CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

December 31, 2001

S. 1438
National Defense Authorization Act for Fiscal Year 2002

As cleared by the Congress on December 13, 2001,
and signed into law by the President on December 28, 2001

SUMMARY

S. 1438, the National Defense Authorization Act for Fiscal Year 2002, contains numerous provisions that will both increase and decrease outlays from direct spending, including provisions affecting health care for certain retirees of the uniformed services, compensation for radiation exposure related to the government's nuclear weapons program, education benefits for certain servicemembers, compensation for certain disabled retirees, and retirement benefits of civilian employees of the Department of Energy (DOE) and the Department of Defense (DoD). CBO estimates that these and other provisions will increase direct spending by $785 million over the 2002-2011 period. S. 1438 also allows DoD to sell certain materials in the strategic stockpile as well as various naval vessels. These asset sales will raise offsetting receipts by $170 million over the next 10 years. Overall, CBO estimates that S. 1438 will increase direct spending by $146 million in 2002, $276 million over the 2002-2006 period, and $615 million over the 2002-2011 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions that will affect direct spending (including proceeds from asset sales) is shown in Table 1. (S. 1438 will not affect receipts.) For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted. The budgetary impact of the act falls under budget functions 050 (national defense), 270 (energy), 300 (natural resources and environment), 400 (transportation), 550 (health), 570 (medicare), 600 (income security), 700 (veterans benefits and services), and 800 (general government).

TABLE 1. BUDGETARY IMPACT OF S.1438 ON DIRECT SPENDING AND ASSET SALES

	By Fiscal Year, Outlays in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)										
Radiation Exposure Compensation	160	155	107	65	47	29	29	23	23	17
Medical Care Trust Fund										
Tricare Payment Rates	-1	-210	0	0	0	0	0	0	0	0
Skilled Nursing and Home Health Care Rules	4	-87	0	0	0	0	0	0	0	0
Compensation for Severely Disabled	5	11	12	18	19	19	19	20	20	21
Energy Employees Compensation	11	14	14	13	13	11	12	12	4	4
Recovery Audits	-17	-76	-16	4	1	0	0	0	0	0
MGIB Benefits	0	0	2	5	8	12	13	15	17	19
VSI/Early Retirement										
DoD	18	75	61	5	-11	-12	-12	-12	-12	-12
DOE	0	6	7	2	a	a	a	a	a	a
Survivor Benefits	a	1	1	2	2	3	4	4	5	5
Armed Forces Retirement Home	2	2	2	2	2	2	2	2	2	2
Senior ROTC	1	1	1	1	1	1	1	1	1	1
Uniform Allowances	3	0	0	0	0	0	0	0	0	0
Land Conveyance	0	1	1	0	0	0	0	0	0	0
Subtotal	186	-107	192	117	82	65	68	65	60	57
ASSET SALES (A CREDIT AGAINST DIRECT SPENDING) [b]										
Transfer of Naval Vessels	-18	-82	0	0	0	0	0	0	0	0
National Defense Stockpile										
New Sales	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Revision of Limitations	0	0	-20	-20	-10	0	0	0	0	0
Cobalt Sales	-20	-30	-14	-3	33	34	0	0	0	0
Subtotal	-40	-114	-36	-25	21	32	-2	-2	-2	-2
TOTAL CHANGES IN DIRECT SPENDING [c]										
Estimated Outlays	146	-221	156	92	103	97	66	63	58	55

NOTE: MGIB = Montgomery GI Bill
VSI = Voluntary Separation Incentives
ROTC = Reserve Officer Training Corps

a. Costs or savings of less than $500,000.
b. Under the Balanced Budget Act of 1997, proceeds from a nonroutine asset sale may be counted for purposes of pay-as-you-go scoring only if the sale would entail no net financial cost to the government. CBO estimates that the nonroutine asset sales that result from S. 1438 will generate a net savings to the government, and therefore, that the proceeds count for pay-as-you-go purposes.
c. For purposes of enforcing pay-as-you-go scoring, only the effects in the budget year and succeeding four years are counted.

