CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 25, 1999

S. 1059

National Defense Authorization Act for Fiscal Year 2000

As reported by the Senate Committee on Armed Services on May 17, 1999

SUMMARY

S. 1059 would authorize appropriations totaling $289 billion for fiscal year 2000 for the military functions of the Department of Defense (DoD) and the Department of Energy (DOE). It also would prescribe personnel strengths for each active duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts for 2000 would result in additional outlays of $284 billion over the 2000-2004 period. In addition, the bill contains provisions that would raise the costs of discretionary defense programs over the 2001-2004 period by about $6 billion.

S. 1059 contains provisions that would affect direct spending, primarily through changes to military retirement programs and the provision of borrowing authority to DOE. We estimate that the direct spending resulting from provisions of S. 1059 would total about $0.5 billion over the 2000-2004 period and $1.1 billion over the 2000-2009 period. Over the long run, the provisions to change the military retirement system would raise the costs of that entitlement program by about 11 percent. Under current law, spending for that program will amount to about $32 billion in 1999. By allowing servicemembers to participate in the Thrift Savings Plan, the bill would lower revenues by $321 million over the 2000-2004 period and by about $146 million in 2009. Because it would affect direct spending and revenues, the bill would be subject to pay-as-you-go procedures.

The Unfunded Mandates Reform Act of 1995 (UMRA) excludes from application of the act legislative provisions that are necessary for the national security or for the ratification or implementation of international treaty obligations. CBO has determined that the provisions of this bill either fit within that exclusion or do not contain private-sector or intergovernmental mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1059 is shown in Table 1, assuming that the bill will be enacted by October 1, 1999, and that the authorized amounts will be appropriated.

TABLE 1. BUDGETARY IMPACT OF S. 1059 AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES (By fiscal year, in millions of dollars)

	1999	2000	2001	2002	2003	2004
SPENDING SUBJECT TO APPROPRIATION ACTION						
Spending Under Current Law for Defense Programs						
Budget Authority [a]	279,349	0	0	0	0	0
Estimated Outlays	273,427	93,095	34,025	13,420	5,808	2,850
Proposed Changes						
Authorization Level	0	289,308	0	0	0	0
Estimated Outlays	0	191,168	60,514	21,324	7,886	3,471
Spending Under S. 1059 for Defense Programs						
Authorization Level [a]	279,349	289,308	0	0	0	0
Estimated Outlays	273,427	284,263	94,539	34,744	13,694	6,321
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	83	120	116	105	93
Estimated Outlays	0	59	116	116	105	93
CHANGES IN REVENUES						
Thrift Savings Plan	0	-10	-45	-70	-89	-107

NOTE: Costs of the bill would fall under budget function 050 (national defense), except for certain items noted in the text.

a. The 1999 level is the amount appropriated for programs authorized by the bill.

Authorizations of Appropriations

The bill would authorize specific appropriations totaling $289 billion in 2000 for military programs of DoD and DOE (see Table 2). These costs would fall within budget function 050 (national defense). In addition, S. 1059 would authorize $68 million for the Armed Forces Retirement Home (function 700). The estimate assumes that the amounts authorized will be appropriated for 2000. Outlays are estimated based on historical spending patterns.

TABLE 2. SPECIFIC AUTHORIZATIONS IN THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2000, AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES
(By fiscal year, in millions of dollars)

Category	2000	2001	2002	2003	2004
Military Personnel					
Authorization Level	71,693	0	0	0	0
Estimated Outlays	69,112	1,577	502	143	0
Operation and Maintenance					
Authorization Level	104,370	0	0	0	0
Estimated Outlays	78,218	19,896	3,131	1,293	531
Procurement					
Authorization Level	55,949	0	0	0	0
Estimated Outlays	13,186	19,127	13,200	5,261	2,470
Research, Development, Test, and Evaluation					
Authorization Level	35,840	0	0	0	0
Estimated Outlays	19,656	13,329	2,004	546	142
Military Construction and Family Housing					
Authorization Level	8,789	0	0	0	0
Estimated Outlays	2,570	3,246	1,739	674	325
Atomic Energy Defense Activities					
Authorization Level	12,190	0	0	0	0
Estimated Outlays	7,844	3,317	829	11	10
Other Accounts					
Authorization Level	403	0	0	0	0
Estimated Outlays	235	75	39	18	13
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Total					
Authorization Level	289,234	0	0	0	0
Estimated Outlays	191,101	60,507	21,324	7,886	3,471

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 2000 authorization and by authorizations in future years.

Table 3 contains estimates of these amounts. In addition to the costs covered by the 2000 authorizations in the bill, these provisions would raise estimated costs by $6 billion over the 2001-2004 period. The following sections describe the estimated authorizations shown in Table 3 and provide information about CBO's cost estimates.

