CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 19, 2001

S. 1416
National Defense Authorization Act for Fiscal Year 2002

As reported by the Senate Committee on Armed Services
on September 12, 2001

SUMMARY

S. 1416 would authorize appropriations totaling $343 billion for fiscal year 2002 for the military functions of the Department of Defense (DoD) and the Department of Energy and certain other defense-related programs. 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 2002 would result in additional outlays of $338 billion over the 2002-2006 period.

The bill also contains provisions that would raise the costs of discretionary defense programs over the 2003-2006 period. CBO estimates that those provisions would require appropriations of $10 billion over those four years.

The bill contains provisions that would reduce direct spending, primarily through revised payment rates for some services offered under the Tricare for Life program and certain asset sales. We estimate that the direct spending savings resulting from provisions of S. 1416 would total $209 million over the 2002-2006 period and $86 million over the 2002-2011 period. Those totals include estimated net receipts from asset sales of $144 million over the next five years and $120 million over 10 years. Because it would affect direct spending, the bill would be subject to pay-as-you-go procedures.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative provisions that enforce the constitutional rights of individuals. CBO has determined that subtitle F (Uniformed Services Overseas Voting) of title V is excluded because the provision would enforce an individual's constitutional right to vote. The bill contains one private-sector mandate; however, the costs of that mandate would not exceed the threshold as specified in UMRA ($113 million in 2001, adjusted annually for inflation).

The remaining provisions of the bill either contain no mandates or are excluded, as specified in UMRA, because they would be necessary for national security. The bill also would affect DoD's Tricare long-term care program by increasing costs in state Medicaid programs by about $1 million in 2002 and over $2 million in 2003. Such costs would not result from mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1416 is shown in Table 1. Most of the costs of this legislation fall within budget function 050 (national defense).

TABLE 1. BUDGETARY IMPACT OF S. 1416, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2002 (By Fiscal Year, in Millions of Dollars)

	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority [a]	316,051	0	0	0	0	0
Estimated Outlays	301,602	107,667	36,099	13,839	6,256	3,308
Proposed Changes						
Estimated Authorization Level	0	342,647	0	0	0	0
Estimated Outlays	0	226,562	76,529	23,636	8,254	3,008
Spending Under S. 1416 for Defense Programs						
Estimated Authorization Level [a]	316,051	342,647	0	0	0	0
Estimated Outlays	301,602	334,229	112,628	37,475	14,510	6,316
DIRECT SPENDING (Excluding Asset Sales)						
Estimated Budget Authority	0	32	-200	61	25	17
Estimated Outlays	0	32	-200	61	25	17
ASSET SALES [b]						
Estimated Budget Authority	0	-40	-114	-16	-5	31
Estimated Outlays	0	-40	-114	-16	-5	31

NOTE: This table excludes estimated authorizations of appropriations for years after 2002. (Those additional authorizations are shown in Table 3.)

a. The 2001 level is the amount appropriated for programs authorized by the bill.
b. Asset sale receipts are a credit against direct spending.

BASIS OF ESTIMATE

Spending Subject to Appropriation

The bill would authorize appropriations totaling $343 billion in 2002 (see Table 2). Most of those costs would fall within budget function 050 (national defense). S. 1416 also would authorize appropriations of $71 million for the Armed Forces Retirement Home (function 600—income security) and $17 million for the Naval Petroleum Reserves (function 270—energy).

Title XIII would make $15.2 billion of the authorizations in the bill contingent upon either a procedural action taken by the Chairman of the Committee on the Budget in the Senate or a procedural waiver agreed to by three-fifths of the members of the Senate. The estimate assumes that one of these actions would occur and that $343 billion will be appropriated near the start of fiscal year 2002. Outlays are estimated based on historical spending patterns.

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 2002 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs covered by the authorizations in the bill for 2002, these provisions would raise estimated costs by $10 billion over the 2003-2006 period. The following sections describe the provisions identified in Table 3 and provide information about CBO's cost estimates for those provisions.

Multiyear Procurement. 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 can 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 potential termination costs would be covered by an initial appropriation.

TABLE 2. SPECIFIC AUTHORIZATIONS IN S. 1416 (By fiscal Year, in Millions of Dollars)

Category	2002	2003	2004	2005	2006
Military Personnel					
Authorization Level	82,342	0	0	0	0
Estimated Outlays	77,105	4,611	165	82	0
Operation and Maintenance					
Authorization Level	125,702	0	0	0	0
Estimated Outlays	94,195	24,527	4,092	1,703	506
Procurement					
Authorization Level	62,217	0	0	0	0
Estimated Outlays	16,037	22,489	13,471	5,112	2,011
Research, Development, Test, and Evaluation					
Authorization Level	46,616	0	0	0	0
Estimated Outlays	25,286	17,229	3,019	662	191
Military Construction and Family Housing					
Authorization Level	10,478	0	0	0	0
Estimated Outlays	2,712	4,027	2,312	785	338
Atomic Energy Defense Activities					
Authorization Level	14,285	0	0	0	0
Estimated Outlays	9,669	3,849	767	0	0
Other Accounts					
Authorization Level	2,512	0	0	0	0
Estimated Outlays	1,778	431	166	74	20
Unspecified Reductions (DoD)					
Authorization Level	-1,630	0	0	0	0
Estimated Outlays	-617	-582	-236	-104	-38
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Total					
Authorization Level [a]	342,522	0	0	0	0
Estimated Outlays	226,445	76,521	23,636	8,254	3,008

a. These specific authorizations comprise nearly all of the proposed changes shown in Table 1; they do not include estimated authorizations of $83 million for the Coast Guard Reserve, and $42 million for payments to WWII slave laborers, which are shown in Table 3.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 1416
(By Fiscal Year, in Millions of Dollars)

Category	2002	2003	2004	2005	2006
MULTIYEAR PROCUREMENT					
F/A-18E/F Engines	-10	-10	-10	-10	-10
C-17 Aircraft	0	-117	-293	-272	-252
FORCE STRUCTURE					
DoD Military Endstrengths	262	542	560	576	594
Coast Guard Reserve Endstrengths	83	0	0	0	0
Grade Structure	20	41	47	53	55
COMPENSATION AND BENEFITS (DoD)					
Military Pay Raises	1,026	1,420	1,490	1,558	1,624
Expiring Bonuses and Allowances	564	457	257	171	114
Housing Allowances	230	712	407	84	0
Travel and Transportation Allowances	84	88	93	99	104
Increase Incentive Pay and Bonuses	49	71	75	81	87
New Bonuses	38	24	21	21	22
Subsistence Allowances	6	15	8	3	0
Uniform Allowances	4	4	4	4	4
Commissary Benefits for Reservists	3	3	3	4	4
Education and Training	22	26	30	35	41
DEFENSE HEALTH PROGRAM					
Payment Rates	-144	-90	0	0	0
Long-Term Care Rules	-44	0	0	0	0
Travel Reimbursements	5	5	5	5	5
OTHER PROVISIONS					
Strategic Forces	-20	-70	-140	-200	-220
Voluntary Separation and Early Retirement Incentives	0	145	6	0	0
Payments to World War II Slave Laborers	42	37	31	4	4
Purchase Alternative Fuel Vehicles for DoD	0	0	0	23	21
TOTAL ESTIMATED AUTHORIZATIONS					
Estimated Authorization Level	2,220	3,303	2,594	2,239	2,197

NOTE: For every item in this table except the authorization for the Coast Guard reserve and for payments to WWII slave laborers, the 2002 levels are included in the amounts specifically authorized to be appropriated in the bill. Those amounts are shown in Table 2. Amounts shown in this table for 2003 through 2006 are not included in Table 1.