BASIS OF ESTIMATE

S. 1438 contains provisions that will both increase and decrease outlays from direct spending, including asset sale receipts that count for pay-as-you-go purposes. On balance, CBO estimates that S. 1438 will result in an increase in direct spending of $146 million in 2002, $276 million over the 2002-2006 period, and $615 million over the 2002-2011 period.

Direct Spending

Excluding the act's effects on proceeds from asset sales, CBO estimates that S. 1438 will increase direct spending by $186 million in 2002, $470 million over the 2002-2006 period, and $785 million over the 2002-2011 period. (Asset sales are discussed in a subsequent section.)

Radiation Exposure Compensation. Section 1063 provides new funding for compensation from the Radiation Exposure Compensation Trust Fund (RECA). These new payments will be subject to annual caps in budget authority that total $172 million in 2002 and $655 million over the 2002-2011 period. CBO estimates this provision will increase direct spending outlays for RECA by $160 million in 2002, $534 million over the 2002-2006 period, and $655 million over the 2002-2011 period.

The Radiation Exposure Compensation Act Amendments of 2000 (Public Law 106-245) greatly expanded the number of claimants eligible to receive lump sum payments from the RECA trust fund. These claimants are composed mainly of former uranium miners and persons living downwind from government nuclear testing, who have been afflicted with cancer and various pulmonary ailments. CBO estimates that Public Law 106-245 created an additional 11,000 claimants, who are eligible to receive lump-sum payments ranging from $50,000 to $100,000.

Formerly, payments from the RECA trust fund were provided through discretionary annual appropriations, which created a large backlog of unpaid claims. Recent appropriations have reduced the backlog, but CBO estimates that an additional $800 million in claims will need to be paid over the life of the program.

Medical Care Trust Fund. Sections 701 and 707 change the way DoD administers its skilled nursing and home health care benefits and the way it pays for those benefits under the Tricare for Life program. Under prior law, DoD had the regulatory authority to make the changes that are directed in these sections but expected it would take upwards of two years to implement the changes by regulation. Sections 701 and 707 will make the changes effective in about three months after enactment. Accordingly, DoD will save money over the roughly two-year period before the regulations would have been implemented. The Tricare for Life program began 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 will be considered direct spending savings. There also will be some minor savings in 2002 for retirees of the other uniformed services.

Payment Rates. Under prior regulations, the Tricare for Life program paid all deductibles and copayments associated with Medicare's skilled nursing benefit and paid for skilled nursing care in excess of the Medicare benefit (100 days). Additionally, Tricare paid for skilled nursing care even if the beneficiary did not have a prior hospital admission and for home health care that exceeded Medicare's maximum benefit. (Tricare pays 75 percent of billed charges, with no maximum charge, until the beneficiary has paid $3,000 in out-of-pocket costs and then pays 100 percent of billed charges after that point.) Section 707 requires DoD to set maximum allowable charges for skilled nursing and home health care, which will lower its cost of providing these benefits. CBO estimates that implementing new charges based on Medicare rates will lower what DoD pays for skilled nursing and home health care by about 30 percent. Under section 707, CBO estimates that direct spending from the trust fund for DoD retirees will decline by about $205 million in 2003.

The Tricare for Life program also covers retired members of the Coast Guard and retired uniformed members of the Public Health Service (PHS) and the National Oceanic and Atmospheric Administration (NOAA). Health care spending for these retirees is considered direct spending. Under section 707, CBO estimates that the other uniformed services will save about $1 million in 2002 and $5 million in 2003.

Skilled Nursing and Home Health Care Rules. Under current law, Medicare will not pay for skilled nursing unless the beneficiary has been hospitalized before receiving that care and will not pay for home health care in excess of the allowable benefit. Under previous regulations, Tricare paid for skilled nursing without a prior hospitalization and for home health care in excess of Medicare's benefit. For those cases, Tricare became the primary insurance because Medicare did not pay. Section 701 requires DoD to structure its skilled nursing and home health care benefits to resemble Medicare's. Implementing this provision will lower DoD's costs because fewer beneficiaries will be eligible for skilled nursing and other beneficiaries will receive less home health care. CBO estimates that under section 701, direct spending from the trust fund will decline by about $100 million in 2003. CBO also estimates that, under section 701, the other uniformed services will save less than $500,000 in 2002 and about $1 million in 2003.

