CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 21, 2002

S. 2514

National Defense Authorization Act for Fiscal Year 2003

As reported by the Senate Committee on Armed Services on May 15, 2002

SUMMARY

S. 2514 would authorize appropriations totaling $392 billion for fiscal year 2003 and an estimated $14 billion in additional funding for 2002 for the military functions of the Department of Defense (DoD) and the Department of Energy (DOE). It also would prescribe personnel strengths for each active-duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts for 2002 and 2003 would result in additional outlays of $402 billion over the 2002-2007 period.

The bill also contains provisions that would raise the costs of discretionary defense programs over the 2004-2007 period. CBO estimates that those provisions would require appropriations of $6.8 billion over those four years.

The bill contains provisions that would increase direct spending by an estimated $5.6 billion over the 2003-2007 period and $17.6 billion over the 2003-2012 period, primarily from the phase-in of concurrent payment of retirement annuities with veterans' disability compensation to retirees from the military and the other uniformed services who have service-connected disabilities rated at 60 percent or greater. Because it would affect direct spending, the bill would be subject to pay-as-you-go procedures.

S. 2514 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2514 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. 2514, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2003

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority [a]	346,319	0	0	0	0	0
Estimated Outlays	346,900	116,372	38,931	13,267	5,535	2,723
Proposed Changes						
Authorization of Supplemental Appropriations for 2002						
Estimated Authorization Level[b]	14,048	0	0	0	0	0
Estimated Outlays[b]	5,345	5,782	1,941	660	174	79
Authorization of Appropriations for 2003						
Estimated Authorization Level	0	391,543	0	0	0	0
Estimated Outlays	0	259,711	88,543	28,227	8,201	2,856
Spending Under S. 2514 for Defense Programs						
Estimated Authorization Level	360,367	391,543	0	0	0	0
Estimated Outlays	352,245	381,865	129,415	42,154	13,910	5,658
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	359	674	1,081	1,533	1,936
Estimated Outlays	0	359	674	1,081	1,533	1,936

NOTE: This table excludes estimated authorizations of appropriations for years after 2003. (Those additional authorizations are shown in Table 3.)

a. The 2002 level is the amount appropriated for programs authorized by S. 2514.

b. The estimates shown for the 2002 supplemental are amounts contained in the Administration's supplemental request for defense programs. The outlay estimate for 2003 includes $5,684 million of spending from funds requested as emergency appropriations. Excluding emergency spending would lower total outlays in 2003 to $376,181 million.

BASIS OF ESTIMATE

Spending Subject to Appropriation

The bill would specifically authorize appropriations totaling $391.5 billion in 2003 (see Table 2) and additional amounts as may be necessary for supplemental appropriations for defense in 2002, which CBO estimates would total $14 billion based on the Administration's request. Most of those costs would fall within budget function 050 (national defense). S. 2514 also would specifically authorize appropriations of $70 million for the Armed Forces Retirement Home (function 600—income security).

The estimate assumes that the estimated authorization amount for 2002 is appropriated by the end of June 2002, and that the amounts authorized for 2003 will be appropriated before the start of fiscal year 2003. 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 2003 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 2003, these provisions would raise estimated costs by $6.8 billion over the 2004-2007 period. The following sections describe the provisions identified in Table 3 and provide information about CBO's cost estimates for those provisions.

