CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 25, 2003

H.R. 1588
National Defense Authorization Act for Fiscal Year 2004

As cleared by the Congress on November 12, 2003,
and signed by the President on November 24, 2003

SUMMARY

H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, contains provisions that will increase outlays from direct spending, including provisions affecting the purchase of aerial refueling aircraft, and military retirement annuities and veterans' disability compensation for certain retirees. H.R. 1588 also allows the Department of Defense (DoD) to increase sales of certain materials from the strategic stockpile. Overall, CBO estimates that H.R. 1588 will increase direct spending by $946 million in 2004, $14 billion over the 2004-2008 period, and $40.1 billion over the 2004-2013 period.

In addition, the act allows the Department of the Navy to accept donations collected by the Marine Corps Heritage Foundation for the construction of the Marine Corps Heritage Center. CBO estimates the collection of such donations will increase governmental receipts (i.e., revenues) by $4 million in 2004 and $34 million over 2004-2008 period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions that affect direct spending (including proceeds from asset sales) and revenues is shown in Table 1. The effects on direct spending fall under budget functions 050 (national defense), 600 (income security), and 700 (veterans benefits and services).

TABLE 1. SUMMARY OF H.R. 1588'S EFFECTS ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in outlays	946	2,033	3,143	3,738	4,167	4,784	5,214	5,492	5,542	5,049
Changes in revenues	4	10	10	8	2	0	0	0	0	0

BASIS OF ESTIMATE

H.R. 1588 contains provisions that will both increase and decrease outlays from direct spending, including asset sales receipts. In total, CBO estimates that H.R. 1588 will increase direct spending by $946 million in 2004, $14 billion over the 2004-2008 period, and $40.1 billion over the 2004-2013 period (see Table 2). The act also contains one provision that CBO estimates will increase federal revenues by $4 million in 2004 and $34 million over the 2004-2008 period (with no additional effects after 2008).

Direct Spending (Excluding Asset Sales)

Excluding the act's effects on proceeds from asset sales, CBO estimates that H.R. 1588 will increase direct spending by $966 million in 2004, $14.1 billion over the 2004-2008 period, and $40.3 billion over the 2004-2013 period. (Asset sales are discussed in a subsequent section.)

Acquisition of Aerial Refueling Aircraft. Section 135 authorizes the Air Force to acquire up to 100 KC-767 aerial refueling tankers through a hybrid acquisition strategy where the Air Force would lease no more than 20 tanker aircraft and purchase as many as 80 additional aircraft under multiyear procurement authority.

It is unclear how this authority will affect direct spending: if the Air Force proceeds with a plan to acquire all 100 planes under a single pending contract, section 135 will effectively increase direct spending by nearly $18 billion over the 2004-2013 period—covering the costs for all 100 planes. Alternatively, if the acquisition is split between 20 aircraft under the pending contract and the remaining 80 aircraft under a new contract with payments subject to the availability of future appropriations, then the direct spending under section 135 would be limited to $4 billion (for the cost of the first 20 planes).

TABLE 2. IMPACT OF H.R. 1588 ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING OUTLAYS (EXCLUDING ASSET SALES)										
Acquisition of Tanker Aircraft	164	939	1,816	2,061	2,107	2,319	2,403	2,401	2,213	1,490
Concurrent Receipt	705	519	709	1,061	1,462	1,839	2,155	2,405	2,609	2,792
Combat-Related Special Compensation	85	569	600	597	584	616	647	678	711	746
Sales of Nonappropriated Fund Facilities	5	11	17	15	11	7	3	1	0	0
Survivor Benefit Plan	1	2	3	4	6	7	9	10	11	13
National Call to Service	0	*	1	4	7	8	9	9	10	10
Marine Corps Heritage Center	4	10	10	8	2	0	0	0	0	0
In-Kind Consideration for Easements	2	2	2	2	2	2	2	2	2	2
Reduction of Time-in-Grade for Retirement	*	*	*	1	1	1	1	1	1	1
TRICARE Coverage for Reservists	0	1	0	0	0	0	0	0	0	0
Subtotal	966	2,053	3,158	3,753	4,182	4,799	5,229	5,507	5,557	5,054
ASSET SALES (A CREDIT AGAINST DIRECT SPENDING)										
National Defense Stockpile	-20	-20	-15	-15	-15	-15	-15	-15	-15	-5
TOTAL CHANGES IN DIRECT SPENDING										
Estimated Outlays	946	2,033	3,143	3,738	4,167	4,784	5,214	5,492	5,542	5,049
CHANGES IN REVENUES										
Marine Corps Heritage Center	4	10	10	8	2	0	0	0	0	0

NOTE: * = less than $500,000.