The Tricare for Life program will be able to lower costs by shifting many of those costs to its beneficiaries and other government programs, primarily Medicare. CBO estimates that about 1,600 individuals who would have used skilled nursing without a prior hospital stay will be able to qualify under the Medicare rules at a cost of $250 a day. Accordingly, CBO estimates that under section 701 direct spending for Medicare benefits will increase by $3 million on in 2002 and $12 million in 2003. In addition, a few beneficiaries will eventually become eligible for Medicaid, which also provides skilled nursing benefits. CBO estimates that these Medicaid costs under section 701 will be $1 million in 2002 and $2 million in 2003.

On balance, CBO estimates that changes in the skilled nursing and home health care benefits will cost $4 million in 2002, but save $87 million in 2003.

Compensation for Disability Retirees. Section 641 increases the rates of special compensation for certain uniformed service retirees that are severely disabled, as well as expanding eligibility for those compensation payments. Under prior law, uniformed service retirees who were found, within four years of retirement, to have a service-connected disability that was rated as 70 percent or greater, were eligible for compensation. The resulting change in compensation is estimated to total $5 million in 2002, $65 million over the 2002-2006 period, and $164 million through 2011.

Effective February 1, 2002, section 641 expands the eligible population to include retirees who were otherwise qualified, but had a service-connected disability rated at 60 percent. These retirees will be entitled to a monthly payment of $50. Based on information from DoD and the Department of Veterans Affairs (VA), CBO estimates that this change in eligibility criteria will add about 13,200 to the population of qualified retirees at a cost of about $5 million in 2002, $39 million over the 2002-2006 period and $85 million over the 2002-2011 period. About 200 retired members of the Coast Guard, NOAA, and the PHS also will be eligible for payments, at a cost of less than $500,000 a year.

Section 641 also increases the payments to those already eligible for special compensation, first in January 2003 and again in September 2004. According to DoD, about 18,000 military retirees are currently receiving special compensation. About 300 retired members of the Coast Guard, NOAA, and PHS also receive payments. Based on expected rates of growth for the retiree population, CBO expects the population receiving special compensation to increase to almost 21,000 by 2011, with the distribution of disability levels remaining similar to what it is today.

The act increases benefits in 2003 and 2004 as follows:

- For a retiree whose disability is rated as total, the special compensation rate will increase from $300 to $325 per month in January 2003 and from $325 to $350 per month in September 2004.

- For a retiree whose disability is rated as 90 percent, the special compensation rate will increase from $200 to $225 per month in January 2003 and from $225 to $250 per month in September 2004.

- For a retiree whose disability is rated as 80 percent, the special compensation rate will increase from $100 to $125 per month in January 2003 and from $125 to $150 per month in September 2004.

- Retirees whose disability is rated as 70 percent will continue to receive $100 per month through September 2004, after which their benefit will increase to $125 per month.

CBO estimates that the increase in benefit levels will increase direct spending by about $3 million in 2003, $26 million over the 2003-2006 period and $79 million over the 2003-2011 period.

Energy Employees Compensation. Section 3151 makes 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 this provision will 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 establishes more relaxed criteria for determining whether a claimant suffers from chronic silicosis. Specifically, this section will reduce the required pneumoconiosis classification of a claimant to a more lenient category. CBO estimates that relaxing this criteria will 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 will 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 will 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 will 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 makes other changes to EEOICP. The age requirement for those claimants afflicted with leukemia attributable to occupational exposure to radiation is lowered to include those whose initial exposure occurred before age 21. CBO estimates that lowering the age requirement will create a negligible number of additional claims. Section 3151 also clarifies the rules for making payments to survivors of former energy workers. Today, widows or children can claim the entire $150,000 payment in the event that the former employees are deceased. Under prior law, grandparents, grandchildren, and siblings could claim the payment if they could prove dependency on the deceased employee. Section 3151 allows these other relatives to make such claims without proving dependency. CBO estimates that only about 2.5 percent of all survivors will be someone other than a widow or child, generating about 25 additional claims. CBO estimates that the relaxed restrictions on survivors will 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 will be paid in the 2002-2006 period.