Section 122 would authorize DoD to enter into a multiyear contract to buy engines for F/A-18E/F aircraft starting in 2002. The Navy currently purchases the aircraft from Boeing under a multiyear contract covering the 2000-2004 period, while the engines are purchased separately from General Electric under annual contracts. Each engine costs about $4 million today. According to the Navy, it plans to purchase 48 aircraft a year over the next five years starting in 2002. CBO estimates that the savings from buying F/A-18E/F engines under a multi-year contract would total about $50 million over the 2002-2006 period, or about 3 percent of total engine costs. This estimate assumes that the Navy would buy 96 engines a year (two engines for every aircraft purchased) over the five-year period and that there would be no up-front investment required to implement the multiyear contract.

Section 131 would authorize DoD to enter into a new multiyear procurement contract to buy up to 60 additional C-17 aircraft. Under the current multiyear contract, the Air Force will buy 15 aircraft in 2002 and another 8 aircraft in 2003. Assuming that the Air Force would proceed with follow-on procurement of up to 60 additional aircraft, CBO estimates that savings from buying 60 additional C-17s under a multiyear contract arrangement would total $934 million or an average of about $250 million a year over the 2003-2006 period. Funding requirements would total just under $8.3 billion instead of the almost $9.2 billion needed under annual contracts. This estimate assumes that the Air Force would purchase the 60 additional aircraft starting in 2003 at a rate of 15 a year.

Force Structure. The bill contains various sections that affect endstrength and personnel grade structure.

Endstrengths. The bill would authorize active and reserve endstrengths for 2002. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,387,000 and 865,000, respectively. Of those selected reservists, about 67,000 would serve on active duty in support of the reserves. The bill would specifically authorize appropriations of $82.4 billion for the costs of military pay and allowances in 2002. Of that amount, discretionary authorizations for military pay and allowances would total $82.3 billion, while $0.1 billion would be provided to cover mandatory costs. The authorized endstrength represents a net increase of 3,152 servicemembers that would boost costs for salaries and other expenses by $262 million in the first year and about $600 million annually in subsequent years, compared to the authorized strengths for 2001.

The bill also would authorize an endstrength of 8,000 in 2002 for the Coast Guard Reserve. This authorization would cost about $83 million and would fall under budget function 400 (transportation).

Grade Structure. Sections 402, 415, and 502 would increase the number of servicemembers in certain grades. Under section 402, the number of servicemembers in pay grade E-8 in the

Navy would increase. Section 415 would change the grade structure of active-duty personnel in support of the reserves. Section 502 would reduce the time-in-grade required for promotion to captain in the Army, Air Force, and Marine Corps, and lieutenant in the Navy when service staffing needs require. These changes would not increase the overall endstrength, but would result in more promotions to these ranks. CBO estimates these provisions would cost $20 million in 2002, rising to $55 million by 2006.

Compensation and Benefits. S. 1416 contains several provisions that would affect military compensation and benefits.

Military Pay Raises. Section 601 would raise basic pay by 5 percent across-the-board and authorize additional targeted pay raises, ranging from 1 percent to 10 percent, for individuals with specific ranks and years of service at a total cost of about $3.1 billion in 2002. Because the pay raises would be above those projected under current law, CBO estimates that the incremental costs associated with the larger pay raise would be about $1 billion in 2002 and total $7.1 billion over the 2002-2006 period.

Expiring Bonuses and Allowances. Several sections would extend DoD's authority to pay certain bonuses and allowances to current personnel. Under current law, most of these authorities are scheduled to expire in December 2001, or three months into fiscal year 2002. The bill would extend these authorities through December 2002. CBO estimates that the costs of these extensions would be as follows:

- Payment of reenlistment bonuses for active-duty personnel would cost $327 million in 2002 and $174 million in 2003; enlistment bonuses for active-duty personnel would cost $91 million in 2002 and $140 million in 2003.

- Various bonuses for the Selected and Ready Reserve would cost $64 million in 2002 and $73 million in 2003.

- Special payments for aviators and nuclear-qualified personnel would cost $52 million in 2002 and $55 million in 2003.

- Retention bonuses for officers and enlisted members with critical skills would cost $23 million in 2002 and $13 million in 2003.

- Authorities to make special payments to nurse officer candidates, registered nurses, and nurse anesthetists would cost $7 million in 2002 and $2 million in 2003.

Most of these changes would result in additional, smaller costs in subsequent years because payments are made in installments.

Housing Allowances. Section 605 would limit the out-of-pocket cost of housing for servicemembers receiving basic allowance for housing (BAH) within the United States. Currently, DoD pays members BAH rates which cover about 85 percent of the cost of adequate housing in the United States. DoD plans to reduce the average out-of-pocket housing expense for members by increasing BAH by about 4 percent annually, until BAH covers the full cost of adequate housing by 2005, adjusting the rate each January. Section 605 would accelerate DoD's plan by limiting out-of-pocket costs to 7.5 percent in 2002 and eliminating average out-of-pocket costs in 2003, adjusting the rates on January 1, 2002, and October 1, 2002, respectively. CBO estimates that accelerating the increase in BAH would cost $230 million in 2002 and $1.4 billion over the 2002-2006 period.

Travel and Transportation Allowances. Sections 631 through 634 would affect travel and transportation allowances by expanding eligibility or increasing benefits. CBO estimates that the cost of these changes would be as follows:

- Expanding eligibility to receive the basic allowance for housing (BAH) to junior enlisted members in grades E-3 and below who are on leave or traveling between permanent duty stations would cost $34 million in 2002 and $182 million over the 2002-2006 period.

- Expanding eligibility for temporary subsistence allowance to officers would cost $6 million in 2002 and $30 million over the 2002-2006 period.

- Authorizing dislocation allowances (DLA) for married servicemembers without dependents where the spouse is a member of the military, would cost $4 million in 2002. Expanding eligibility to receive DLA to members with dependents moving to their first duty station would cost $34 million in 2002. Authorizing a $500 allowance to compensate members who must move for government convenience (e.g., because of housing privatization or renovation) would cost $6 million in 2002. CBO estimates that these three provisions would cost $256 million over the 2002-2006 period.

In total, these provisions affecting travel and transportation allowances would cost $84 million in 2002 and $468 million over the 2002-2006 period.

Increases in Incentive Pay and Bonuses. Sections 537, 616, and 617 would expand eligibility for bonuses and increase pay for personnel with special skills. Section 537 would expand the population eligible to receive stipends under the Health Professional Stipend Program to include medical and dental school students. Assuming the number of participants would increase gradually, at about 5 percent a year, CBO estimates that implementing section 537 would cost less than $500,000 in 2002 and $7 million over the 2002-2006 period.