TABLE 2. SPECIFIC AUTHORIZATIONS IN S. 2514

Category	By Fiscal Year, in Millions of Dollars 2003	2004	2005	2006	2007
Military Personnel					
Authorization Level [a]	94,297	0	0	0	0
Estimated Outlays	89,205	4,432	283	94	0
Operation and Maintenance					
Authorization Level	139,938	0	0	0	0
Estimated Outlays	103,010	28,058	6,279	1,395	478
Procurement					
Authorization Level	72,818	0	0	0	0
Estimated Outlays	20,599	27,458	15,289	5,193	1,808
Research, Development, Test, and Evaluation					
Authorization Level	55,686	0	0	0	0
Estimated Outlays	31,375	20,110	3,240	587	153
Military Construction and Family Housing					
Authorization Level	10,129	0	0	0	0
Estimated Outlays	2,686	3,805	2,259	805	327
Atomic Energy Defense Activities					
Authorization Level	15,895	0	0	0	0
Estimated Outlays	10,667	4,245	853	74	55
Other Accounts					
Authorization Level	2,688	0	0	0	0
Estimated Outlays	1,736	501	174	128	60
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	350	-75	-150	-75	-25
Total					
Authorization Level [b]	391,451	0	0	0	0
Estimated Outlays	259,628	88,534	28,227	8,201	2,856

a. This authorization is for discretionary appropriations and does not include $55 million for mandatory payments from appropriations for military personnel.

b. These amounts comprise nearly all of the proposed changes for authorizations of appropriations for 2003 shown in Table 1; they do not include the estimated authorization of $92 million for the Coast Guard Reserve, which is shown in Table 3.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN S. 2514

Category	By Fiscal Year, in Millions of Dollars 2003	2004	2005	2006	2007
MULTIYEAR PROCUREMENT					
C-130J Aircraft	15	-63	-121	-142	-162
FORCE STRUCTURE					
DoD Military Endstrengths	87	180	186	192	198
Coast Guard Reserve Endstrengths	92	0	0	0	0
COMPENSATION AND BENEFITS (DoD)					
Military Pay Raises	276	381	398	415	430
Expiring Bonuses and Allowances	706	796	417	234	152
Assignment Incentive Pay	1	14	32	0	0
Education and Training	3	5	9	13	11
Concurrent Receipt	0	588	610	631	650
National Call to Service Program	0	10	19	28	29
DEFENSE HEALTH PROGRAM					
TRICARE Prime Remote	4	4	4	5	5
Transitional Health Care	7	5	3	2	1
OTHER PROVISIONS					
Voluntary Separation and Early Retirement Incentives (DoD and DOE)	0	121	212	211	0
Federal Employees Health Benefits Program	0	2	3	3	3
School Impact Aid	a	a	a	14	15
Arctic and Western Pacific Environmental Cooperation Program	7	8	6	5	3
Revitalizing DoD Laboratories	a	a	a	a	0
Contracting for Environmental Remediation	-2	-4	-5	-7	-9
TOTAL ESTIMATED AUTHORIZATIONS					
Estimated Authorization Level	1,196	2,047	1,773	1,605	1,326

NOTE: For every item in this table except the authorization for the Coast Guard Reserve, the 2003 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 2004 through 2007 are not included in Table 1.

a. Less than $500,000.

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. Annual funding is provided for these multiyear contracts, but potential termination costs are covered by an initial appropriation.

Section 131 would authorize the Secretary of the Air Force to enter into a multiyear contract to purchase C-130J aircraft beginning in 2003 after the Secretary certifies that the C-130J has been cleared for worldwide, over-water capability. Based on information provided by the Air Force, CBO assumes that DoD will procure 64 aircraft over the 2003-2008 period—40 CC-130J aircraft for the Air Force and 24 KC-130J aircraft for the Marine Corps. CBO also assumes that the CC-130J and KC-130J aircraft would be purchased under one contract administered by the Air Force and covering six years of production beginning in 2003. CBO estimates that savings from buying these aircraft under a multiyear contract would total $473 million, or about $95 million a year, over the 2003-2007 period. CBO also estimates that additional savings of $182 million would accrue in 2008. Funding requirements to purchase these aircraft would total just under $3.4 billion over the 2003-2007 period (instead of the almost $3.9 billion that would be needed under annual contracts).

Multiyear procurement of C-130Js would raise costs in 2003 because the KC-130J did not receive advance procurement in 2002 in anticipation of multiyear procurement starting in 2003, and because the Air Force would need to provide advance procurement for the aircraft that it would purchase in 2004.