Multiyear Procurement Programs. In most cases, purchases of weapon systems are authorized annually, and as a result DoD negotiates a separate contract for each annual purchase. In a small number of cases, the law permits multiyear procurement; that is, it allows DoD to enter into a contract to buy specified annual quantities of a system for up to five years. In those cases DoD is able to negotiate lower prices because its commitment to purchase the weapons gives the contractor an incentive to find more economical ways to manufacture the weapon, including cost-saving investments. Funding would continue to be provided on an annual basis for these multiyear contracts, but termination costs would be covered by an initial appropriation.

S. 1059 would authorize DoD to enter into multiyear contracts for eight weapon systems: launchers for the Multiple Launch Rocket System (MLRS), the Family of Medium Tactical Vehicles, Javelin command launch units and missiles, Apache Longbow attack helicopters, Wolverine heavy assault bridges, upgrades of the Abrams main battle tank, upgrades of the Bradley fighting vehicle, and the F/A-18 E/F aircraft. S. 1059 would also extend by two years, through 2003, multiyear authority for the Arleigh Burke-class destroyer. The Javelin missile and Bradley fighting vehicle contracts would cover four years of production while the contracts for the MLRS launcher, F/A-18E/F, Apache Longbow helicopters, Abrams tank upgrades and Wolverine bridges would cover five years. The Family of Medium Tactical Vehicles contract would cover only three years of production.

CBO estimates that savings from buying the eight Army systems with multiyear contracts would total $941 million, an average of $188 million a year, over the 2000-2004 period. Funding requirements through 2004 would total $9.7 billion instead of the $10.6 billion needed under annual contracts. Multiyear procurement of the Javelin would raise costs in 2000 because that system did not receive advance procurement funding in 1999 in anticipation of multiyear procurement starting in 2000. The costs of the MLRS launcher would rise in 2000 and 2001 for the same reason.

CBO estimates that the Navy will save $706 million, or about $140 million a year, over the 2000-2004 period under a multiyear contract for the F/A-18E/F, which under current law would cost about $15.8 billion. Extending the multiyear contract for the destroyer would save the Navy an additional $355 million between 2001 and 2003. CBO’s estimates of savings for both Navy and Army programs assume that annual production will be at the levels planned by the Administration for each program.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 1059 AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES
(By fiscal year, in millions of dollars)

Category	2000	2001	2002	2003	2004
MULTIYEAR PROCUREMENT					
Javelin Missile System	33	-106	-73	-84	-9
Bradley Fighting Vehicle	-1	-31	-36	-33	0
Apache Longbow Helicopters	-2	-77	-97	-112	-96
Tank Upgrades	0	-29	-29	-30	-19
Wolverine Bridge	0	-7	-8	-9	-16
Multiple Rocket Launcher	4	9	-7	-38	-31
Tactical Vehicles	a	-2	-5	0	0
F/A-18 E/F Aircraft	-148	-163	-166	-124	-106
Arleigh Burke Destroyers	0	363	-359	-359	0
MILITARY ENDSTRENGTHS					
Department of Defense	-536	-557	-578	-598	-618
Coast Guard Reserve	74	0	0	0	0
Grade Structure	2	2	2	2	2
COMPENSATION AND BENEFITS (DOD)					
Military Pay Raises	204	489	795	1,126	1,476
Pay Table Reform	196	812	845	876	909
Special Subsistence Allowance	35	70	70	70	70
Enlistment/Reenlistment Bonuses (active)	266	182	91	59	35
Aviation and Nuclear Special Pay	40	43	33	25	20
Various Bonuses (Reserve)	45	52	37	26	18
Special Pay for Nurses	7	3	0	0	0
Increases in Special Pays	42	65	55	47	42
New Special Pays	44	44	44	44	44
Travel and Transportation Allowances	21	21	22	23	24
Military Education and Training	9	9	9	9	10
Special Retention Initiative	2	7	15	23	28
Other Military Benefits	6	6	6	6	6
MILITARY RETIREMENT					
Changes to REDUX System	674	862	1,437	1,453	1,541
OTHER PROVISIONS					
Trident Submarines	-570	-580	-1,550	-1,560	-680
Increase in Management Headquarters Personnel	24	77	153	208	216
DOE Programs	1	1	6	6	1
Dental Benefits and Domiciliary and Custodial Care	10	10	10	10	10
Math and Science Academies	3	3	3	3	3
BILL TOTAL					
Estimated Authorizations	485	1,579	724	1,068	2,880

NOTES: For every item in this table except one, the 2000 impacts are included in the amounts specifically authorized to be appropriated in the bill. Those amounts are shown in Table 2. Only the authorization of endstrength for the Coast Guard Reserve is additive to the amounts in Table 2.

a. Less than $500,000.

Endstrength. The bill would authorize active and reserve endstrengths for 2000 and would lower the minimum endstrength authorization under permanent law. The authorized endstrengths for active-duty personnel and personnel in the Selected Reserve would total 1,384,898 and 866,043, respectively. The bill would specifically authorize appropriations of $71.7 billion for military pay and allowances in 2000. Current law sets the minimum endstrength for active-duty personnel at 1,395,698 but the bill would lower that figure for future years to 1,384,806. The reduction in authorized personnel would decrease future costs by more than $500 million annually.