In implementing this authority the Air Force could lease the 20 tankers authorized by subsection (a) of section 135 using a financing mechanism similar to the one proposed for the lease of 100 tankers. The Air Force could buy the remaining 80 tankers using multiyear procurement authority and requesting appropriations before ordering each annual lot of tankers. Alternatively, the Air Force may interpret section 135 as authorizing it to enter into

one contract to acquire 100 tankers using a financing mechanism similar to the one proposed for the lease of 100 tankers. As of the date of this estimate, DoD has not yet decided which approach it will take and has indicated that it might be as late as the end of calendar year 2003 before it decides which approach to pursue.

For the purpose of this estimate, CBO assumes that the Air Force will use the latter approach and sign a contract it negotiated with Boeing in May 2003 to acquire all 100 planes. Absent a clear statement from the Administration to the contrary, CBO assumes that DoD will carry out the plans it has laid out thus far.[1] Under those plans, the Air Force would use the special-purpose entity that was established to facilitate the original proposal to lease the first 20 tankers and purchase the last 80 tankers. The special-purpose entity would make payments to Boeing as it builds the aircraft, then buy the tankers from Boeing once they were built. It would lease the first 20 tankers to the Air Force using the financing arrangement developed for the lease of 100 tankers and sell the last 80 tankers to Air Force at the time of delivery at the prices specified in the existing contract. The Air Force would request budget authority in the year it intends to make the necessary payments, even though the tankers had been ordered several years earlier. Because the special-purpose entity that has been established to buy the aircraft would, in fact, be substantially controlled by and act on behalf of the federal government, its transactions should be reflected in the federal budget.[2] CBO has concluded that the transactions of the special-purpose entity would essentially be a purchase of all 100 tankers by the federal government.

If it signs the pending contract, the Air Force would obligate the government to acquire 100 tankers—in advance of the appropriations necessary to make lease and purchase payments required under the contract. (The contract would be liquidated in subsequent years as appropriations are provided to make the lease payments and purchase payments.) Based on the aircraft delivery schedule provided by the Department of Defense, CBO estimates that implementing this provision in this manner would increase direct spending by $164 million in 2004, $7.1 billion over the 2004-2008 period, and $17.9 billion over the 2004-2013 period.

The First 20 Aircraft. Section 135 authorizes the Air Force to lease no more than 20 tanker aircraft. CBO believes the proposed transaction for the first 20 aircraft would not qualify as an operating lease, however, but rather a purchase of the tankers by the federal government. Since the special-purpose entity is an instrument of the government, the government will effectively be buying the aircraft (via the special-purpose entity) and then leasing them to

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1. See letter from Paul Wolfowitz, Deputy Secretary of Defense, to John Warner, Chairman, Senate Committee on Armed Services, November 5, 2003.

2. For a more in-depth discussion of the financing arrangement and its budgetary treatment, see Congressional Budget Office, *Assessment of the Air Force's Plan to Acquire 100 Boeing Tanker Aircraft*, August 2003.

itself. To accurately reflect the nature of that arrangement, the federal budget should report the transactions between the special-purpose entity and Boeing, and between the special-purpose entity and its bondholders, not the essentially intragovernmental transfers between the special-purpose entity and the Air Force. Thus, when the special-purpose entity pays Boeing for the aircraft, those payments should be reflected as federal outlays. Subsequent interest payments on the special-purpose entity's borrowing should also be reflected as outlays when those payments are made.

CBO expects that the Air Force will exercise the option in the contract to purchase the leased aircraft at the end of the lease term. Since signing the contract effectively obligates the Air Force to pay for the 20 leased planes, the authorization to sign the contract, as granted by section 135, provides $3.6 billion in budget authority in 2004, and, in total, $4 billion in budget authority over the 2004-2013 period.