Military Endstrength. The bill would authorize active and reserve endstrength levels for 2003. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,390,000 and 865,000, respectively. Of those selected reservists, about 68,500 would serve on active duty in support of the reserves. The bill would specifically authorize appropriations of about $94 billion for the costs of military pay and allowances in 2003. The authorized endstrength represents a net increase of 2,200 servicemembers that would boost costs for salaries and other expenses by $87 million in the first year and about $190 million annually in subsequent years, compared to the authorized strengths for 2002.

The bill also would authorize an endstrength of 9,000 in 2003 for the Coast Guard Reserve. This authorization would cost about $92 million and would fall under budget function 400 (transportation).

Section 402 would allow the Secretary of Defense to increase endstrength by 2 percent above the level authorized by the Congress. The provision would also allow an increase in endstrength equal to the number of personnel within the reserve components that are on active duty in support of a contingency operation. While there is the potential for increased costs, CBO believes that DoD would still have to manage their resources given the finite amount of money appropriated each year for military personnel. As such, CBO estimates that this provision would not significantly increase costs.

Compensation and Benefits. S. 2514 contains several provisions that would affect military compensation and benefits for uniformed personnel.

Military Pay Raises. Section 601 would raise basic pay by 4.1 percent across-the-board and authorize additional targeted pay raises, ranging from 0.9 percent to 4.4 percent, for individuals with specific ranks and years of service at a total cost of about $2.3 billion in 2003. 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 $276 million in 2003 and total $1.9 billion over the 2003-2007 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 2002, or three months into fiscal year 2003. The bill would extend these authorities through December 2003. Based on data provided by DoD, 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 2003 and $191 million in 2004; enlistment bonuses for active-duty personnel would cost $133 million in 2003 and $361 million in 2004;

- Various bonuses for the Selected and Ready Reserve would cost $99 million in 2003 and $114 million in 2004;

- Special payments for aviators and nuclear-qualified personnel would cost $67 million in 2003 and $72 million in 2004;

- Retention bonuses for officers and enlisted members with critical skills would cost $29 million in 2003 and $19 million in 2004;

- Accession bonuses for new officers with critical skills would cost $14 million in 2003 and $5 million in 2004; and

- Authorities to make special payments and give bonuses to certain health care professionals would cost $37 million in 2003 and $34 million in 2004.

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

Assignment Incentive Pay. Section 617 would authorize a new incentive pay to servicemembers who volunteer for difficult-to-fill jobs or less-than-desirable locations. The authority would expire three years after the enactment date of this bill. Based on information from DoD, CBO expects that only the Navy would use this authority. Based on information provided by the Navy, CBO assumes that the special incentive pay would average $300 a month and that 11,250 servicemembers would receive this special pay by 2005. Given expected personnel turnover, CBO estimates that this provision would cost $1 million in 2003 and $46 million over the 2003-2005 period.

Education and Training. Section 521 would allow the military services to increase the number of students at each of the service academies from the current ceiling of 4,000 to 4,400 students. Based on information from DoD, CBO expects that only the Navy would significantly increase its service-academy strength and that it would bring on about 100 extra academy students a year, so that the student body would increase, after several years, to about 4,400 students. Based on information provided by DoD, CBO assumes the other service academies would each increase their enrollments by an insignificant number of students a year.

According to DoD, the additional cost to bring on 400 extra students at the Naval Academy would be about $29,000 per student each year. These additional students would not be used to increase overall officer endstrength, but rather to offset a desired draw down in the number of officers commissioned through the Officer Candidate School (OCS) program, according to the Navy. Thus, the actual cost of the increase for the academy students would be offset somewhat by the cost of the OCS graduates they would replace. Because the OCS program lasts less than one year, the offsetting costs would not begin to affect net outlays until 2007, when the first of the additional academy students would graduate and be commissioned. CBO estimates the cost of implementing this provision would be $1 million in 2003 and $31 million over the 2003-2007 period, assuming appropriation of the necessary amounts.