Also the bill would authorize an endstrength of 8,000 in 2000 for the Coast Guard Reserve. This authorization would cost about $74 million and would fall under budget function 400 (transportation).

Grade Structure. Section 414 would change the grade structure of active duty personnel in support of the reserves. This change would not increase the overall endstrength, but would result in more promotions. The provision would cost about $2 million a year.

Compensation and Benefits. S. 1059 contains several provisions that would affect military compensation and benefits.

Pay Raises. Section 601 would raise basic pay by 4.8 percent or a total about $2.0 billion in 2000. Section 602 would require military pay raises over the 2001-2006 period to be 0.5 percent above the change in the Employment Cost Index, which would be an increase of 0.5 percent each year above what is projected under current law. CBO estimates that the incremental costs would be $204 million in 2000 and about $1.5 billion in 2004.

In addition to across-the-board pay raises, section 601 would also authorize additional pay raises for individuals with specific ranks and years of service. Those raises would become effective after July 1, 2000. They would cost $196 million in 2000 and about $900 million annually by 2004.

Special Subsistence Allowance. Section 603 would create a new allowance, effective through 2004, for military personnel who qualify for food stamps when housing allowances are excluded from the calculation of gross income. Eligibility for the allowance would terminate if the member no longer qualified for food stamps due to promotions, pay increases, or transfer to a different duty station. In addition, a member would not be eligible for the allowance after receiving it for 12 consecutive months, although he or she would be able to reapply subsequently. CBO estimates that costs would total $35 million in 2000 and $70 million annually from 2001 through 2004.

Expiring Bonuses and Allowances. Several sections would extend for one year DoD's authority to pay certain bonuses and allowances to current personnel. Under current law authorities are scheduled to expire in December 1999, or three months into fiscal year 2000. The bill would extend these authorities through December 2000. CBO estimates that payment of enlistment and reenlistment bonuses for active duty personnel would cost $266 million in 2000 and $182 million in 2001. The cost of extending special payments for aviators and nuclear-qualified personnel would be $40 million in 2000 and $43 million in 2001. Payment authorities for various bonuses for the Selected and Ready Reserve would cost $45 million in 2000 and $52 million in 2001. We estimate that authorities to make special payments to nurse officer candidates, registered nurses, and nurse anesthetists would cost $7 million in 2000 and $3 million in 2001. Most of these changes would result in additional, smaller costs in subsequent years because payments are made in installments.

Increases in Special Pays and Bonuses. Several sections would revise certain eligibility criteria and pay rates for personnel with special skills. Under those provisions, additional funding would go to board-certified veterinarians, aviators, nuclear-qualified naval officers, servicemembers performing diving duty, and individuals with proficiency in foreign languages. Maximum payments for active duty enlistment and reenlistment bonuses and for the selected reserve enlistment bonus would increase. The bill would also extend special pay to members of the Coast Guard Reserve assigned to high priority units. These changes would cost $42 million in 2000 and larger amounts in subsequent years.

New Special Pays. Sections 616 through 618 would authorize three new special compensation categories. These include a retention bonus for special warfare officers, continuation pay for surface warfare officers, and an incentive pay for career enlisted flyers, which would replace a similar pay for certain enlisted personnel. Additional costs would total $44 million in 2000 and similar amounts in subsequent years.

Travel and Transportation Allowances. Section 641 would allow enlisted personnel reporting to their first permanent duty station to receive temporary lodging expenses. Section 645 would allow the Secretaries of the military departments to reimburse servicemembers for travel expenses for leave that was canceled because they were deploying to Kosovo. Estimated costs for increased travel and temporary lodging payments would total about $21 million annually.

Military Education and Training. Section 532 would increase DoD’s authority to waive some of the reimbursement that it receives for the expenses for foreign students to attend the military academies. Section 533 would expand the foreign exchange programs funded by the military academies. CBO estimates that additional waivers and exchanges would cost $5 million annually. Under section 538, the Secretary of Defense would be allowed to waive the limitation on payment for off-duty training for military personnel in the acquisition workforce. CBO estimates that costs associated with this provision would be minimal. Section 539 would authorize a financial assistance program for certain members of the Marine Corps Reserves at an estimated cost of $4 million a year. CBO therefore estimates that increased costs for military education and training would total about $9 million annually.

Special Retention Initiative. Under section 653, the Secretary of Defense could make additional contributions to the Thrift Savings Plan (TSP) for military personnel in designated occupational specialties or as part of an agreement for an extended term of service. CBO estimates that the discretionary costs for the resulting agency contributions to TSP would total $2 million in 2000 and would increase to $28 million in 2004, based on DoD's use of similar authority to award bonuses for enlistment or reenlistment.