Additional Aircraft. If it signs the pending contract for 100 tankers, the Air Force would commit to purchase the remaining 80 planes as well. Because it appears that the department intends to pay for the purchased tankers at the time of delivery (see Secretary Wolfowitz's letter of November 5, 2003), the Air Force would not need to request appropriations for each annual production lot of aircraft until construction was substantially complete. Instead, the special-purpose entity would order the aircraft and make progress payments on the government's behalf. Since the special-purpose entity is an instrument of the government, its obligations to pay for the tankers should be recorded in the federal budget at the time those obligations occur. Thus, CBO believes that budget authority for each lot of purchased aircraft—approximately $2 billion each year over the 2006-2012 period—should be recorded in the year that construction begins on each lot of aircraft. Budget authority for all 80 purchased aircraft would total $14.2 billion.

Alternatively, it is possible that DoD may pursue the option of using two contracts to acquire these tanker aircraft—one for the 20 leased aircraft and another to purchase the remaining 80—and procure the 80 tankers using the normal procurement process. If that were the case, then CBO estimates that section 135 would increase direct spending by $164 million in 2004, $3.2 billion over the 2004-2008 period, and $4 billion over the 2004-2013 period. Those costs would cover the acquisition of the first 20 aircraft; the costs for the other 80 aircraft would be covered by future appropriation actions under this multi-contract option.

Concurrent Receipt. Section 641 will gradually phase in total or partial concurrent receipt of military retirement annuities and veterans' disability compensation over the 2004-2014 period for retirees of the uniformed services who are rated 50 percent or more disabled and have either a regular retirement, or have a disability retirement and at least 20 years of active-duty service. The uniformed services include all branches of the U.S. military, the Coast

Guard, and uniformed members of the Public Health Service (PHS) and the National Oceanic and Atmospheric Administration (NOAA). This section also would eliminate the Special Compensation for Severely Disabled Retirees program and require those who are eligible for both the Combat-Related Special Compensation program and concurrent receipt under this section to choose which benefit they will receive. CBO estimates this provision will increase direct spending by $705 million in 2004, $4.5 billion over the 2004-2008 period, and $16.3 billion over the 2004-2013 period.

Military Retirement. Under prior law, veterans who are retired from the uniformed services could not receive both full retirement annuities and disability compensation from the Department of Veterans Affairs (VA). Allowing the receipt of both benefits is often referred to as "concurrent receipt." Because of the prohibition on concurrent receipt, military retirees had to choose between receiving a full, but generally taxable, retirement annuity and accepting the nontaxable veterans' benefit and, in exchange, forgoing an equal amount of their retirement annuity.

Section 641 allows those retirees whose degree of disability has been rated as 50 percent or greater to receive full retirement annuities and veterans' disability benefits with no offset beginning on January 1, 2014, and to receive an increasing portion of their retirement annuities over the 2004-2013 period. Concurrent receipt for eligible disability retirees would be limited to the portion of their retirement annuity that is based on years of service. Data from the uniformed services on retirees who are 50 percent or more disabled indicate that in 2003 the prohibition on paying both benefits concurrently caused about $2.1 billion to be withheld from the annuity payments of about 138,000 eligible DoD retirees, and about 1,800 eligible Coast Guard, PHS, and NOAA retirees. Using current rates of net growth in the population of new beneficiaries, CBO estimates this caseload will rise to about 144,000 retirees in 2004 and 172,000 retirees by 2013. CBO assumes that future benefit payments will increase consistent with current rates of growth in average disability levels and also increase from cost-of-living adjustments. After phasing in the benefits as specified in the provision, CBO estimates that the legislation will increase direct spending on retirement annuities for retirees of the uniformed services by $521 million in 2004, $5.5 billion over the 2004-2008 period, and $20.7 billion over the 2004-2013 period.

Veterans' Disability Compensation. Eliminating the ban on concurrent receipt provides an incentive for some military retirees who are eligible for, but not currently receiving, veterans' disability to apply for those benefits. Based on data from DoD, CBO expects that, under section 641, an additional 11,000 retirees of the uniformed services will receive VA disability benefits over the 2004-2013 period. Based on data from DoD on the assessed degree of disability for most of these retirees, CBO estimates that under this section direct spending

for veterans' disability benefits will increase by $19 million in 2005, $388 million over the 2004-2008 period, and $1.3 billion over the 2004-2013 period.

Repeal of Special Compensation for Severely Disabled Retirees (SCSD). Section 641 also repeals a special compensation program that pays a fixed benefit of $50 to $325 a month to certain retirees of the uniformed services who were determined to be 60 percent to 100 percent disabled within four years of their retirement. CBO estimates that the savings from repealing this program will total $41 million in 2004, $294 million over the 2004-2008 period, and $641 million over the 2004-2013 period.