Section 616 would raise the maximum pay rates for servicemembers performing submarine duty. CBO estimates this pay increase, effective October 1, 2002, would have no cost in 2002, cost $21 million in 2003, and cost $111 million over the 2003-2006 period.

Under section 617, certain officers and enlisted servicemembers would become eligible to receive career sea pay, regardless of their rank, time-in-service, or time-at-sea. CBO estimates section 617 would cost $49 million in 2002 and $245 million over the 2002-2006 period. Together, these increases in incentive pay and bonuses would cost $49 million in 2002 and $363 million over the 2002-2006 period.

New Bonuses. Sections 619 and 661 would authorize new bonuses for commissioned officers and enlisted members with critical skills. Section 619 would authorize a new officer accession bonus for officers with critical skills. The bonus, limited to $20,000, could be paid in a lump sum or installments. This authority would expire on December 31, 2002. Based on information from DoD, CBO expects that the Air Force and the Navy would use this authority starting in 2002, and that the provision would cost $18 million in 2002 and $22 million over the 2002-2006 period.

Under section 661, the Secretary of Defense could purchase United States savings bonds for certain officers and enlisted members with critical skills, who agree to extend their period of service for a minimum of six years. The face value of the bonds would range from $5,000 to $30,000, depending on the members' years of service and prior receipt of this benefit. Based on DoD's use of similar bonuses, CBO estimates that section 661 would cost $20 million in 2002 and $104 million over the 2002-2006 period.

Together, CBO estimates these new bonuses would cost $38 million in 2002 and $126 million over the 2002-2006 period.

Subsistence Allowances. Section 604 would extend the current authority to provide an additional subsistence payment when rations-in-kind are not available. DoD plans to prescribe this incremental subsistence allowance until payments may be fully offset by the annual increases in basic allowance for subsistence (BAS). CBO estimates that under DoD's plan, additional subsistence payments would end in 2005. This section also would delay the termination of BAS transition authority by three months, making termination effective on January 1, 2002, and saving an estimated $15 million in 2002. CBO estimates the combined effects of implementing these provisions would cost $6 million in 2002 and $32 million over the 2002-2006 period.

Uniform Allowances. Section 607 would loosen restrictions on eligibility of officers to receive an additional $200 clothing allowance by doubling the cap on the dollar amount a member may receive in an initial clothing allowance over the prior two years. Under current law, officers are ineligible to receive the additional allowance if they have received more than $200 in an initial clothing allowance during the past two years. Raising the cap would increase the number of officers eligible for the additional $200 allowance. CBO estimates that implementing this provision would cost $4 million in 2002 and $20 million over the 2002-2006 period.

Commissary Benefits. Section 662 would allow new members of the ready reserve to use the commissary benefit up to 24 times a year. CBO estimates that implementing this section would cost about $3 million in 2002 and $17 million over the 2002-2006 time period. Currently, new reservists do not automatically qualify for commissary benefits, since they have not had sufficient time to accumulate the necessary annual training points. Under this section, new reservists would be allowed to visit the commissary two times a month until they meet the eligibility requirements which CBO estimates to be about six months. Based on data from DoD, CBO estimates that up to 70,000 reservists would become eligible for this benefit each year. Allowing up to 70,000 more customers to shop at commissaries would increase the administrative costs associated with the commissary system, which are paid out of appropriated funds and are estimated by CBO to be about $8 per reservist per month.

Education and Training. Several sections of the bill would affect education and training by expanding eligibility. CBO estimates that the cost of these changes would be as follows:

- Section 532 would remove the cap on the number of Junior Reserve Officers' Training Corps (JROTC) units. DoD plans to have 3,185 units in 2002, less than the current cap of 3,500 units. Based on recent growth rates, CBO expects the number of units would exceed 3,500 in 2005. CBO estimates implementing section 532 would increase JROTC costs by $2 million in 2005, rising to $5 million in 2006.

- Section 536 would increase the number of international students authorized to be admitted to the service academies and would eliminate the restrictions on full tuition waivers. CBO estimates that this section would cost $17 million over the 2002-2006 period. Removing the restrictions on tuition waivers would allow about 70 additional international students to receive full tuition assistance each year. This figure includes students admitted because of the higher number of international slots made available under this section, as well as slots that are currently receiving only partial tuition assistance. The current cost of tuition for an international student is about $62,000 a year, and the annual cost of implementing this section would be about $4 million.

- Section 539 would provide DoD with the authority to allow certain military personnel the option to transfer up to 18 months of their entitlement to Montgomery GI Bill (MGIB) educational assistance to any combination of spouse and children. To be eligible for this benefit, servicemembers would have to have a critical skill or speciality, to have served at least six years in the Armed Forces, and to agree to serve an additional four or more years. Under section 539, the service would be required to deposit an amount equal to the net present value of the transferred MGIB benefit into the Defense Education Trust Fund when a servicemember was granted this benefit.

Under current law, participants in MGIB who serve at least three years on active duty are entitled to receive $650 a month if they are full-time students. CBO estimates that the value of 18 months of MGIB benefit would be $11,700 in 2002. In estimating the net present value of transferring a portion of an individual's MGIB benefit, CBO assumes that one-third of the benefit transfers would be to spouses and two-thirds would be to children, that spouses would begin using the benefit after two years and children after 16 years, and that 75 percent of the amount available for transfer would be transferred and used. Using these assumptions, CBO estimates that the cost to DoD of the transferred benefit would be an average of $6,640 per person in 2002 and, because of the automatic cost-of-living increases in the MGIB benefit, the cost of the transferred benefit would increase to $7,365 in 2006.

CBO expects that DoD would use the authority in 2002 to enhance retention in those areas where the maximum authorized retention bonuses are currently being paid and that the benefit would be offered to a larger population in subsequent years. Based on information from DoD, about 20,300 servicemembers, with six or more years of service, will receive a selective re-enlistment bonus in 2002. Under section 539, CBO assumes that about 3,000 of those would receive the MGIB transfer benefit, and that this number would increase to 4,400 by 2006. Thus, CBO estimates implementing this provision would cost $20 million in 2002, and about $130 million over the 2002-2006 period. (There would also be direct spending costs of about $91 million over the 2004-2011 period for outlays from the Defense Education Trust Fund as the transferred MGIB benefit is used. CBO's estimate of those outlays is discussed below under the heading of "Direct Spending.")

CBO notes that, because this section offers a benefit to the families of servicemembers, it is possible that the demand for equal treatment across families might cause the services to offer this benefit more widely than CBO has estimated. If this benefit were offered to the entire eligible population by 2011, CBO estimates the cost could be more than $200 million over the 2002-2006 period.

Defense Health Program. Title VII contains several provisions that would affect DoD health care and benefits. Tricare is the name of DoD's health care program and the spending under Tricare for beneficiaries under age 65 is subject to appropriation. Spending under Tricare for beneficiaries age 65 and over, often called Tricare for Life (TFL), is subject to appropriation in 2002, but beginning in 2003 this spending will be paid out of a trust fund and will not be subject to appropriation.

