and should be enacted separately should passage of this bill be delayed.

There are no costs associated with these technical amendments.

TRANSITIONAL HOUSING PILOT PROGRAM

Mr. Chairman, you requested a status report on VA's implementation of the new guaranteed loan program for multifamily transitional housing projects for homeless veterans. This pilot loan program was established by Public Law 105-368, enacted November 11, 1998. Under this new program, VA is authorized to guarantee up to 15 loans with a maximum aggregate principal balance of \$100 million.

As you are aware, Mr. Chairman, the Office of Management and Budget recently agreed to waive Executive Branch policy contained in OMB Circular A-129 and permit VA to provide a 100 percent guaranty on these loans. Having just resolved this major issue, VA is able to resume its preparations for selecting the first projects to be financed under this program. We are hopeful that this selection process will be well under way by the last quarter of the current calendar year.

Due to the complex and unique nature of this new program, the statute mandated that VA enter into contracts for consulting services with organizations experienced with transitional housing projects. Although this program was established in 1998, VA did not receive funding for these contracts or the other administrative expenses until Fiscal Year 2000.

In January 2000, VA contracted with the consulting firm, Birch and Davis Associates, Inc. As part of their team, Birch and Davis included a subcontractor, Century Housing Corporation Corp., of Culver City, California. Century Housing has experience in the developing and financing of transitional housing for homeless veterans, including the Westside Residence Hall in Los Angeles, California, which we understand was the model on which this legislation was based.

The contractor made numerous recommendations regarding the structure and implementation of this pilot program. Among Century's recommendations was that VA provide a 100 percent guaranty. OMB, however, objected to that level of guaranty, since Executive Branch policy disfavors any loan guaranty in excess of 80 percent.

A loan guaranty program normally involves a party seeking financing from a commercial lender. VA assumed this would be the case under the pilot program. OMB advised us, however, that if the 100 percent guaranty were approved, the loans would be made by the Federal Financing Bank, a Government corporation under the general supervision of the Secretary of the Treasury.

Until the issues of the level of guaranty and who would fund the loans were resolved, VA could not proceed on developing the mechanics of this program. As we have noted, Mr. Chairman, OMB recently approved the 100 percent guaranty.

During the interim, however, VA continued with the planning process. The Under Secretary for Health approved the formation of two committees. These were:

- The Location Site Selection Committee (LSSC), which was tasked with identifying and recommending specific sites where VA would seek proposal for projects to be funded by the pilot program; and
- The Loan Guarantee Selection Committee (LGSC) which will be reviewing proposed projects and recommending to the Secretary which projects should be approved for a loan.

This is a limited pilot program, and a maximum of 15 loans may be made. VA does not believe it is feasible, at least initially, to fund more than two or three projects. After the initial projects are well under way, VA plans to review the process and make necessary administrative alterations before proceeding with the next round of projects.

We do not believe a Nationwide competition would be feasible. Therefore, we will be seeking proposals for projects in only a limited number of Metropolitan Statistical Areas (MSAs) designated by the Secretary. Therefore, the LSSC began its work during the summer of 2000, and developed criteria for determining the geographic areas where projects will be located. The LSSC then reviewed available data, and came up with

preliminary recommendations for selection of the initial MSAs. The committee's recommendations are now under review in the Department.

VA is now working with the Federal Financing Bank (FFB) on developing a Memorandum of Understanding between the Secretary and the FFB regarding the funding and guaranteeing of loans under this program. VA is also reviewing the contractor's recommendations to determine what changes may be necessary, since loans will be made by the FFB rather than commercial lenders.

VA's next steps will be:

- Finalize the administrative guidelines that will govern the initial loans;
- Acquire private-sector services necessary for the implementation of this program. While no final decisions have been made, we anticipate contracting for loan underwriting recommendations from a private lender experienced with financing multifamily housing projects for or low-income persons, and for a loan servicing and project oversight services; and
- Issuing requests for proposals in the highest priority MSAs.

We hope to be able to issue the initial RFPs before the end of the current fiscal year.

We must caution the Committee that this will be a slow process. We know the needs of homeless veterans are great and VA wishes to add the additional beds as quickly as possible. There is, however, no model for this type of federal loan guaranty

program, and, as we break new ground, we must be cautious. We must give developers sufficient time to draft workable proposals, and take the time to review all applications carefully. We must also be aware that constructing a new multifamily housing project would likely take two or more years.

We will, however, continue to move ahead on this important new program, and hope to have homeless veterans taking advantage of the new facilities as soon as reasonably possible.

Mr. Chairman, that concludes my testimony. I would be pleased to reply to any questions you or Members of the Subcommittee may have.