Section 652 would extend the period during which eligible reservists may use their education benefits from 10 years to 14 years. In 2001, over 82,000 reservists trained under this program and received an average annual benefit of $1,653. These benefits are paid by the Secretary of Veterans Affairs from the DoD Education Benefits Fund. Each month, DoD pays into the fund the net present value of the education benefit granted to each person who enlisted in the previous month. Based on information from DoD about current contributions to the fund and expected accessions, CBO estimates implementing section 652 would increase payments into the fund by about $2 million each year. (CBO estimates that there also would be direct spending of about $24 million over the 2003-2012 period for increased outlays from the fund. CBO's estimate of those costs is discussed below under the heading of "Direct Spending.")

Concurrent Receipt. Section 641 would phase in over five years total or partial concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the uniformed services who have service-connected disabilities rated at 60 percent or greater. 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).

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 (VA). Because of this prohibition on concurrent receipt, such veterans forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit. This section would phase in concurrent receipt of both benefits so that, beginning in 2007, individuals who have significant service-connected disabilities and have a retirement annuity based on years of service, would receive both benefits in full without the reduction called for under current law. Individuals whose retirement pay is based on their degree of disability would continue to forgo retirement pay equal to the VA compensation payment, but only to the extent that their disability had entitled them to a larger retirement annuity than they would have received based on years of service.

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 this provision is enacted, 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. Using information from DoD, CBO estimates that implementing this provision would increase such payments by $588 million in 2004 and $2.5 billion over the 2004-2007 period. Because the phase-in of concurrent receipt benefits would not take effect until January 1, 2003, the accrual payment for fiscal year 2003 would not be affected. CBO estimates that there also would be direct spending of about $17.3 billion over the 2003-2012 period for increased outlays from the fund. CBO's estimate of those costs is discussed below under the heading of "Direct Spending."

National Call to Service. Section 541 would give the Secretary of Defense authority to establish an enlistment program in which a participant, in exchange for a specified incentive, would enlist in the armed forces for a period of 15 months plus training time followed by service in the reserves, the Peace Corps, Americorps, or another national service program. The specified incentives would consist of either a cash bonus of $5,000, payment of student loans not to exceed $18,000, or education benefits similar to those provided for in the Montgomery GI Bill (MGIB) education program.

Based on information from DoD, CBO estimates that DoD would seek to recruit about 1 percent of annual enlisted accessions (an average of about 2,000 enlistees a year) under the National Call to Service program. CBO assumes that all (or nearly all) participants would choose the $5,000 cash bonus option since DoD has indicated that the amount it would probably offer for the repayment of student loans would be less than or equal to $5,000. Moreover, while the education benefits offered under this program would be worth more than $5,000, CBO believes that few enlistees would choose these benefits because a participant who selected the cash bonus would also have the potential to be eligible for active-duty or reserve MGIB benefits. Thus, CBO estimates that the cost for providing the cash bonus to participants who enlist under the National Call to Service program would be about $10 million a year once the program was implemented. Based on information provided by DoD, CBO assumes that it would take about one year for DoD to implement this program.

CBO also estimates that there would be an additional cost associated with administering this program. Since servicemembers who would enlist under the National Call to Service program would leave the military one year sooner than the average enlisted member who leaves after his or her initial obligation is fulfilled, DoD would need to induct more people into the military to maintain endstrength. CBO estimates that DoD would need to induct 1,000 additional enlistees a year to make up for the accelerated loss in personnel. With an average training period of about six months, DoD would need to add these enlistees about half a year earlier. Thus, the first bonuses would not be paid out until 2004 and the first replacements would not have to be inducted until 2005.

Based on information from DoD, CBO estimates that the average cost for each additional enlistee would be about $16,250 in fiscal year 2003, which includes the cost of providing new uniforms, travel expenses, and six months of salary and benefits during training. After adjusting for inflation and assuming that new participants are brought into the program evenly throughout the first year, CBO estimates that the cost of these additional accessions would be $9 million in 2005 and an average of $20 million per year thereafter.