Payment Rates. Under current law, DoD has the regulatory authority to set maximum allowable rates for medical services to limit how much the Tricare program pays to health care providers. Although DoD has set maximum rates for many services, it has not yet set rates for hospital outpatient diagnostic services, including clinical lab work and radiation services, and long-term care services such as skilled nursing and home health care services. As a result, Tricare currently pays 75 percent of billed charges for these services. DoD has started the regulatory process to establish maximum rates for the services listed here and estimates it will take upwards of two years to implement the changes by regulation.

Section 713 would require DoD to implement these rates by October 1, 2001. Under this provision, DoD would be able to lower its costs for both hospital outpatient and long-term care services over the 2002-2003 period before the regulations would have been implemented. These savings would affect spending subject to appropriation as well as direct spending for retirees of the other uniformed services in 2002 and 2003 and the TFL trust fund that starts operation in 2003. CBO estimates that the total savings in spending subject to appropriation for hospital outpatient and long-term care services would be about $230 million over the 2002-2003 period, assuming appropriations are reduced by the estimated amounts. Section 713 would affect two different programs: Tricare (under 65) and Tricare for Life. Those two effects are discussed below.

By lowering payment rates for hospital outpatient diagnostic services, DoD would be able to reduce spending on its beneficiaries under age 65. (This portion of the provision would not affect beneficiaries age 65 and over because Medicare is first payer for these services and TFL would only be responsible for the Medicare deductible and copayments.) Using data from DoD, CBO estimates that making payment rates for hospital outpatient diagnostic services equivalent to Medicare rates would lower Tricare spending for these services by about 30 percent. CBO estimates that lowering the payment rates for hospital outpatient services would save about $150 million over the 2002-2003 period, assuming appropriations are reduced by the estimated amounts.

Under section 713, DoD also would lower the rates paid for skilled nursing and home health care. This change would primarily affect the TFL program since beneficiaries under age 65 do not use much long-term care (DoD spent only $10 million on long-term care for those under 65 in 2000). Savings arise because Tricare's skilled nursing benefit has no time limit while Medicare's benefit expires after 100 days. The change in payment rates would have no impact on Tricare for the first 100 days because Tricare would only be liable for the deductibles and copayments charged under Medicare. However, this provision would lower the amount that Tricare would pay for those beneficiaries who need more than 100 days of skilled nursing care. Additionally, Tricare would reduce its costs for providing skilled nursing and home health care to those beneficiaries who use these services without a prior hospital stay and are thus not Medicare-eligible.

CBO estimates the savings to Tricare would initially be low because the Tricare for Life program does not actually begin operation until the start of fiscal year 2002 and CBO expects that it will take about a year before all beneficiaries take full advantage of the program. CBO estimates that lowering payment rates for skilled nursing and home health care would save DoD about $80 million in 2002, assuming appropriations are reduced by the estimated amounts. (There also would be direct spending savings of about $7 million over the 2002-2003 period for the other uniformed services, and about $215 million in 2003 for DoD when the trust fund begins operation. CBO's estimates of those savings are discussed below under the heading of "Direct Spending.")

Long-Term Care Rules. Tricare does not currently require a hospital stay prior to using long-term care services such as skilled nursing and home health care. Requiring prior hospitalizations would reduce the number of beneficiaries who use long-term care. DoD has started the regulatory process to require such prior hospitalizations and expects to complete the process by the start of fiscal year 2004.

Section 703 would require DoD to structure the Tricare long-term care program to resemble Medicare, which requires prior hospitalization before being eligible for skilled nursing and home health care. Under section 703, DoD would be required to implement this provision on October 1, 2001. Requiring prior hospitalization under Tricare's long-term care program would reduce the benefit for those beneficiaries who would otherwise have used long-term care and would save DoD the cost of providing this care over the 2002-2003 period before DoD's new long-term care rules would have gone into effect under DoD's plan. CBO estimates that some of those beneficiaries would likely be able to get a prior hospitalization before seeking care. In those instances, Medicare would become the first payer while a few beneficiaries would end up using Medicaid. Thus the savings to DoD would be partially offset by increased costs to both Medicare and Medicaid (discussed below).

Using data from DoD and the Agency for Healthcare Research and Quality, CBO estimates that about 3,500 beneficiaries, who would have used skilled nursing without a hospital stay, would be affected by these new rules along with about 24,000 beneficiaries who would have used home health care. CBO estimates that some of those beneficiaries would pay for the long-term care through Medicare or Medicaid, while others would pay the costs themselves, use other insurance, or do without the long-term care. For those beneficiaries who would be covered by Medicare, DoD would not save the full cost because Tricare would be liable for all deductibles and copayments. Taking this information into account, CBO estimates that, under section 703, Tricare spending would be reduced by about $40 million in 2002, assuming appropriations are reduced by the estimated amounts. (There would also be direct spending savings of about $120 million for both the trust fund and the other uniformed services in 2003 and Medicare and Medicaid costs in both 2002 and 2003.)

Travel Reimbursement. Under current law, if the military health care system refers an active-duty servicemember to a new doctor or hospital greater than 100 miles from the member's home or duty station, the servicemember is reimbursed for the costs of traveling to the new doctor or hospital. Section 712 would require the Secretary of Defense to also reimburse reasonable travel expenses for a parent, guardian, or responsible family member when the covered beneficiary is a minor. Based on data provided by the department, CBO estimates that this provision would apply about 10,000 times each year and expects that reimbursements would average about $500 per occurrence, although those costs would rise with inflation. CBO estimates that implementing this provision would cost about $5 million a year, assuming appropriation of the necessary amounts.

Strategic Forces. Section 1011 would repeal section 1302 of the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85), as amended by section 1501(a) of the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65), to allow DoD to initiate actions to retire or dismantle the Peacekeeper intercontinental ballistic missile force. CBO estimates that implementing this provision would yield net savings of $650 million over the 2002-2006 period. Those savings would come from eliminating the cost to operate the missiles starting immediately in 2002, eventually saving about $200 million a year. These savings would be partially offset by the costs of removing the missiles and warheads from the silos and the costs of monitoring the silos. CBO assumes that the retirement process would take about three years and that the missiles would be completely retired by the end of 2004. CBO estimates missile retirement costs would total about $100 million over the 2002-2004 period.

Voluntary Separation and Early Retirement Incentives. S. 1416 contains several provisions that would allow DoD and the Department of Energy (DOE) to offer voluntary separation incentives and voluntary early retirement to their civilian employees. Taken together, CBO estimates implementing these provisions would cost $145 million in 2003 and $6 million in 2004.

Section 1113 would provide DoD with the authority to offer its civilian employees early retirement annuities as well as separation incentive payments of up to $25,000 to employees who voluntarily retire or resign in fiscal year 2003. The authority under this section would be provided only during fiscal year 2003 and would be limited to 4,000 employees. Assuming that 4,000 DoD employees would participate in the buyout program, CBO estimates that the buyout payments would cost $100 million in 2003, assuming appropriation of the estimated amounts. DoD also would be required to make a payment to the Civil

Service Retirement and Disability Fund (CSRDF) for every employee who takes a buyout. The payments would equal 15 percent of the final basic pay of each employee and come out of the agency's appropriated funds. CBO estimates these payments would cost $29 million in 2003. (CBO estimates that enacting this section also would increase direct spending for federal retirement and retiree health care benefits by a total of $46 million over the 2003-2011 period. CBO's estimate of those outlays is discussed below under the heading of "Direct Spending.")