Other Provisions. The bill contains several additional provisions pertaining to pay and benefits. Section 604 would allow payment of accrued leave to servicemembers upon immediate reenlistment. Section 606 would revise the calculation of years of service for officers who entered the Uniformed Services University of the Health Sciences in 1983 and would consequently raise their basic pay. Section 673 would allow the Secretaries of the military departments to waive tuition charges for servicemembers deployed in a contingency operation. CBO estimates that the cost of these changes would total about $6 million in 2000.

Military Retirement. S. 1059 contains provisions that would increase retirement benefits for various military retirees.

Changes to the REDUX System. The bill would increase retirement benefits for members who entered the service after July 31, 1986, and are covered under the system know as REDUX.

Background. The Military Retirement Reform Act of 1986 (REDUX) governs the retirement of military personnel who initially entered the armed forces after July 31, 1986. Under REDUX a retiree's initial annuity ranges from 40 percent to 75 percent of the individual's highest three years of basic pay. Retirees with 20 years of service will receive 40 percent, and the fraction will grow with each additional year of service and reach the maximum at 30 years of service. When the retiree is 62 years old, the annuity is raised in most cases to equal 2.5 percent of the average of the highest 36 months of basic pay for each year of service up to a maximum of 75 percent. Also, under REDUX, retirees receive annual cost-of-living adjustments (COLAs) equal to the change in the Consumer Price Index (CPI) less 1 percentage point. When the retiree reaches age 62, the annuity is raised to reflect all of the CPI growth until that point, but thereafter annual COLAs continue to equal the CPI less one percentage point.

Current law provides two different formulas for other individuals who become eligible for a nondisability retirement benefit but are not covered by REDUX. Military personnel who first became members of the armed forces before September 8, 1980, receive retired pay equal to a multiple of their highest amount of basic pay; the multiple is 2.5 percent for every year of service up to 75 percent. Retirees who first became members of the armed forces between September 8, 1980, and July 31, 1986, receive retired pay based on the average of the highest 36 months of basic pay and the multiplier of 2.5 percent for each year of service (the so-called high three plan). Annuities for both of these groups are fully adjusted for changes in the CPI.

Changes Under S. 1059. Under Section 651, members who under current law would retire under REDUX would face a choice upon reaching 15 years of service. They could elect to receive a lump-sum bonus of $30,000 and retire under the REDUX plan or they could forgo that payment and upon retirement receive annuities under the high three plan.

Accrual Costs. Prior to 2009 the primary budgetary impact would stem from the payments that DoD would make to the military retirement trust fund. The military retirement system is financed in part by payments from appropriated funds to the military retirement trust fund based on an estimate of the system's accruing liabilities. Repealing REDUX would increase payments from the military personnel accounts to the military retirement fund (a DoD outlay in budget function 050) to finance the increased liability under a more generous system.

CBO estimates that the resulting increase in discretionary spending from the accrual payments would be $674 million in 2000 and would average about $960 million by 2004. The costs to DoD would increase annually by projected increases in basic pay. Accrual charges are reestimated by DoD every year depending upon endstrengths, projected years of service at the time of retirement, grade structures, and projected rates of military pay raises, inflation, and interest rates. CBO's assumptions about these factors are consistent with the ones currently used by the DoD's actuaries. These estimates assume that annual pay raises are between 3 and 4 percent, the CPI grows at 3.5 percent a year over the long term, and the trust fund's holdings of Treasury securities earn interest at a rate of 6.5 percent annually.

Lump-Sum Payments. In addition to the higher accrual charges, CBO estimates that DoD would spend about $500 million a year for lump-sum bonuses, assuming 50 percent of enlisted personnel and about 40 percent of officers would elect to receive the lower annuity in retirement. That estimate is based on DoD's experience with two buyout programs in recent years and the distribution of years of service among military personnel. Those expecting to retire with long terms of service and a relatively high REDUX annuity would tend to take the bonus. Those who expect to retire with 20 years of service would be more likely to take the other option. The members who would be affected by this provision entered service in 1986; thus, they would not be eligible for the lump-sum payment until 2001.

Direct Spending. These provisions would raise direct spending for annuities by about $233 million over the 2000-2009 period, as discussed below with other provisions affecting direct spending.

Trident Submarines. Section 1041 would allow the Navy to reduce the Trident submarine force by four boats. CBO estimates that the provision would save about $4.9 billion over the 2000-2004 period. Those savings would stem from eliminating the cost of operating the submarines, the cost of modifying them to carry a newer missile, and the cost of buying the new missiles. Estimated savings in operating costs—about $0.3 billion through 2004—reflect retirement of two submarines in fiscal year 2003 and two more submarines in 2004; however, $0.1 billion of this amount would be reflected in endstrength savings already estimated. The Navy would save about $1.9 billion over the next five years from not reconfiguring the four submarines to carry D5 missiles, and it would save another $2.8 billion over the next five years because it would need fewer D5 missiles. (Savings from forgone reconfiguration expenses and missile purchases would total about $7 billion over the next ten years.) Relative to the Administration's budget request, this provision would have no budgetary impact because the request anticipates retiring four Trident submarines.