Recovery Audits. Subtitle D of title VIII requires federal agencies to conduct specialized audits of those accounts that purchase at least $500 million of goods and services from the private sector. The goal of these audits would be to find and recover sums erroneously paid to private vendors. The legislation also allows agencies to retain and spend some of the funds recovered under certain conditions. Recovered funds that still would be available for obligation could be spent on the original purposes of those funds, payment of contractors providing recovery audits, management improvement projects, or returned to the Treasury.

CBO estimates that implementing this program will reduce net direct spending by about $104 million over the 2002-2006 period, by increasing the federal government's recovery of erroneous payments made from current and prior-year appropriations. For this estimate, CBO assumes that most agencies will audit at least three years of such payments. Implementing the act could yield additional savings from payments made from future appropriations. In addition, CBO estimates that the Office of Management and Budget (OMB) will spend less than $500,000 a year to oversee and report on the act's implementation, subject to the availability of appropriated funds. The savings from this legislation fall within multiple budget functions.

CBO expects that the requirement to audit payments will apply to about $60 billion in annual payments to private vendors. This total excludes those accounts that we expect to be audited under prior law and those that OMB will probably exempt from the act's requirements, including accounts that fund research, testing, and procurement of military weapons, finance federal law enforcement activities, and involve medical records. On average, CBO assumes the federal government will recover about 0.1 percent of the $60 billion audited, or $60 million a year for the 2002-2004 period. That rate takes into account the difficulty in collecting overpayments that are more than one year old and the likelihood that federal agencies will settle for less than full payment on some of these debts.

Finally, CBO assumes that agencies will spend all of the recovered funds that would remain available for obligation (i.e., funds that were provided under multiyear obligation authority). Based on the obligation authority provided in appropriations for fiscal year 2002, and accounting for certain exclusions that will be allowed under the act, CBO estimates that agencies can spend no more than 45 percent of recovered funds. Thus, with gross recoveries of about $180 million, net savings under this provision will be about $100 million.

Transfer of Entitlement to MGIB Education Assistance. Section 654 provides 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 654, an amount equal to the net present value of the transferability option will be deposited into the Defense Education Trust Fund when a servicemember is granted this benefit, and will be paid to the Secretary of Veterans Affairs as the benefit is used.

CBO expects that DoD will 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 will 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 654, CBO assumes that about 3,000 of those will receive the MGIB transferability benefit, and that this number will increase to 7,100 by 2011. CBO also assumes that two-thirds of the transfers will be used by children. Since most selective re-enlistment bonuses go to servicemembers with 10 or fewer years of service, few of their children will be of an age to use post-secondary education benefits over the next 10 years. CBO's estimate of the direct spending affects of this provision, therefore, focuses on the use of the remaining one-third of the transfers that will go to spouses.

CBO expects the spouses will, on average, begin using MGIB education assistance two years after the transferability option is granted, and that they will do so, on a part-time basis, over a period of several years. Based on these assumptions, CBO estimates that about 700 spouses will receive an average annual benefit of $2,400 in 2004 and that, by 2011, almost 840 spouses will receive an annual MGIB benefit of about $2,800. Thus, CBO estimates that this provision will 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.

Voluntary Separation and Early Retirement Incentives. S. 1438 contains several provisions that allow DoD and DOE to offer voluntary separation incentives and voluntary early retirement to their civilian employees. Taken together, CBO estimates these provisions will increase direct spending for federal retirement and retiree health care benefits by $18 million in 2002 and $103 million over the 2002-2011 period.

Section 1133 provides 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 years 2002 and 2003. The authority under this section is limited to 2,000 employees in 2002 and 6,000 employees in 2003. CBO estimates that section 1133 will increase direct spending for federal retirement and retiree health care benefits by $18 million in 2002 and $88 million over the 2002-2011 period.

Section 3153 provides DOE with authority to offer payments of up to $25,000 to employees who voluntarily retire or resign in calendar year 2003. Under prior law, buyout authority for DOE was scheduled to expire on December 31, 2002. CBO estimates section 3153 will increase direct spending for federal retirement and retiree health care benefits by $6 million in 2003 and $15 million during the 2003-2011 period.