Section 3153 would provide the Department of Energy with authority to offer payments of up to $25,000 to employees who voluntarily retire or resign in calendar year 2003. Current buyout authority for DOE is scheduled to expire on December 31, 2002. CBO assumes that about 600 DOE employees would participate in the buyout program in calender year 2003. CBO estimates that the cost of the buyout payments would total $11 million in 2003 and $4 million in 2004. Like DoD, DOE also would be required to make a payment to the CSRDF for every employee who takes a buyout payment. CBO estimates these payments would cost $5 million in 2003 and $2 million in 2004. (CBO estimates that enacting this provision also would increase direct spending for federal retirement and retiree health care benefits by $16 million over the 2003-2011 period. CBO's estimate of those outlays is discussed below under the heading of "Direct Spending.")

Payment to World War II Slave Laborers. Section 1064 would authorize the Secretary of Veterans Affairs (VA) to pay a gratuity of $20,000 to certain veterans and civilians who were held as prisoners of war (POWs) or prisoners of Japan during World War II and sent to Japan to perform slave labor. Section 1064 also would authorize VA to pay this gratuity to a surviving spouse if the claimant is deceased. During the war, thousands of American POWs and civilians who were employees of the United States (either directly or through contractors) were forced to provide slave labor for Japanese corporations. While the precise number of people who might qualify for this gratuity is not known because many Japanese documents are still unavailable for examination, at least one historian has estimated that as many as 25,000 Americans were forced to perform slave labor for about 40 different Japanese companies, and thus would qualify for this gratuity.

Based on historical and actuarial data about the veteran and civilian populations, CBO estimates that about 6,000 claims would be made for the $20,000 payment resulting in a cost of about $118 million over the 2002-2006 period. (CBO assumes that surviving spouses who have subsequently remarried would not be eligible for this benefit, a standard VA policy. Should this rule not apply for this benefit, CBO estimates that an additional 2,000 claims would be made and costs would increase to $161 million over the 2002-2006 period.)

Purchase of Alternative Fuel Vehicles for DoD. Section 317 would increase the number of alternative-fuel light duty trucks purchased for DoD use above the levels set forth in the Energy Policy Act of 1992. CBO estimates that implementing this section would cost about $23 million in fiscal year 2005 and $44 million over the 2005-2006 period.

Based on data from the General Services Administration (GSA), CBO estimates that about 11,500 light duty trucks are purchased annually for DoD use. CBO also estimates that to meet the levels specified in section 317, GSA would need to purchase about 7,700 alternative-fuel light duty trucks for DoD in 2005 and every year thereafter. These vehicles would be purchased in lieu of conventional gas or diesel vehicles and do not include vehicles purchased to satisfy the terms of the Energy Policy Act. Based on data provided by GSA, CBO estimates that in 2005 the average alternative-fuel light duty truck would cost about $3,000 more than a conventionally powered vehicle. When this cost differential is multiplied by the 7,700 trucks estimated to be purchased under this section, CBO estimates that the net annual cost to the department would be about $24 million a year. This cost would be partially offset by savings in DoD's fuel purchases. CBO estimates fuel savings would average about $2 million a year over the 2005-2006 period or about $300 per vehicle per year.

Emergency Response Equipment. Section 1063 would allow DoD to give state and local governments equipment needed for responding to emergencies involving weapons of mass destruction. Only states and local governments in possession of this equipment prior to enactment of this bill would be eligible for this transfer. CBO estimates that this provision would have no budgetary impact because giving equipment to a state or local government would not result in additional spending or cause the federal government to forgo receipts, nor would it affect DoD's authority under current law to lend equipment to other governments. It is possible, however, that giving this equipment away now could lead to DoD experiencing shortages in equipment later, but CBO projects that any future spending would occur after 2011.

Reduction in Authorizations of Appropriations for DoD Management Efficiencies. Section 1002 would authorize a $1.6 billion reduction to the amounts authorized for procurement, research and development, and operation and maintenance in the bill to reflect savings that should be achieved through implementation of the provisions in title VIII and other management efficiencies. Specifically, section 802 would set savings goals for the procurement of services (other than construction) within DoD. Section 802 specifies savings goals beginning in fiscal year 2002 (3 percent) that increase annually until 2011 when DoD would be expected to achieve a 10 percent cost savings in the procurement of services. CBO has no basis for estimating the extent to which those savings targets could be achieved. CBO notes that the department has undertaken similar savings initiatives in the past and that there is little evidence that these initiatives produced the savings levels that were promised.

If the total of the authorization amounts in the bill are appropriated in 2002 and the savings goals for next year are not achieved, then the department would need to reduce funding elsewhere in its budget to achieve the $1.6 billion reduction called for by section 1002.

Direct Spending

The bill contains provisions that would reduce direct spending, primarily through revision to payments rates for certain defense health care program services and certain asset sales from the National Defense Stockpile. The bill also contains a few provisions with direct spending costs. On balance, CBO estimates that enacting S. 1416 would result in net savings in direct spending totaling $209 million over the 2002-2006 period (see Table 4).

Medical Care Trust Fund. Sections 703 and 713 would change the way DoD administers long-term care and the way it pays for that care under the Tricare for Life program. DoD has the regulatory authority to make the changes that are directed in these sections but thinks it will take upwards of two years to implement the changes by regulation. Both sections would require that the changes take effect on October 1, 2001. Accordingly, DoD would save money over the roughly two-year period before the regulations would have been implemented. The Tricare for Life program will begin on October 1, 2001, but the trust fund will not begin operation until one year later, so only the savings to DoD in fiscal year 2003 would be considered direct spending savings. There also would be some minor savings in 2002 for retirees of the other uniformed services.

Payment Rates. Under current regulations, the Tricare for Life program will pay all deductibles and copayments associated with Medicare's skilled nursing benefit and will pay for skilled nursing care in excess of the Medicare benefit (100 days). Additionally, Tricare will pay for skilled nursing and home health care even if the beneficiary does not have a prior hospital admission. (Tricare will pay 75 percent of billed charges, with no maximum charge, until the beneficiary has paid $3,000 in out-of-pocket costs and then will pay 100 percent of billed charges after that point.) Section 713 would require DoD to set maximum allowable charges for skilled nursing and home health care, which would lower its cost of providing long-term care. CBO estimates that implementing new charges based on Medicare rates would lower what DoD pays for skilled nursing and home health care by about 30 percent. Under section 713, CBO estimates that direct spending from the trust fund for DoD retirees would decline by about $215 million in 2003. (The discretionary savings for 2002 are discussed earlier in the "Spending Subject to Appropriation" section under the heading of "Defense Health Program.")