Combat-Related Special Compensation (CRSC). Some of the potential costs of allowing concurrent receipt were eliminated by enactment of the Bob Stump National Defense Authorization Act for Fiscal Year 2003, which mandated payments from the personnel accounts of the uniformed services to certain of their retirees who are affected by the ban on concurrent receipt. Under this special compensation program, which is in the early stages of implementation, retirees of the uniformed services will be eligible to receive payments if they served for 20 years or longer, have a service-connected disability that is related to the injury for which they received a Purple Heart, or have an injury that was incurred as a result of certain duty- or combat-related activities and is 60 percent or more disabling. Section 642 of H.R. 1588 expands this program to reservist retirees and to cover all degrees of disability. (See the discussion below for an explanation of the effects of section 642.)

Section 641 allows an opportunity each year for retirees who are eligible for this special compensation program and for concurrent receipt to choose which benefit they will receive. CBO expects those retirees will choose the special compensation program at least until concurrent receipt is fully phased in, reducing the cost associated with section 641. CBO estimates that this expanded combat-related special compensation program will reduce outlays under section 641 by about $82 million in 2004, $1.4 billion over the 2004-2008 period, and $5.4 billion over the 2004-2013 period.

Section 641 also transfers the obligation for the CRSC program and those for the SCSD program from the military personnel accounts to the DoD Military Retirement Fund. Normally, transferring a program from one budget account to another does not result in additional outlays. However, the Department of Defense Appropriations Act, 2004 (Public Law 108-87), already provided appropriations to the military personnel accounts to fund these payments in 2004, which CBO estimates will cost $288 million in 2004. Since no funds were specifically earmarked for these special compensation benefits within the act, DoD can, and CBO expects it will, use those funds for other personnel expenses. Thus, the payments out of the retirement fund for SCSD and CRSC benefits in 2004 will represent an additional $288 million in direct spending outlays in that fiscal year.

Taken together, CBO estimates that the effects of section 641 on the CRSC program will increase direct spending by $206 million in 2004, but reduce outlays by $1.1 billion over the 2004-2008 period, and $5.1 billion over the 2004-2013 period. Those savings offset a portion of the costs identified above for military retirement.

Combat-Related Special Compensation. The National Defense Authorization Act for Fiscal Year 2003 mandated payments from the personnel accounts of the uniformed services to certain retirees who were affected by the ban on concurrent receipt. Under this special compensation program, retirees of the uniformed services are eligible to receive payments equal to the VA offset (see the discussion of concurrent receipt above) if they served for 20 years or longer, have a service-connected disability that is related to the injury for which they received a Purple Heart, or are 60 percent or more disabled and have an injury that was incurred as a result of certain duty- or combat-related activities. Section 642 would expand the CRSC program to include reserve retirees and to cover all degrees of disability.

Based on information from DoD on the number of retirees rated by the VA as being up to 50 percent disabled and the number of reserve retirees receiving VA disability compensation, and assuming that the newly eligible groups—reserve retirees and retirees rated at 50 percent or less disabled—qualify for CRSC at the same rate we estimated for those currently eligible, CBO expects that an additional 110,000 active-duty retirees and about 1,800 reservists will qualify for CRSC under section 642. Based on information from DoD on the average VA offsets for these groups, CBO estimates this provision will increase the costs of CRSC by $85 million in 2004, $2.4 billion over the 2004-2008 period, and $5.8 billion over the 2004-2013 period.

Sales of Nonappropriated Fund Facilities. Section 655 allows DoD to spend (without further appropriation and subject to specified limits) collections from the sale or lease of commissary or nonappropriated fund assets that have been closed under Base Realignment and Closure. The collections are deposited into a reserve account established by the Defense Base Closure and Realignment Act of 1988 and, under prior law, could not be spent without further appropriation. Based on information from the Department of Defense, CBO estimates that there was about $50 million in the reserve account at the beginning of fiscal year 2004, and that the reserve account will gain an additional $19 million in collections through 2008. Based on information from DoD, CBO expects that the funds in the account will be used primarily for facility improvements and construction. Using historical outlay patterns, CBO estimates that, under section 655, outlays from the fund will total $5 million in 2004, $59 million over the 2004-2008 period, and $70 million over the 2004-2013 period.