DoD Retirement Spending. CBO assumes that a total of 8,000 DoD employees will participate in the buyout program in 2002 and 2003. CBO further assumes most workers who take a buyout will begin collecting federal retirement benefits an average of two years earlier than they would under prior law. Inducing some employees to retire earlier initially will result in additional retirement benefits being paid from the Civil Service Retirement and Disability Fund. In later years, annual federal retirement outlays will be lower than under prior law because the employees who retire early receive smaller annuity payments than if they had retired later. Under section 1133, CBO estimates direct spending for retirement benefits will increase by $16 million in 2002 and $67 million over the 2002-2011 period.

DoD Retiree Health Care Spending. Section 1133 also will increase direct spending on federal benefits for retiree health care because many employees who accept the buyouts will 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 will convert from being an employee to being a retiree earlier than under prior law, mandatory spending for FEHB premiums will increase. CBO estimates these additional FEHB benefits will increase direct spending by $2 million in 2002 and $21 million over the 2002-2011 period.

DOE Retirement Spending. CBO assumes that about 600 DOE employees will participate in the buyout program in calender year 2003 and that most workers who take a buyout will begin collecting federal retirement benefits an average of two years earlier than they would under prior law. Inducing some employees to retire earlier initially will result in additional retirement benefits being paid from the Civil Service Retirement and Disability Fund. In later years, annual federal retirement outlays will be lower than under prior 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 will increase by $6 million in 2003 and $14 million over the 2003-2011 period.

DOE Retiree Health Care Spending. Section 3153 also will increase direct spending on federal retiree health benefits because many employees who accept the buyouts will continue to be eligible for coverage under the FEHB program. CBO estimates these additional FEHB benefits will increase direct spending by less than $500,000 in 2003 and by $1 million in 2004.

Survivor Benefit Plan (SBP). Section 642 allows the spouses of servicemembers who died on active duty after September 10, 2001, to receive SBP survivors' annuities based on 75 percent of a member's basic pay. In the absence of a spouse, or where a spouse subsequently dies, the benefit will be given to any minor children.

In all cases of death on active duty, the surviving spouse receives a one-time death benefit, as well as dependency and indemnity compensation (DIC). DIC is a non-taxable, monthly payment of at least $911, paid by the VA. Under prior law, an additional benefit, a SBP spousal annuity, was available only for the surviving spouses of servicemembers who had completed at least 20 years of service, prior to their death on active duty. This spousal annuity was equal to 55 percent of the retirement annuity a member would have received, had he retired prior to his death. Servicemembers' retirement annuities are calculated as 50 percent to 75 percent of basic pay, depending on years of service. When a surviving spouse becomes eligible for a Social Security survivor's benefit, the spousal annuity is decreased to 35 percent of the members' retirement annuity. In addition, the spousal annuity is discontinued should the spouse remarry before 55 years of age. However, spouses cannot receive both full survivor annuities and DIC payments. Such survivors usually forgo a portion of their survivor annuity equal to the nontaxable VA benefit.

Based on information from DoD about historical rates of death while on active duty, CBO estimates that about 710 servicemembers per year will die while on active duty during peacetime conditions. CBO expects that about 650 of these servicemembers will have less than 20 years of service and 60 will have service that exceeds 20 years. (CBO cannot estimate the number of deaths to active-duty servicemembers that might occur during a time of conflict or war.)

Data from DoD indicates that most members who die with less than 20 years of service are relatively young and only about half will have a spouse or eligible child. After accounting for the DIC offset and expected rates of remarriage for these young spouses, CBO estimates payments to the survivors of members with less than 20 years of service will amount to less than $500,000 in 2002, about $5 million over the 2002-2006 period, and $19 million over the 2002-2011 period.