TABLE 4. ESTIMATED DIRECT SPENDING FROM HEALTH CARE AND OTHER PROVISIONS IN S. 1416, AS REPORTED (By Fiscal Year, Outlays in Millions of Dollars)

	2002	2003	2004	2005	2006
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)					
Medical Care Trust Fund					
Payment Rates	-2	-220	0	0	0
Long-Term Care Rates	21	-47	0	0	0
Voluntary Separation and Early Retirement Incentives (DoD)	0	44	35	3	-6
Voluntary Separation and Early Retirement Incentives (DOE)	0	6	7	2	a
Improvements to Energy Employees Compensation Program	11	14	14	13	13
Transferability of MGIB Education Benefits	0	0	2	5	8
Armed Forces Retirement Home Fees	2	2	2	2	2
Land Conveyance of Navy Property in Maine	0	1	1	0	0
Subtotal	32	-200	61	25	17
ASSET SALES[b]					
National Defense Stockpile - New Sales	-2	-2	-2	-2	-2
National Defense Stockpile - Accelerated Cobalt Sales	-20	-30	-14	-3	33
Authority to Transfer Naval Vessels	-18	-82	0	0	0
Subtotal	-40	-114	-16	-5	31
TOTAL CHANGES IN DIRECT SPENDING					
Estimated Outlays	-8	-314	45	20	48

a. Less than $500,000.
b. Asset sale receipts are a credit against direct spending.

The Tricare for Life program also covers retired members of the Coast Guard and retired uniformed members of the Public Health Service and the National Oceanic and Atmospheric Administration. Health care spending for these retirees is considered direct spending. Under section 713, CBO estimates that the other uniformed services would save about $2 million in 2002 and $5 million in 2003.

Long-Term Care Rules. Under current law, Medicare will not pay for skilled nursing and home health care unless the beneficiary has been hospitalized before receiving that care. Tricare, on the other hand, will pay for long-term care without a prior hospitalization. For those cases, Tricare becomes the primary insurance because Medicare will not pay. Section 703 would require DoD to structure its long-term care benefit to resemble Medicare's, which requires prior hospitalization. Implementing this provision would lower DoD's costs because fewer beneficiaries would be eligible for skilled nursing and home health care. CBO estimates that under section 703, direct spending from the trust fund would decline by about $120 million in 2003. CBO also estimates that, under section 703, the other uniformed services would save less than $500,000 in 2002 and about $1 million in 2003. (There would also be discretionary savings of about $40 million, as discussed earlier.)

The Tricare for Life program would be able to lower costs by shifting many of those costs to their beneficiaries and other government programs, primarily Medicare. CBO estimates that about 50 percent of individuals who would have used long-term care without a prior hospital stay would be able to qualify under the Medicare rules (about 1,600 for skilled nursing and about 12,000 for home health care). CBO further estimates that the average cost of skilled nursing is about $250 a day, and for home health care about $2,300 for 60 days of care, which is the Medicare benefit. Accordingly, CBO estimates that under section 703 direct spending for Medicare benefits would increase by $20 million in 2002 and $70 million in 2003. In addition, a few beneficiaries would eventually become eligible for Medicaid, which also provides long-term care benefits. CBO estimates that Medicaid costs under section 703 would be $1 million in 2002 and $3 million in 2003.

Voluntary Separation and Early Retirement Incentives. S. 1416 contains several provisions that would allow the DoD and DOE to offer voluntary separation incentives and voluntary early retirement to their civilian employees. Taken together, CBO estimates enacting these provisions would increase direct spending for federal retirement and retiree health care benefits by $50 million in 2003 and $62 million over the 2003-2011 period.

Section 1113 would provide DoD with authority to offer its civilian employees early retirement annuities as well as separation incentive payments of up to $25,000 for employees who voluntarily retire or resign in fiscal year 2003. The authority under this section is provided only during fiscal year 2003 and is limited to 4,000 employees. CBO estimates that enacting section 1113 would increase direct spending for federal retirement and retiree health care benefits by $44 million in 2003 and $46 million over the 2003-2011 period.

Section 3153 would provide DOE with authority to offer payments of up to $25,000 to employees who voluntarily retire or resign in calendar year 2003. Current buyout authority for DOE is scheduled to expire on December 31, 2002. CBO estimates enacting section 3153 would increase direct spending for federal retirement and retiree health care benefits by $6 million in 2003 and $16 million during the 2003-2011 period.

DoD Retirement Spending. CBO assumes that 4,000 DoD employees would participate in the buyout program in 2003. CBO further assumes most workers who take a buyout would begin collecting federal retirement benefits an average of two years earlier than they would under current law. Inducing some employees to retire earlier initially would result in additional retirement benefits being paid from the Civil Service Retirement and Disability Fund. In later years, annual federal retirement outlays would be lower than under current law because the employees who retire early receive smaller annuity payments than if they had retired later. Under section 1113, CBO estimates direct spending for retirement benefits would increase by $38 million in 2003 and $34 million over the 2003-2011 period. (The discretionary costs for 2003 associated with the buyout payments were discussed earlier in the "Spending Subject to Appropriation" section under the heading of "Voluntary Separation and Early Retirement Incentives.")

DoD Retiree Health Care Spending. Enacting section 1113 also would increase direct spending on federal benefits for retiree health care because many employees who accept the buyouts would continue to be eligible for coverage under the Federal Employee Health Benefits (FEHB) program. The government's share of the premium for these retirees—unlike current employees—is mandatory spending. Because many of those accepting the buyouts would convert from being an employee to being a retiree earlier than under current law, mandatory spending for FEHB premiums would increase. CBO estimates these additional FEHB benefits would increase direct spending by $6 million in 2003 and $12 million over the 2003-2011 period.

DOE Retirement Spending. CBO assumes that about 600 DOE employees would participate in the buyout program in calender year 2003 and that most workers who take a buyout would begin collecting federal retirement benefits an average of two years earlier than they would under current law. Inducing some employees to retire earlier initially would result in additional retirement benefits being paid from the CSRDF. In later years, annual federal retirement outlays would be lower than under current law because the employees who retire early receive smaller annuity payments than if they had retired later. Under section 3153, CBO estimates direct spending for retirement benefits would increase by $6 million in 2003 and $15 million over the 2003-2011 period.

DOE Retiree Health Care Spending. Section 1113 also would increase direct spending on federal retiree health benefits because many employees who accept the buyouts would continue to be eligible for coverage under the FEHB program. CBO estimates these additional FEHB benefits would increase direct spending by less than $500,000 in 2003 and by $1 million in 2004.

Energy Employees Compensation. Section 3151 would make technical changes to the Energy Employees Occupational Illness Compensation Program (EEOICP) created by Public Law 106-398, which enacted the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001. CBO estimates that enacting this provision would increase direct spending for EEOICP by $11 million in 2002, $65 million over the 2002-2006 period, and $108 million over the 2002-2011 period.

Section 3151 would establish more relaxed criteria for determining whether a claimant suffers from chronic silicosis. Specifically, this section would reduce the required pneumoconiosis classification of a claimant to a more lenient category. CBO estimates that relaxing this criteria would allow about 550 new claimants, who were not previously eligible, to receive compensation from EEOICP.