Section 3005 of the National Defense Authorization Act for Fiscal Year 2002 (Public Law 107-107) authorized expenditures from the reserve account for base closures that are scheduled to occur after 2005. Therefore, this section will have no impact on collections from the sale of commissaries or nonappropriated fund facilities in future base closure rounds.

Survivor Benefit Plan (SBP). Section 645 allows the Secretaries of each of the armed services to authorize payment of SBP annuities to dependent children of servicemembers who die on active duty, even where a surviving spouse is also eligible for the benefit. Under prior law, when a servicemember dies on active duty, a minor child could receive the SBP annuity only when there was no surviving spouse, or when a surviving spouse subsequently died. In addition, section 645 allows payment of a survivor annuity to a dependent relative, in cases where servicemembers are survived by neither a spouse nor dependent children. This section also invalidates certain survivor annuity elections where a member receives a disability retirement and dies from a cause related to that disability within a year. In total, CBO estimates that section 645 will increase direct spending for retirement annuities by $1 million in 2004, $16 million over the 2004-2008 period, and $66 million over the 2004-2013 period.

SBP annuities for surviving children and other dependent relations. In all cases where a servicemember's death occurs on active duty, the surviving spouse is eligible to receive both an SBP annuity and dependency and indemnity compensation (DIC) from VA. (DIC is a nontaxable, monthly payment of at least $948.) The SBP annuity in these cases is equal to 55 percent of the retirement annuity a member would have received, had he or she been retired as totally disabled prior to death. This section allows dependent children of these servicemembers to receive survivor annuities in place of an eligible spouse. Because the DIC payment is not offset against SBP annuities received by children, section 645 will allow the surviving family members to receive both DIC payments and full, unreduced, survivor annuities.

Because there are limitations on receipt of survivor annuities by children and spouses, each family will have to consider whether it would be more financially advantageous for annuities to be paid to children or to a surviving spouse. If the SBP benefit is awarded to children, payment will end when the youngest child reaches age 18 or, if the child is a student, age 21. The SBP benefit does not revert to the parent. Surviving spouses can receive the benefit for the remainder of their lives, providing they do not remarry before reaching age 55. The DIC payment ends upon remarriage at any age, although both DIC and SBP payments can be reinstated if the subsequent marriage ends, either through death or divorce. On the other hand, should the surviving spouse die, the survivor annuity is then paid to any minor children until they reach the age limits mentioned above.

According to data provided by DoD, an average of 658 servicemembers a year died while on active duty over the 2001-2003 period. That data also indicates that 35 percent, or about 230, had both a surviving spouse and dependent children. Based on data from DoD regarding the annuity choices made in cases of retirements that were expedited because the member's death was imminent, CBO estimates that, under section 645, survivor annuities will be paid to surviving children rather than spouses in about 160 cases a year. Based on this same data, CBO also estimates that approximately 5 dependents a year will receive survivor annuities in the absence of other eligible recipients. Based on pay data of those members who died over the last few years, CBO estimates these families will receive, on average, an additional annuity payment of $715 per month in 2004. Assuming about 30 percent of children reach the age limitations during the first 10 years they receive survivor annuities, and accounting for annual pay raises and cost-of-living adjustments in annuity payments, CBO estimates this portion of section 645 will increase military retirement outlays by about $1 million in 2004, $19 million over the 2004-2008 period, and $80 million over the 2004-2013 period.

Nullification of SBP annuity elections. In cases where servicemembers receive a disability retirement and subsequently die of causes related to that disability within the year, section 645 cancels the selection of supplemental spousal annuities and survivor annuities for individuals with an insurable interest. Any premium payments that were made as a result of these elections will be refunded to the chosen survivor. Because supplemental spousal benefits are not paid until surviving spouses reach age 62, CBO does not expect any savings over the 2004-2013 period since the affected spouses are unlikely to reach that age during that time period.

Based on information from DoD about the selection of insurable interest beneficiaries in cases of retirement where death is imminent, and the number of survivors with an insurable interest who began to receive benefits within one year of the members' retirement, CBO estimates that each year about 30 such survivors will be deemed ineligible to receive survivor annuities under section 645 (mostly cases of where the member died within hours or days of retirement); and CBO expects that premium refunds will be insignificant. Based on information from DoD about the pay grades of those who died over the last several years, and accounting for annual pay raises and cost-of-living adjustments in annuity payments, CBO estimates that this provision will reduce military retirement outlays by less than $500,000 in 2004, by about $3 million over the 2004-2008 period, and by $14 million over the 2004-2013 period.