Increase in Management Headquarters Personnel. Section 901 would amend current law to allow more personnel to remain in headquarters support activities. Because military personnel are governed by overall endstrength requirements, CBO attributes no additional costs to retaining them as headquarters staff. Additional costs, however, are associated with retaining civilian personnel, who constitute about 44 percent of the total workforce. CBO estimates that civilian personnel costs would increase by $24 million in 2000 and by $216 million in 2004 compared to the costs under current law.

Department of Energy (DOE) Programs and Benefits. Title XXXI contains several provisions that would affect DOE programs, although only a few would have a budgetary impact.

*Nuclear Security Commission***.** Section 3152 of the bill would establish a commission to review the safeguards, security, and counterintelligence activities at DOE facilities. The commission would consist of nine members from both the private and public sectors. Members would serve two- to four-year terms. CBO estimates that the costs of the commission would total about $1 million a year through 2003, including the costs of salaries, travel expenses, and administrative support.

Separation Incentives. Under current law, DOE has the authority to offer buyouts to employees who voluntarily retire or resign. Section 3173 of the bill would extend this authority, which is scheduled to expire at the end of calendar year 2000, through calendar year 2002. DOE would be required to make two payments for each employee who accepts a buyout: a lump-sum payment to the employee of up to $25,000 and a deposit into the Civil Service Retirement and Disability Fund (CSRDF) equal to 15 percent of the employee's final pay.

CBO expects that DOE would use this buyout authority in the fourth quarters of calendar years 2001 and 2002. We therefore estimate that the payment of the separation incentives would occur in fiscal years 2002 and 2003. Based on information from DOE, CBO expects that approximately 150 employees would accept a buyout each year and that each employee would receive a buyout payment of $25,000. We estimate that total DOE payments for separation incentives, including the deposits to the CSRDF, would total $5 million in 2002 and $5 million in 2003.

Military Health Care Programs and Benefits. Title VII contains several provisions that would affect DoD health care and benefits, although only a few would have a budgetary impact.

TRICARE Benefits and Management. Section 701 of the bill would make several changes to DoD's health care program known as TRICARE. Some provisions would overlap with current law, while other provisions would leave DoD with the discretion over whether and how to implement them. CBO does not have the information to estimate the budgetary impact, but it does not believe the budgetary impact would be great. The provisions that overlap with current law would have no budgetary impact, and the other provisions would have a minor impact because CBO expects that DoD would use its discretion to maintain its current practices.

Dental Benefits. Section 702 would extend DoD's dental benefit program to provide benefits for certain members of the Selected Reserve and Individual Ready Reserve and their families. Under the new program, DoD would establish a premium- and copayment-sharing plan for Selected Reservists. According to DoD, the benefit under section 702 would replace the current TRICARE Selected Reserve Dental Program (TSRDP), which provides coverage for about 30,000 Selected Reservists and costs DoD about $50 annually per beneficiary. CBO expects that about the same number of reservists would participate in the new program and that DoD would pay about $160 annually per beneficiary, based on DoD's current cost of dental benefits for active-duty family members under a similar program. CBO therefore estimates that section 702 would cost about $3 million a year.

Domiciliary and Custodial Care. Section 716 would authorize DoD to continue to waive the custodial care exclusion under TRICARE for certain individuals. The beneficiaries would be those who were receiving coverage for ongoing custodial care when the benefit was reduced significantly under a new program. According to DoD, this provision would not affect more than 25 people. CBO estimates that the average annual cost of the provision would be about $300,000 per person and that section 716 would cost about $7 million a year.

Math and Science Academies. Section 1057 would direct DoD to establish at least 25 academies to support education in math, science, and technology for primary and secondary students. Funding for each academy would be at least $200,000 annually, but DoD could accept donations from private organizations as well as from other government agencies. Assuming donations offset one-half the annual expenses, costs would total about $3 million annually.

Use of Frequency Spectrum. Section 1049 would require federal agencies to compensate DoD if their use of radio frequencies causes interference problems for any DoD communication system in operation as of the date of enactment of this bill. Although this provision would have no net budgetary effect, CBO estimates that it could require other agencies to pay costs for which DoD is responsible under current law.

Under current law, the use of radio spectrum by federal agencies is regulated by the National Telecommunications and Information Administration (NTIA) within the Department of Commerce. NTIA's current regulatory scheme makes spectrum available to agencies under different terms and conditions, including primary status (in which other users bear responsibility for ensuring that they do not interfere with services being provided by the primary licensee), and noninterference status (in which that party bears the responsibility for avoiding interference with the other users).