Of the approximately 60 members who die each year having served more than 20 years, CBO expects, based on data from DoD, that 92 percent will be survived by an eligible spouse. Under section 642, the surviving spouses of members with at least 20 years of service will receive a higher average benefit than they would have been entitled to receive under previous law. Their annuity, formerly based on 50 percent to 75 percent of the members' basic pay, will, in all cases, be based on 75 percent of the members' basic pay. As their current entitlement generally exceeds the DIC offset, these survivors will receive virtually all of the increased benefit amount. Assuming age-appropriate remarriage rates, CBO estimates payments to these survivors will amount to less than $500,000 in 2002, $2 million over the 2002-2006 period, and $9 million over the 2002-2011 period.

Armed Forces Retirement Home. Section 1405 authorized 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 changes the percentage of monthly income charged to residents of the two homes and alters the monthly caps on resident fees. Section 1405 also authorizes 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 act, are anticipated in the near future.

Information provided by the Armed Forces Retirement Home indicates this provision will reduce fees for more than 1,200 residents, almost 80 percent of all residents. CBO estimates the affected residents will see their fees reduced by an average of about 15 percent in 2002. Therefore, CBO estimates that section 1405 will reduce offsetting receipts (a credit against direct spending) by $2 million in 2002 and a total of $20 million over the 2002-2011 period.

Active-Duty Participation in Senior Reserve Officers' Training Corps (ROTC). Section 535 allows servicemembers to participate in the Senior ROTC while on regular active-duty status. Under prior law, participation in Senior ROTC was limited to members of the reserves. Based on information from the military services, the Army expects to allow about 200 active-duty enlisted members a year to enroll in college under this program. While the

Army will not pay for their education, these members will continue to receive pay and benefits during their college career. CBO expects that these members will use Montgomery GI Bill benefits to fund their education. Under prior law, CBO assumed that about half of these members would not have used their MGIB benefits. CBO estimates that section 535 will increase MGIB outlays by $1 million a year, starting in 2002.

Retroactive Uniform Allowances. Section 606 authorizes retroactive payments of an additional $200 clothing allowance for certain officers who were ineligible during fiscal year 2001 because they had received more than $200 in an initial uniform allowance over the prior two-year period. CBO estimates that these retroactive payments will cost $3 million in 2002.

Land Conveyance. Section 2845 authorizes the Navy to convey 485 acres of its property in Maine to the state of Maine or other governmental jurisdictions. Under prior law, the Navy planned to declare that property excess to its needs and transfer it to the General Services Administration (GSA) for disposal. After screening it for other uses in 2002, GSA would likely have sold portions of the property, thereby increasing offsetting receipts collected by the federal government. As a result, CBO estimates that the conveyance in section 2845 will result in forgone receipts totaling about $1 million in 2003 and $1 million in 2004.

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

- Section 316 extends a pilot program for the sale of air pollution emission reduction incentives. DoD will be allowed to spend all receipts less than $500,000 on environmental programs. Any receipts above $500,000 will go to the Treasury.

- Section 507 allows officers, whose mandatory retirement has been deferred for medical reasons, to further postpone their retirement for up to 30 days.

- Section 513 allows disability retirement for reservists whose disability was incurred or aggravated while remaining overnight before inactive-duty training, or between successive periods of such training. Under prior law, reservists were only covered during overnight stays for such periods if they were outside reasonable commuting distance of their residences.

- Section 514 reduces the time-in-grade requirement for certain reserve officers who are retired because of a non-service-connected disability. In order to retire at a given grade, they will have to have served six months in that grade, rather than the three years required under prior law.

- Section 528 allows the National Defense University (NDU) to collect and spend tuition receipts for up to 10 civilian students from the private sector at any one time. In the past, NDU accepted about three civilian students a year, on average, and their tuition was paid to the Treasury. CBO estimates this section will result in a negligible loss of receipts to the Treasury.

- Section 552 requires the military to review the records of certain Jewish American and Hispanic 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 will be presented (many posthumously), resulting in an increase in direct spending of less than $500,000 a year.

- Section 583 allows 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 will be liable for any claims against the legal volunteer. Payment of those claims is considered direct spending, but CBO estimates that this provision will cost less than $500,000 each year.