Therefore, CBO estimates that the total costs for the National Call to Service program would be $10 million in 2004, $19 million in 2005, and about $85 million over the 2004-2007 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; Tricare Prime and Tricare Prime Remote are managed care programs, and Tricare Standard is a fee-for-service program.

Tricare Prime Remote. Section 703 would affect dependents of servicemembers on active duty who live in a remote area, which is defined as roughly a one-hour-or-more driving distance from a military treatment facility. Under certain conditions, this section would allow dependents of personnel on active duty who live in a remote area to participate in Tricare Prime Remote if the servicemember is transferred to a different duty station and is not allowed to bring his or her family. Under current law, dependents of personnel on active duty living in remote areas must reside with the active-duty member to participate in Tricare Prime Remote. If the active-duty servicemember is transferred to a duty station where he or she cannot bring family members, the family can no longer participate in the Tricare Prime Remote program.

Based on information provided by DoD, CBO estimates that about 27,000 dependents of personnel on active duty would be affected by this provision. According to DoD, about 40 percent of those dependents who would be eligible for Tricare Prime Remote under this section already participate in Tricare Standard. Based on data provided by the department, CBO estimates that the additional incremental cost of providing Tricare Prime Remote to those individuals would be $113 per person. In addition, CBO estimates that the new benefit would attract about 1,350 dependents to Tricare Prime Remote who had not previously used any Tricare program at an estimated annual cost of $1,900 per person. Thus, CBO estimates that the cost of providing Tricare Prime Remote to more individuals would be $4 million in 2003 and $22 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

Transitional Health Care. Under section 707, family members of reservists who were called to active duty for more than 30 days would be eligible for health care coverage under Tricare for 60 days after the reservist is released from active duty. Under current law, only the reservist is eligible for health care coverage under Tricare for the 60 days after he or she is released from active duty. While there are currently more than 80,000 reservists on active duty, CBO assumes for this estimate that the number of reserves will fall to about 65,000 in 2003 and 10,000 by 2006. If the number of reservists remains at current levels over the 2003-2007 period, the estimated costs would be correspondingly higher.

Based on data from DoD and the General Accounting Office, CBO estimates that about 50 percent of the reservists have families and that about 40 percent of those families would use the transitional health care. CBO further estimates that providing an additional 60 days of health care coverage to those families would cost, on average, about $600 per family.

After accounting for inflation and the assumed decline in the level of reservists called to active duty, CBO estimates that this provision would cost $7 million in 2003, and $18 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

Voluntary Separation and Early Retirement Incentives. S. 2514 contains several provisions that would allow DoD and the Department of Energy to offer voluntary retirement incentives to their civilian employees. Taken together, CBO estimates implementing these provisions would cost $121 million in 2004 and $544 million over the 2004-2006 period.

Section 1102 would provide DoD with the authority to offer voluntary retirement incentives of up to $25,000 to its civilian employees who voluntarily retire or resign through September 30, 2006. Current buyout authority for DoD is scheduled to expire on September 30, 2003. Based on discussions with DoD staff, CBO assumes that about 16,500 DoD employees would participate in the buyout program in 2004 through 2006. CBO estimates that the buyout payments would cost $88 million in 2004 and $414 million over the 2004-2006 period, 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. Assuming an average final salary for the affected workers of $45,000, CBO estimates these payments would cost DoD $24 million in 2004 and $118 million over the 2004-2006 period. (CBO estimates that enacting this section also would increase direct spending for federal retirement and retiree health care benefits by a total of $188 million over the 2004-2012 period. CBO's estimate of those outlays is discussed below under the heading of "Direct Spending.")