Section 1049 would have the effect of granting DoD primary status for all of its existing communications systems by requiring other users to compensate the department for interference problems, even if the existing DoD system is licensed as a secondary user. This provision could affect spending by all of the agencies that share bandwidth with DoD, such as the Federal Aviation Administration (FAA) and National Aeronautics and Space Administration, assuming appropriations are made for such costs. For example, FAA has primary status for the bandwidth used for the Global Positioning System (GPS), which is being upgraded to enhance services. As a noninterference user in that bandwidth, DoD currently is liable for the cost of any adaptations to its Joint Tactical Information Distribution System (JTIDS) that may be needed as result of the changes in the GPS. This bill would reverse the cost burden by requiring the FAA to pay about $100 million to modify JTIDS. Such intragovernmental transfers of funding would have no net budgetary impact.

Direct Spending and Revenues

Military Retirement. The retirement changes in the bill would also increase direct spending from the military retirement trust fund by $1 million in 2000 and by about $233 million over the 2000-2009 period. The outlay impact before 2006 is primarily due to higher cost-of-living allowances for individuals who receive a disability annuity. Starting in 2006 the impact is almost all due to regular retirements. In the long run, direct spending for military retirement would be about 11 percent higher than under current law. In 1999, spending for military retirement will total about $32 billion.

Extension of Survivor Benefits. Section 657 would indefinitely extend beyond September 30, 2001, a program to compensate surviving spouses of certain active-duty servicemembers and reservists who died before they were able to enroll in the Survivor Benefit Plan. This program, which began in December 1997, is currently providing a monthly annuity of $170 to over 2,000 beneficiaries. CBO estimates that 2,800 spouses will participate in the program in 2002 and that they will receive a total of $7 million. After 2003, the mortality rate among the annuitants would exceed the projected rate of new enrollments. However, because benefits are retroactive to the inception of the program and annuities increase with the cost of living, the cost of the program would not vary greatly over the next several years. CBO estimates that this provision would result in direct spending of about $62 million over the 2000-2009 period.

Paid-Up Survivor Benefits. Section 656 would terminate premium payments for certain participants in the Retired Serviceman's Family Protection Plan (RSFPP). Effective in fiscal year 2008, section 656 would terminate premiums for those participants who are 70 years of age or older and who have paid premiums for 30 years. Under current law, premiums are paid until the retiree dies. CBO expects that, in 2008, nearly all surviving participants in this program will have paid premiums for 30 years and have exceeded 70 years of age. Based on data from DoD on projected program participation and current premium payments, CBO expects that forgone receipts would amount to $2 million annually in 2008 and 2009.

Thrift Savings Plan. Section 652 would allow members of the uniformed services on active duty and members of the Ready Reserve in any pay status to participate in the Thrift Savings Plan (TSP). Contributions would be capped at 5.0 percent of basic pay. In addition, service members would be able to contribute income they receive in the form of special or incentive pay to the extent allowable under the Internal Revenue Code. The Joint Committee on Taxation estimates that the revenue loss caused by deferred income tax payments would total $10 million in 2000 and $980 million over the 2000-2009 period.

TABLE 4. ESTIMATED IMPACT ON DIRECT SPENDING AND REVENUES OF S. 1059, AS REPORTED BY THE SENATE COMMITTEE ON ARMED SERVICES (Outlays by fiscal year, in millions of dollars)

Category	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DIRECT SPENDING											
Military Retirement Annuities											
Spending Under Current Law	31,935	32,884	33,887	34,871	35,956	37,026	38,125	39,233	40,360	41,500	42,657
Proposed Changes											
Changes to REDUX	0	1	1	2	2	3	3	5	25	66	125
Survivor Benefits	0	0	0	7	8	8	8	8	8	8	8
Paid-Up Benefits	0	0	0	0	0	0	0	0	0	2	2
Spending Under S. 1059	31,935	32,885	33,888	34,880	35,966	37,037	38,136	39,246	40,393	41,576	42,792
Food Stamps											
Spending Under Current Law	20,730	21,399	22,431	23,251	23,913	24,629	25,303	26,005	26,715	27,426	28,152
Proposed Changes	0	-3	-5	-5	-5	-5	0	0	0	0	0
Spending Under S. 1059	20,730	21,396	22,426	23,246	23,908	24,624	25,303	26,005	26,715	27,426	28,152
OTHER											
Proposed Changes											
DOE Borrowing Authority	0	56	76	80	80	80	80	80	80	80	80
DoD Retirement	0	5	44	32	19	6	-8	-15	-16	-16	-16
DOE Incentives	0	0	0	0	1	1	0	0	0	0	0
Ford Island Lease-Purchase	0	a	a	a	a	a	a	a	a	a	a
Forgone Spectrum Receipts	0	a	a	a	a	a	a	a	a	a	a
REVENUES											
Thrift Savings Plan	0	-10	-45	-70	-89	-107	-117	-125	-132	-139	-146

SOURCES: Congressional Budget Office and Joint Committee on Taxation.

a. CBO does not have enough information to estimate this cost.