Under current law, successful claimants are entitled to a one-time, lump sum payment of $150,000. CBO estimates that relaxing the criteria for chronic silicosis would increase direct spending for EEOICP by about $55 million over the 2002-2006 period, and $83 million over the 2002-2009 period. CBO assumes these payments would be spread evenly throughout the 2002-2009 period because screening programs are still ongoing and will need several years to identify all potential claimants.

Additionally, under current law, once a claim is approved EEOICP becomes the primary payer for all medical bills related to a claimant's condition. CBO estimates that the average annual cost for treatment of chronic silicosis is about $4,000. After considering mortality rates associated with this disease, CBO estimates that medical costs paid under EEOICP would increase direct spending by about $1 million in 2002, $5 million over the 2002-2006 period, and $21 million over the 2002-2011 period.

Section 3151 also would make other changes to EEOICP. The age requirement for those claimants afflicted with leukemia attributable to occupational exposure to radiation would be lowered to include those whose initial exposure occurred before age 21. CBO estimates that lowering the age requirement would create a negligible number of additional claims. Section 3151 would also clarify the rules for making payments to survivors of former energy workers. Currently, widows or children can claim the entire $150,000 payment in the event that the former employees are deceased. Grandparents, grandchildren, and siblings can claim the payment if they can prove dependency on the deceased employee. Section 3151 would allow these other relatives to make such claims without proving dependency. CBO estimates that only about 2.5 percent of all survivors would be someone other than a widow or child, generating about 25 additional claims. CBO estimates that the relaxed restrictions on survivors would increase direct spending for EEOICP by less than $500,000 in 2002, and $4 million over the 2002-2006 period. CBO expects that almost all these additional claims would be paid in the 2002-2006 period.

Transfer of Entitlement to MGIB Education Assistance. Section 539 would provide DoD with the authority to allow certain military personnel to transfer up to 18 months of their entitlement to MGIB educational assistance to any combination of spouse and children. To be eligible, servicemembers would have to have a critical skill or speciality, to have served at least six years in the Armed Forces, and to agree to serve an additional four or more years. Under section 539, an amount equal to the net present value of the transferability option would be deposited into the Defense Education Trust Fund when a servicemember was granted this benefit, and would be paid to the Secretary of Veterans Affairs as the benefit was used. The monies deposited into the trust fund are subject to appropriation and were discussed earlier under the heading of "Spending Subject to Appropriation."

CBO expects that DoD would use the authority in 2002 to enhance retention in those areas where the maximum authorized retention bonuses are currently being paid and that the benefit would be offered to a larger population in subsequent years. Based on information from DoD, about 20,300 servicemembers, with six or more years of service, will receive a selective re-enlistment bonus in 2002. Under section 539, CBO assumes that about 3,000 of those would receive the MGIB transferability benefit, and that this number would increase to 7,100 by 2011. CBO also assumes that two-thirds of the transfers would be used by children. Since most selective re-enlistment bonuses go to servicemembers with 10 or fewer years of service, few of their children would be of an age to use post-secondary education benefits over the next 10 years. CBO's estimate of mandatory outlays for this benefit, therefore, focuses on the use of the remaining one-third of the transfers that would go to spouses.

CBO expects the spouses would, on average, begin training two years after the transferability option was granted, and that they would train, on a part-time basis, over a period of several years. Based on these assumptions, CBO estimates that about 700 spouses would receive an average annual benefit of $2,400 in 2004 and that, by 2011, almost 840 spouses would receive an annual MGIB benefit of about $2,800. Thus, CBO estimates that enacting this provision would increase direct spending for MGIB education benefits by $2 million in 2004, $15 million over the 2004-2006 period, and $91 million over the 2004-2011 period.

Changes to Armed Forces Retirement Home Fee Structure. Section 1045 would authorize changes to the fees levied on residents of the Armed Forces Retirement Home. These fees are deposited into the Armed Forces Retirement Home Trust Fund, which pays the operating and maintenance costs of the U.S. Soldiers' and Airmen's Home in Washington, D.C., and the U.S. Naval Home in Gulfport, Mississippi. The legislation would change the percentage of monthly income charged to residents of the two homes and alter the monthly caps on resident fees. Section 1045 would also authorize the Chief Operating Officer of the Armed Forces Retirement Home, in consultation with the Secretary of Defense, to make additional changes in the resident fees in accordance with the financial needs of the Retirement Home. However, Armed Forces Retirement Home staff have indicated that no significant changes in the fee structure, other than those indicated by the bill, are anticipated in the near future.

Information provided by the Armed Forces Retirement Home indicates this provision would reduce fees for more than 1,200 residents, almost 80 percent of all residents. CBO estimates the affected residents would see their fees reduced by an average of about 15 percent in 2002. Therefore, CBO estimates that section 1045 would reduce offsetting receipts (a credit against direct spending) by $2 million in 2002 and a total of $20 million over the 2002-2011 period.

Land Conveyances. Title XXVIII would authorize a variety of property transactions involving both large and small parcels of land.

Enacting this bill would result in direct spending by authorizing a conveyance that would reduce offsetting receipts collected by the federal government. Under section 2823, the Navy would be authorized to convey 485 acres of property to the state of Maine or other governmental jurisdictions. Under current law, however, the Navy will declare that property excess to its needs and transfer it to the General Services Administration for disposal. Under normal procedures, GSA sells property not needed by other federal agencies or by nonfederal entities in need of property for public-use purposes such as parks or educational facilities. Information from GSA indicates that portions of the land will likely be sold under current law after the entire parcel is screened for other uses in 2002. As a result, CBO estimates that the conveyance in the bill would result in forgone receipts totaling about $1 million in 2003 and $1 million in 2004.

CBO estimates that other conveyances would not significantly affect offsetting receipts because according to DoD some of the properties have values of less than $500,000 while others are not likely to be transferred to GSA for disposal.

Concurrent Receipt. Upon passage of qualifying, offsetting legislation, section 651 would allow total or partial concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the military, the Coast Guard, the Public Health Service, and the National Oceanic and Atmospheric Administration who have service-connected disabilities. The provision also would discontinue special compensation for certain uniformed service retirees who are severely disabled.

Under current law, disabled veterans who are retired from the uniformed services cannot receive both full retirement annuities and disability compensation from the Department of Veterans Affairs. Because of this prohibition on concurrent receipt, such veterans forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit.

Section 651 would become effective only upon passage of legislation that would fully offset its costs in each of the first 10 fiscal years after passage of the offsetting legislation. If qualifying, offsetting legislation were enacted in 2001, CBO estimates that implementing this section in 2002 would increase direct spending for retirement payments and veterans' disability compensation by about $3 billion in 2002, $17 billion over the 2002-2006 period, and $41 billion over the 2002-2011 period. Because those effects are contingent upon subsequent legislation, they are not included in Table 4.

In addition, the military retirement system is financed in part by an annual payment from appropriated funds to the military retirement trust fund, based on an estimate of the system's accruing liabilities. If section 651 were implemented, the yearly contribution to the military retirement trust fund (an outlay in budget function 050) would increase to reflect the added liability from the expected increase in annuities to future retirees. CBO estimates that implementing this provision would increase such payments by about $1 billion in 2002, and $6 billion over the 2002-2006 period, assuming appropriation of the necessary amounts.