National Call to Service Program. Section 535 changes the method of funding for education benefits offered as an enlistment incentive to National Call to Service participants. Under section 535, these education benefits will be paid from the DoD Education Benefits

Fund instead of the military personnel accounts. Paying benefits from the fund converts these payments from discretionary outlays to direct spending.

National Call to Service, established in the Bob Stump National Defense Authorization Act for Fiscal Year 2003, is an accession program in which a participant, in exchange for a specified incentive, enlists in the armed forces for a period of 15 months plus training time and then continues on active duty or serves in the reserves, the Peace Corps, Americorps, or another national service program for a period of time specified in the enlistment agreement. All incentive payments under this program were previously subject to the availability of appropriated funds.

The specified incentives consist of either a cash bonus, payment of student loans, or education benefits similar to those provided through the Montgomery GI Bill (MGIB) education program. Under section 535, DoD will deposit the net present value of the education benefits from its discretionary military personnel accounts into the DoD Education Benefits Fund. The Secretary of Veterans Affairs will then pay the education benefits to the veteran from this fund. Paying benefits from the fund converts these payments from discretionary outlays to direct spending.

Based on information from DoD, CBO assumes that, beginning in 2004, DoD will recruit about 1 percent of its enlisted accessions (an average of about 2,000 enlistees a year) under the National Call to Service program, and that about half of these enlistees will choose education benefits as their enlistment incentive. Program participants who choose an education benefit as their enlistment bonus will be offered the choice of a monthly benefit equal to the full MGIB benefit ($985 in 2004, increasing annually by a cost-of-living adjustment) for 12 months, or equal to half the MGIB benefit for 36 months. Lacking data on participant choices, CBO assumes that 500 enlistees will choose each of the two options.

Based on information from DoD about separation rates and information from the Department of Veterans Affairs about use rates for education benefits, CBO estimates that about 70 percent of the program participants will qualify for and use their education benefits and that they will, on average, use 80 percent of their total potential benefit. Thus, we estimate that section 535 will increase direct spending for veterans' education benefits by $12 million over the 2004-2008 period and $58 million over the 2004-2013 period.

Marine Corps Heritage Center. Section 2871 authorizes the Secretary of the Navy to accept a guarantee of future gifts to pay for construction of the Marine Corps Heritage Center, a museum to be built at Quantico, Virginia. Public Law 106-398 authorized the design and construction of the Marine Corps Heritage Center, as part of a joint venture between the Department of the Navy and the Marine Corps Heritage Foundation. The

Foundation is currently soliciting private donations to finance the construction of the center. Because it lacks the expertise to do so, the Foundation plans to have the Navy contract for and supervise the construction. By authorizing the Navy to accept a guarantee of future gifts, the Navy could begin construction of the center before receiving all the needed funds from the Foundation. Thus, this section provides contract authority, a form of budget authority, which is scored as direct spending. This contract authority will be liquidated over time as the Marine Corps Heritage Foundation receives donations and transfers those amounts to the Navy. Based on information provided by the Marine Corps Heritage Foundation, CBO estimates that this provision will increase direct spending by $4 million in 2004 and $34 million over the 2004-2008 period. (Gifts and donations are recorded in the budget as revenues. CBO's estimate of the revenues that would be collected under this provision are discussed below under the heading of "Revenues.")

In-Kind Consideration for Easements. Section 2813 authorizes DoD to accept consideration in-kind for any easement it grants. Such consideration could take the form of facility maintenance and repair services, facility operation support, construction projects, or other services. According to information provided by DoD, it expects to collect approximately $16 million in receipts annually from leases and easements. CBO assumes that $4 million of these receipts are from easements. CBO believes that in addition to granting new easements in exchange for in-kind consideration, DoD will also choose to accept in-kind consideration for half of the easements it has already granted that currently generate cash receipts. CBO estimates that in doing so, DoD will reduce collections by $2 million per year, thus increasing direct spending by $2 million in 2004 and by $20 million over the 2004-2013 period.

Reduction of Time-in-Grade for Retirement. Section 506 reduces, from three years to one year, the length of time senior officers must serve in a grade before being allowed to retire in that grade. Based on information from DoD, CBO estimates that reducing the time-in-grade requirement will cause about 15 officers in the ranks O-7 to O-10 to retire one grade higher than they normally would otherwise. CBO estimates that this measure will cost less than $500,000 in 2004, $2 million over the 2004-2008 period, and $7 million over the 2004-2013 period.

