



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 19, 2004

S. 2386 **Intelligence Authorization Act for Fiscal Year 2005**

*As reported by the Senate Committee on Armed Services
on July 8, 2004*

SUMMARY

S. 2386 would authorize appropriations for fiscal year 2005 for intelligence activities of the U.S. government, the Intelligence Community Management Account, and the Central Intelligence Agency Retirement and Disability System (CIARDS).

This estimate addresses only the unclassified portion of the bill. On that limited basis, CBO estimates that implementing certain provisions of the bill would cost \$340 million over the 2005-2008 period, assuming appropriation of the necessary funds. S. 2386 would affect direct spending, but CBO cannot estimate those effects because the data needed to prepare such an estimate are classified.

S. 2386 contains no private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). S. 2386 contains an intergovernmental mandate as defined in UMRA because it would preempt certain state laws related to income taxes and might result in lost revenue for the states. However, CBO estimates that those lost revenues would be well below the annual threshold established in that act (\$60 million in 2004, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the unclassified portions of S. 2386 is shown in the following table. CBO cannot obtain the necessary information to estimate the costs for the entire bill because some parts are classified at a level above clearances held by CBO employees. For purposes of this estimate, CBO assumes that the bill will be enacted by October 1, 2004, and that the necessary amounts will be appropriated for fiscal year 2005. Estimated outlays are based on historical spending patterns. The costs of this legislation fall within budget function 050 (national defense).

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
SPENDING SUBJECT TO APPROPRIATION ^a						
Spending Under Current Law for the Intelligence Community Management Account						
Budget Authority ^b	178	0	0	0	0	0
Estimated Outlays	174	69	15	2	0	0
Proposed Changes						
Authorization Level	0	343	0	0	0	0
Estimated Outlays	0	208	103	23	6	0
Spending Under S. 2386 for the Intelligence Community Management Account						
Authorization Level ^b	178	343	0	0	0	0
Estimated Outlays	174	277	118	25	6	0

a. In addition to effects on spending subject to appropriation, S. 2386 would affect direct spending. However, CBO cannot estimate those effects because the data needed to prepare an estimate are classified.

b. The 2004 level is the amount appropriated for that year.

Spending Subject to Appropriation

S. 2386 would authorize appropriations of \$343 million for the Intelligence Community Management Account, which funds the coordination of programs, budget oversight, and management of the intelligence agencies. The bill would earmark \$35 million for the National Drug Intelligence Center from the funds authorized for the Intelligence Community Management Account.

Direct Spending and Revenues

The bill would authorize the appropriation of \$239 million for CIARDS to cover retirement costs attributable to military service and various unfunded liabilities. The appropriation to CIARDS is considered mandatory, and the authorization under this bill would be the same as assumed in the CBO baseline. Thus, this estimate does not ascribe any additional cost to that provision.

Section 401 would extend indefinitely the authority of the Central Intelligence Agency (CIA) to offer incentive payments to employees who voluntarily retire or resign. Under current law, this authority would expire on September 30, 2005. This section also would eliminate the requirement that the CIA make a deposit to the Civil Service Retirement and Disability Fund equal to 15 percent of final pay for each employee who accepts an incentive payment. Extending authority to offer incentive payments to these employees could increase outlays from the civil service retirement system in the near-term, although those amounts would be offset by reduced retirement payments in later years. CBO cannot provide an estimate of the direct spending effects because the data needed for such an estimate are classified.

Section 402 would allow certain undercover CIA employees to claim and receive the same tax treatment and Social Security benefits available to some individuals in the private sector. This provision could effect the amount of federal tax exemptions and deductions claimed by these employees, as well as their payments and benefits under the Social Security system. CBO cannot provide an estimate of the direct spending and revenue effects because the data needed for such an estimate are classified.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Section 402 of this bill contains an intergovernmental mandate as defined in UMRA. That section would preempt some state laws by allowing certain intelligence agents working abroad to avoid liability for state taxes on the income they earn abroad. This option of being treated as a nonresident for state tax purposes is currently not available to employees of the U.S. government. Because this section would allow certain intelligence agents to file state taxes as if they were not federal employees, they would be eligible for nonresident status. CBO estimates that few intelligence employees would be eligible or would choose to end their status as state residents; the cost to state governments of that preemption therefore would be small and well below the annual threshold established in UMRA (\$60 million in 2004, adjusted annually for inflation).

This section also would allow certain agents who are stationed abroad and meet certain foreign residency requirements to exclude up to \$80,000 of their earned income and deduct certain housing costs from their federal taxable income. Twenty-six states and the District of Columbia base residents' income tax liability on the federal definition of adjusted gross income, which would be decreased by those exclusions and deductions. This change could thus result in lost tax revenue for some states, but CBO estimates that those losses would be insignificant.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 2386 contains no private-sector mandates as defined in UMRA.

PREVIOUS CBO COST ESTIMATE

On May 21, 2004, CBO transmitted a cost estimate for the unclassified portion of S. 2386, the Intelligence Authorization Act for Fiscal Year 2005, as reported by the Senate Select Committee on Intelligence on May 5, 2004. That cost estimate is identical to this estimate for S. 2386, as reported by the Senate Committee on Armed Services on July 8, 2004.

On June 21, 2004, CBO transmitted a cost estimate for the unclassified portion of H.R. 4548, the Intelligence Authorization Act for Fiscal Year 2005, as reported by the House Permanent Select Committee on Intelligence on June 16, 2004. The differences in the estimated costs reflect differences in the bills. In particular, S. 2386 would authorize \$343 million for the Intelligence Community Management Account, while H.R. 4548 would authorize \$318 million for that account. H.R. 4548 also would authorize new programs for foreign language training and an advisory panel, which CBO estimates would require additional appropriations of about \$30 million over the 2005-2009 period.

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