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

- Section 314 would extend a pilot program for the sale of air pollution emission reduction incentives. DoD would be allowed to spend all receipts less than $500,000 on environmental programs. Any receipts above $500,000 would go to the Treasury.

- Section 505 would allow officers whose mandatory retirement has been deferred for medical reasons to further postpone their retirement for up to 30 days.

- Section 515 would allow disability retirement for reservists whose disability was incurred or aggravated while remaining overnight before inactive-duty training, or between successive periods of such training. Currently, reservists are only covered during overnight stays for such periods if they are outside reasonable commuting distance of their residences.

- Section 552 would require the military to review the records of certain Jewish American war veterans to determine if any of these veterans should be awarded the Medal of Honor. A $600 a month pension is available to living Medal of Honor recipients. Based on similar reviews in the past, CBO estimates that a small number of awards would be presented (many posthumously), resulting in an increase in direct spending of less than $500,000 a year.

- Section 586 would allow DoD to accept voluntary legal services as a way to provide legal help to DoD beneficiaries. Although the service is voluntary, in the event of a legal malpractice suit the government would be liable for any claims against the legal volunteer. Payment of those claims is considered direct spending, but CBO estimates that this provision would cost less than $500,000 each year.

- Section 1111 would provide federal retirement credit to certain former employees of Nonappropriated Fund Instrumentalities (NAFI). Under current law, most workers who transfer from NAFI employment to regular federal employment may transfer any NAFI retirement service credits earned as NAFI employees to the appropriate federal retirement program. However, under certain circumstances, some former NAFI employees have not been permitted to transfer NAFI retirement credits to their federal service. Section 1111 would permit many of these employees to use NAFI credits that otherwise would not have been credited to their federal service in order to qualify for retirement annuities under the Civil Service Retirement System or the Federal Employees' Retirement System.

  Although workers would be able to use these credits in order to qualify for federal retirement benefits earlier than they would have otherwise, the provision mandates that annuities be actuarially reduced. The actuarial reduction would be calculated in such a way that the present value of a retiree's benefits would be actuarially equivalent to the value of the annuity that would have been provided without the NAFI service credit. Information provided by the Department of Defense and Office of Personal Management indicates that only between 5 and 15 employees would claim NAFI service credit under this provision in any given year. Therefore, CBO estimates that Section 1111 would increase direct spending for federal retirement benefits by less than $500,000 a year.

- Section 1112 would provide greater pension portability for certain civilian employees who have been employed by a NAFI employer and then become federal workers. The provision would eliminate the requirement that workers who move between a NAFI employer and the civil service must be fully vested in order to transfer any accrued service credits from one retirement system to another. According to the Department of Defense, relatively few workers would be affected by this provision; thus, CBO estimates that Section 1112 would increase direct spending by less than $500,000 per year.

- Section 2804 would expand DoD's ability to substitute in-kind payments for cash from the lease of its property. The provision would raise direct spending because it would lower the amount of cash that DoD receives and deposits in the Treasury as offsetting receipts. CBO estimates that the loss of offsetting receipts would total less than $500,000 annually.

Asset Sales

The bill would authorize various asset sales totaling $144 million over the 2002-2006 period.

National Defense Stockpile. Section 3301 would authorize DoD to sell certain materials contained in the National Defense Stockpile that are obsolete or excess to stockpile requirements. CBO estimates that DoD would be able to sell the materials authorized for disposal and achieve receipts totaling about $2 million in 2002, $10 million over the 2002-2006 period, and $20 million over the 2002-2011 period.

Section 3302 would amend previous authorization bills allowing managers of the stockpile to achieve near-term sales in excess of the established interim targets. Because actual sales have already exceeded those targets and because the bill would not increase total program targets, CBO estimates that enacting this provision would have no net budgetary impact.

Section 3303 would accelerate by one year the disposal of cobalt that was previously authorized for sale in the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85). The 1998 bill authorized the sale of all remaining cobalt starting in 2003. The sales of cobalt authorized for disposal under earlier bills are projected to be completed this year. This bill would allow all remaining cobalt to be sold starting in 2002, thus avoiding a one-year gap in sales. CBO estimates that DoD would be able to expedite that disposal without impacting current market prices, resulting in more receipts from asset sales over the next five years, but no net budgetary impact over the 2002-2011 period.

Naval Vessels. Section 1216 would authorize the transfer of 13 naval vessels to foreign countries. It would authorize the sale of six vessels; the other seven would be given away. Information from DoD indicates that the asking price for the six ships would be approximately $175 million. There is significant uncertainty as to whether all six vessels would be sold and what the sale price might be. Reflecting this uncertainty, CBO estimates that receipts from these sales would total $18 million in 2002 and $82 million in 2003.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending that are subject to pay-as-you-go procedures are shown in Table 5. 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.

TABLE 5. ESTIMATED IMPACT OF S. 1416 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	0	-8	-314	45	20	48	51	19	21	15	17
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that enforce the constitutional rights of individuals. CBO has determined that subtitle F (Uniformed Services Overseas Voting) of title V is excluded because the provision would enforce an individual's constitutional right to vote.

Section 1062 of the bill would prohibit possession of significant former military equipment that has not been demilitarized and require the Secretary of Defense to notify the Attorney General of any known cases of persons holding such equipment. The Attorney General would be given the authority to require holders of such equipment either to ensure that the equipment is demilitarized or returned to DoD for demilitarization. In either case, those requirements would be considered mandates. If the equipment is not returned to DoD for demilitarization, the recipient must bear the costs of demilitarizing the equipment. However, the instances in which this provision would be used are expected to be small; in most cases DoD demilitarizes equipment prior to transferring ownership. Consequently, the costs of this mandate would be minimal.

The remaining provisions of the bill either contain no mandates or are excluded, as specified in UMRA, because they would be necessary for national security. The bill also would affect DoD's Tricare long-term care program by increasing costs in state Medicaid programs by about $1 million in 2002 and over $2 million in 2003. Such costs would not result from mandates as defined by UMRA.

PREVIOUS CBO ESTIMATES

On August 22, 2001, CBO transmitted a cost estimate for H.R. 2586, the National Defense Authorization Act for Fiscal year 2002, as ordered reported by the House Committee on Armed Services on August 1, 2001. The House bill also would authorize approximately

$343 billion in defense funding for fiscal year 2002. Both H.R. 2586 and S. 1416 would reduce direct spending over the 2002-2006 period, but the Senate bill contains less such savings.

On May 22, 2001, CBO prepared cost estimates for S. 170 and H.R. 303, identical bills titled the Retired Pay Restoration Act of 2001. S. 170 and H.R. 303 would provide identical benefits to those specified in Section 651 of S. 1416. If section 651 is implemented by October 1, 2001, the costs would be identical to those estimated for S. 170 and H.R. 303. As noted above, however, the provisions of section 651 cannot be implemented until additional legislation is enacted (to offset the section's costs). S. 170 and H.R. 303 do not contain such a contingency requirement.

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