TRICARE Coverage for Reservists. Section 702 extends for three months a provision in the Emergency Supplemental Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, 2004 (Public Law 108-106) that allows certain reservists, including those who receive unemployment compensation, to participate in TRICARE, DoD's general health care program. CBO estimates that allowing recipients of unemployment compensation to be eligible for health care insurance will result in longer stays on unemployment insurance and increase the average benefit period by up to one week at an average cost of $266 per

person. Thus, CBO estimates that, under section 702, spending for unemployment compensation will increase by $1 million in 2005.

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

- Section 342 allows the Defense Information Systems Agency to collect and spend reimbursements for services provided to the Navy-Marine Corps Intranet Program.

- Section 544 instructs DoD to assist former prisoners of war in obtaining information to support their applications for the award of the Purple Heart.

- Section 651 eliminates restrictions on commissary use by members of the ready reserve, retirees of the ready reserve who are less than 60 years of age, and their dependents.

- Section 803 creates a program whereby states and local governments could purchase antiterrorism technologies and services through federal contracts.

- Sections 847 and 1441 extend and expand authority for government agencies to provide services to nongovernmental organizations and enter into nonconventional cooperative agreements with private contractors for research into advanced weapons systems and homeland security.

- Section 913 allows the Secretary of Defense to carry out a three-year pilot program to determine the feasibility of providing satellite tracking services with DoD assets to non-U.S. government entities.

- Section 926 allows the National Security Agency (NSA) to contract for living quarters for co-op students, and would allow the NSA to charge the students for this service and credit the proceeds to appropriated accounts.

- Section 931 allows the Asia-Pacific Center for Security Studies to accept and spend gifts from U.S. sources, similar to the authority they have to accept gifts from foreign sources.

- Section 1012 allows the Navy to spend the proceeds received from selling the materials and equipment stripped from naval vessels that are to be used for experimental purposes.

- Section 1015 allows the Navy to spend the proceeds it receives when it provides assistance supporting the transfer of decommissioned naval vessels or equipment to governments and private parties.

- Sections 1052 and 1053 allow the military services to donate or lend historical artifacts and surplus equipment to museums and municipalities.

Asset Sales

Section 3302 increases by $150 million the targets contained in the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65) for sates from the National Defense Stockpile through 2013. Without this provision, CBO estimates that sales under Public Law 106-65 would have ended early in 2004. As a result of section 3302, CBO estimates that there will be sufficient quantities of materials in the stockpile to achieve an additional $20 million in receipts in 2004, $85 million in receipts over the 2004-2008 period, and $150 million in receipts over the 2004-2013 period.

Revenues

Section 2871 allows the Department of the Navy to accept donations collected by the Marine Corps Heritage Foundation to pay for the construction of the Marine Corps Heritage Center. CBO estimates that donations received for this purpose will total $4 million in 2004 and $34 million over the 2004-2008 period (with no additional effects after 2008).

Section 931 allows the Asia-Pacific Center for Security Studies to accept and spend gifts from U.S. sources, similar to the authority they have to accept gifts from foreign sources. Based on information from DoD, CBO estimates any gifts received under this section will be less than $500,000 annually.

PREVIOUS CBO ESTIMATES

On May 16, 2003, CBO transmitted a cost estimate for H.R. 1588, the National Defense Authorization Act for Fiscal Year 2004, as ordered reported by the House Committee on Armed Services on May 14, 2003.

On June 2, 2003, CBO transmitted a cost estimate for S. 1050, the National Defense Authorization Act for Fiscal Year 2004, as passed by the Senate on May 22, 2003.

Many provisions in H.R. 1588, as cleared by the Congress, are identical to or similar to provisions in the earlier versions of the legislation. However, H.R. 1588, as cleared by the Congress, contains provisions regarding the acquisition of tanker aircraft, concurrent receipt of military retirement annuities and veterans' disability compensation for certain retirees, and the expansion of the program for special compensation for combat-related disabilities that were not in either of the bills previously estimated by CBO. CBO estimates that those provisions alone would increase direct spending by $954 million in 2004, $14 billion over the 2004-2008 period, and $40 billion over the 2004-2013 period. Thus, the differences in the estimated costs reflect differences in the legislation.

ESTIMATE PREPARED BY:

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