Offset to the Food Stamp Program. CBO estimates that most of the 11,000 personnel in grades E-5 or below who currently receive food stamps would apply for the special subsistence allowance provided in section 603. However, the additional $180 of monthly income would reduce the average household's monthly food stamp benefit by $54, resulting in savings of about $7 million each year in the Food Stamp program through 2004, when the program would end. The special subsistence allowance might also serve as an incentive for eligible but nonparticipating military personnel to apply for food stamps. CBO estimates that 1,500 additional servicemembers would participate in the Food Stamp program in an average month at an annual cost of $2 million. Thus, this provision is estimated to result in a net savings to the Food Stamp program of $3 million in 2000 and $5 million each year over the 2001-2004 period.

DOE Loan Authority. Section 3175 would allow the Secretary of Energy to accept loans from contractors carrying out closure projects at DOE facilities. A loan amount would be limited to the fees awarded to the contractor and would not accrue any monetary interest. Because this provision would provide borrowing authority, which is defined in the Congressional Budget Act as new budget authority, this provision would result in direct spending.

Based on information from DOE, CBO assumes that this borrowing authority would be used over the 2000-2009 period for environmental clean-up at five sites–the Rocky Flats Environmental Technology Site in Colorado and four sites under the jurisdiction of the Ohio Field Office. DOE’s plans for those activities would require about $1 billion a year through 2009. Based on information from DOE, CBO assumes that roughly 30 percent of those costs would be incurred by DOE field offices and that contractors would spend about $700 million a year cleaning up those sites. Fees range from 3 percent for cost-reimbursable contracts to a high of 30 percent for high-risk, fixed-priced contracts, but CBO assumes that fees would be toward the lower end of that range. CBO therefore estimates that DOE borrowing authority under the provision would be about $80 million a year.

DoD Early Retirement Authority. Public Law 105-261 gave DoD the authority—starting in fiscal year 2001—to target offers of early retirement to specific groups of employees. Section 1101 of the bill would make this authority effective starting in fiscal year 2000. Relative to current law, this would allow DoD to reach its workforce reduction goal for 2000 through greater use of early retirements and less use of involuntary separations.

In September 1997, the Court of Appeals for the District of Columbia in *Torres v. Office of Personnel Management (OPM)* struck down many of the criteria that federal agencies had traditionally used to target offers of early retirement to specific groups of employees. The *Torres* decision made it more difficult for agencies to use offers of early retirement to meet their specific personnel needs. Under current law, DoD will have to follow the *Torres* decision in fiscal year 2000 but after that will be able to follow pre-*Torres* practice. Section 1101 would give DoD pre-*Torres* early retirement authority starting in fiscal year 2000.

Based on information from DoD and OPM, CBO believes that the *Torres* decision will lead DoD to sharply curtail its use of early retirement in 2000. Applications since the *Torres* decision indicated that the number of DoD employees projected to take early retirement is about 30 percent of pre-*Torres* levels. Under *Torres*, DoD will have to rely more heavily on involuntary separations in order to reach its workforce reduction goal for fiscal year 2000.

The bill would allow DoD to accomplish more of its workforce reductions in 2000 through early retirement than it would under current law. CBO estimates that an additional 2,150 DoD employees would take early retirement in 2000 under the bill. This increase in early retirements would raise spending on federal retirement benefits by $126 million over the 2000-2004 period. These costs would be partly offset by an additional $20 million in offsetting receipts to the CSRDF in 2000 for employees taking incentive payments. The employees who retire early would receive a smaller annuity, and by 2009 spending on federal retirement benefits would be $16 million lower than under current law. (CBO estimates that this provision would also increase discretionary spending by $17 million in 2000, but those costs would be covered by the amounts specifically authorized in the bill and displayed in Table 2.)

DOE Separation Incentives. As noted previously, section 3173 would extend DOE's authority to offer buyout payments to employees who voluntarily retire or resign. These payments would induce some employees to retire–and begin receiving federal retirement benefits–earlier than they would otherwise. These additional payments represent direct spending. In later years, annual federal retirement outlays would be lower than under current law because the employees who retire earlier would receive a smaller annuity.

Based on information from DOE, CBO assumes that buyouts under this extended authority would be offered at the beginning of fiscal years 2002 and 2003, and that 150 employees each year would accept them. CBO assumes that these buyouts would induce about 40 percent of those employees to retire a year or two earlier. CBO estimates that the resulting increase in federal retirement benefits would be $2 million in 2002, $3 million in 2003, and $1 million in 2004. In addition, DOE would make $2 million in payments in 2002 and 2003 to the CSRDF for the employees who accept buyouts. These additional payments would be treated as offsetting receipts, resulting in no increase in direct spending in 2002 and a net increase of only $1 million annually in 2003 and 2004.

Per Diem for Certain Military Technicians. Section 643 would authorize the Department of Defense to pay a per diem allowance to military technicians serving on active duty without pay outside the United States. The per diem allowance would substitute for the provision of subsistence and housing. Because the provision would be effective as of February 10, 1996, payment of any retroactive allowances would constitute direct spending. CBO cannot estimate the cost of this provision because no accounting of eligible personnel is currently available.