- Section 732 establishes a pilot program to allow certain hospitals to provide trauma and other medical care to individuals who are not currently eligible for care at military treatment facilities. The hospital will be allowed to bill the individuals based on private rates and have the authority to spend the receipts collected without the requirement for annual appropriations. Based on information provided by DoD, CBO estimates that the department will collect and spend less than $500,000 a year.

- Section 1131 provides greater pension portability for certain civilian employees who have been employed by a Nonappropriated Fund Instrumentalities (NAFI) employer and then become federal workers. The provision eliminates the requirement that workers who move between a NAFI employer and the civil service must be fully vested to transfer any accrued service credits from one retirement system to another. According to the Department of Defense, relatively few workers will be affected by this provision; thus, CBO estimates that section 1131 will increase direct spending by less than $500,000 a year.

- Section 1132 provides federal retirement credit to certain former employees of NAFI. Under prior law, most workers who transferred from NAFI employment to regular federal employment could transfer any NAFI retirement service credits earned as NAFI employees to the appropriate federal retirement program. However, under certain circumstances, some former NAFI employees were not permitted to transfer NAFI retirement credits to their federal service. Section 1132 permits 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 will be able to use these credits to qualify for federal retirement benefits earlier than they would have otherwise, the provision mandates that annuities be actuarially reduced. The actuarial reduction will be calculated in such a way that the present value of a retiree's benefits will 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 will claim NAFI service credit under this provision in any given year. Therefore, CBO estimates that section 1132 will increase direct spending for federal retirement benefits by less than $500,000 a year.

- Section 2838 authorizes the General Services Administration to convey a parcel of excess Army property to the city of Kewaunee, Wisconsin. Under prior law, GSA could sell the property thereby increasing offsetting receipts to the federal government, but CBO estimates forgone receipts from section 2838 will likely be less than $500,000.

- Section 2864 authorizes the Secretary of Defense to accept and spend contributions for a memorial to the victims of the terrorist attack on the Pentagon and for repairs to the Pentagon. CBO estimates that section 2864 will have no net budgetary impact because any additional spending will be offset by additional receipts from the contributions.

Asset Sales

CBO estimates that S. 1438 will result in receipts from new (nonroutine) asset sales totaling $194 million over the 2002-2006 period, and $170 over the 2002-2011 period. Such sale proceeds are recorded as a credit against direct spending. CBO estimates that the sales of most of these assets will entail no net financial cost to the government and, as a result, the proceeds should be counted for pay-as-you-go purposes.

Authority to Transfer or Sell Naval Vessels. Section 1011 authorizes the transfer of 13 naval vessels to foreign countries. It authorizes the sale of six vessels; the other seven will be given away. Information from DoD indicates that the asking price for the six ships will be approximately $175 million. There is significant uncertainty as to whether all six vessels will be sold and what the sale price might be. Reflecting this uncertainty, CBO estimates that receipts from these sales will total $18 million in 2002 and $82 million in 2003.

Section 1012 authorizes the sale of the Glomar Explorer to its current lessee and authorizes the appropriation of the proceeds for naval salvage facilities. That lease calls for payments of about $2 million a year for the next 25 years. CBO estimates that the proceeds from selling the vessel will be less than the present value of forgoing those offsetting receipts and the cost of disposing of the vessel; therefore, the proceeds from this sale should not be counted for pay-as-you-go purposes.

National Defense Stockpile. Section 3303 authorizes DoD to sell certain materials contained in the National Defense Stockpile that are obsolete or excess to stockpile requirements. CBO estimates that DoD will 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 3304 increases by $50 million the targets contained in the National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261) for stockpile sales. CBO estimates that there will be sufficient quantities of materials in the stockpile to achieve that objective and that the additional sales proceeds will accrue over the 2004-2006 period. In addition, section 3304 amends other previous authorization acts 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 act will not increase total program targets, CBO estimates that this provision will have no net budgetary impact.

Section 3305 accelerates 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 act authorized the sale of all remaining cobalt starting in 2003. The sales of cobalt authorized for disposal under earlier acts are projected to be completed this year. This act allows all remaining cobalt to be sold starting in 2002, thus avoiding a one-year gap in sales. CBO estimates that DoD will be able to expedite that disposal without causing a significant impact on 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.

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