Property Transactions. The bill contains several provisions that would authorize property transactions involving both large and small parcels of real estate.

Ford Island. The bill would provide the Navy with a variety of means to develop Ford Island, which is located in Pearl Harbor. Under section 2862, the Navy could sell and lease its excess Hawaiian property in exchange for cash and services. But because the use of cash proceeds would require appropriation action, the Navy would probably enter into barter arrangements and enhanced-use leases that would allow it to obtain construction and maintenance services that could have a cash value up to about $500 million.

The bill would allow the Navy to enter into long-term leases with the option to buy the leased facility at the end of the contract period. Such lease-purchase authority, if not conditioned on appropriation action, would result in direct spending, with budget authority in 2000 equal to the net present value of the Navy's obligations over the life of applicable contracts. Outlays would be recorded either over the construction period or the lease period, depending on the nature of the project. CBO cannot precisely estimate those costs because the Navy does not know the extent to which the authority would be used. Given the scope of the Ford Island project, costs could total tens of millions of dollars or more.

Direct spending would also increase to the extent that the Navy would sell its excess property under current law. In that case, the bill would result in forgone receipts to the Treasury. If the land was formally declared excess and sold through normal procedures that govern property disposal, the receipts could total tens of millions of dollars or more. But because the Navy has no incentive under current law to formally declare that its valuable real estate is excess to its needs, CBO believes that the property is unlikely to be sold under current law.

Other Forgone Receipts. Section 2843 would convey land that is being leased to a private company. Under current law, receipts from these lease payments are deposited in the Treasury. The loss of receipts from enactment of this provision would total less than $500,000 annually.

Other Land Transactions. Title XXVIII contains a variety of other provisions that would authorize DoD to convey land at no cost to the recipient. These conveyances would affect both small and large properties, ranging from fifteen acres of a naval station near Newport, Rhode Island to 314 acres of land that contain a naval weapons industrial plant near Dallas, Texas.

Some of the property that would be conveyed in title XXVIII would likely be given to state or local governments under current law. Therefore, CBO estimates these conveyances would not affect receipts. The future for other parcels—some worth up to several million dollars each—is uncertain. Because it is unclear if or when these parcels would be declared excess and sold under current law, CBO has no basis for estimating whether these conveyances would affect receipts.

Still other parcels that would be conveyed by the bill are excess land from prior rounds of Base Realignment and Closure (BRAC). Under current law, DoD can use proceeds from the sale of BRAC properties to offset base closure costs. Thus, the conveyance of these properties would have no net effect on spending. The conveyances would, however, increase the need for future appropriations.

Forgone Spectrum Receipts. Section 1049 would require that entities using radio frequencies not cause interference with communications systems operated by the DoD as of the date of enactment of this bill. This provision may affect the quantity and quality of frequencies that are expected to be auctioned by the Federal Communications Commission under current law because it would shift the burden of non-interference in certain bandwidths from DoD to other entities. Under CBO's baseline assumptions, this policy change could affect auctions projected to generate receipts of about $4 billion over the 2000-2004 period. Hence, even if this provision were to affect only a small portion of the expected auction proceeds, the loss of receipts could be significant. CBO does not have sufficient information at this time to estimate the magnitude of any such losses.

Other Provisions. The following provisions would have an insignificant budgetary impact:

- Section 655 would allow retirees electing the Survivor Benefit Plan (SBP) during the current open enrollment period to apply their back payment of premiums toward the 30-year limitation on payments. CBO expects this provision would affect few individuals

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- Section 658 would provide survivor benefits to the former spouses of retirees who, while under court order to elect SBP for their former spouse, die within 21 days of the court order without having made the election. CBO estimates that section 658 would apply to few individuals.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending that would result from S. 1059 are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	59	116	116	105	93	83	78	97	140	199
Changes in receipts	0	-10	-45	-70	-89	-107	-117	-125	-132	-139	-146

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

UMRA excludes from application of the act legislative provisions that are necessary for the national security or the ratification or implementation of international treaty obligations. CBO has determined that all provisions of this bill either fit within that exclusion or do not contain private-sector or intergovernmental mandates as defined by UMRA.

PREVIOUS CBO ESTIMATE

On May 21, 1999, CBO prepared a cost estimate for H.R. 1401, the National Defense Authorization Act for Fiscal Year 2000, as ordered reported by the House Committee on Armed Services. The estimated budgetary effects are the same for provisions common to H.R. 1401 and S. 1059.

On February 12, 1999, CBO prepared a cost estimate for S. 4, the Soldiers', Sailors', Airmen's, and Marines' Bill of Rights Act of 1999, as reported by the Senate Committee on Armed Services. On March 17, 1999, CBO prepared a cost estimate for S. 4, as passed by the Senate. S. 4 and S. 1059 contain many of the same provisions, including those affecting military retirement, thrift savings, and other military compensation. The CBO estimates for the common provisions are the same for each bill.

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