Section 3163 would provide DOE with authority to offer voluntary retirement incentives of up to $25,000 to employees who voluntarily retire or resign in calendar year 2004. Current buyout authority for DOE is scheduled to expire on December 31, 2003. Based on information from DOE, CBO assumes that about 350 DOE employees would participate in the buyout program in calender year 2004. CBO estimates that the cost of the buyout payments would total $6 million in 2004 and $2 million in 2005. DOE would also be required to make a payment to the CSRDF for every employee who takes a buyout. The payments would equal 15 percent of the final pay of each employee and come out of the agency's appropriated funds. Assuming an average final salary for the affected workers of $75,000, CBO estimates these payments would cost DOE $3 million in 2004 and $1 million in 2005. (CBO estimates that enacting this section also would increase direct spending for federal retirement and health care benefits by a total of $8 million over the 2004-2012 period. CBO's estimate of those outlays is discussed below under the heading of "Direct Spending.")

Federal Employees Health Benefits (FEHB) Program. Section 1103 would extend a provision of law into fiscal year 2007 that allows DoD and certain Department of Energy employees whose employment is terminated because of a reduction-in-force action to continue to participate in the FEHB health insurance program and only pay the regular employee's share of the insurance premium. The respective departments would be responsible for paying the normal employer's share of the premium. Under current law, this provision expires in fiscal year 2004. Based on information from DoD and the Office of Personnel Management, CBO estimates that this provision would affect about 500 people a year at an average annual cost of $5,500 per person over the 2003-2007 period. CBO estimates that extending this provision into fiscal year 2007 would cost $2 million in 2004, and $11 million over the 2004-2007 period, assuming appropriation of the estimated amounts.

School Impact Aid. Section 1064 would allow school districts with a large percentage of children from military families to continue to receive heavy impact aid when military families are temporarily relocated. Heavy impact aid is federal funding earmarked for school districts with large military populations. Many military families in those school districts live on federal installations and do not contribute to the local property tax base that is used to help finance school operations. Heavy impact aid helps to offset this loss of local tax revenue. Under current law, schools can only receive heavy impact aid if they meet strict criteria for numbers of federal students located in their districts, local tax rates, and per pupil expenditures. Because of population relocations associated with certain military housing initiatives, some school districts will temporarily be unable to meet these criteria and will lose their heavy impact aid for several years.

Based on data from the Department of Education and the Military Impacted Schools Association, CBO estimates that about four school districts would initially be affected by housing privatization and that these school districts receive about $18 million in heavy impact aid annually. Because applications for heavy impact aid are based on school district statistics from three years prior, CBO estimates that the cost of implementing this section would not occur until 2006. After adjusting for the changes in student population within the affected districts, CBO estimates that restoration of this aid would cost about $14 million per year. Since the requirements of the School Impact Aid program are not always fully funded, CBO expects that the Department of Education would likely fund this increase through reductions in aid to other school districts. CBO expects this cost would reoccur annually only for the duration of the housing privatization effort within the affected school districts, which CBO estimates to be about three years.

Section 1064 also would allow coterminous school districts (school districts whose boundaries are the same as a military base) to change the way in which they include students living off the base in their heavy impact aid calculations. CBO estimates that implementing this provision would change the calculation of heavy impact aid for 200 students in two school districts and that the impact aid for these students would increase by about $2,300 per student. CBO estimates allowing coterminous school districts to change the method for calculating heavy impact aid would cost slightly less than $500,000 each year beginning in 2003.

Arctic and Western Pacific Environmental Cooperation Program. Section 1214 would authorize the Department of Defense, with the concurrence of the Secretary of State, to assist in mitigating the impact of military operations on the environment of the arctic and western Pacific regions, particularly nuclear or radiological impacts. Based on information from DoD, CBO estimates that implementing this provision would cost $29 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

Revitalizing DoD Laboratories. Section 241 would allow DoD to establish a new three-year pilot program beginning in March 2003 at various DoD laboratories to pursue improved efficiencies for performing research and development work at these laboratories. The section also would extend through 2006 authorizations for similar pilot projects that will expire in 2003. Finally, section 241 would permit laboratories participating in this new pilot program to enter into public-private partnerships and other business arrangements with private firms to achieve improved efficiencies. The authority to enter into such partnerships would expire in 2006. Under section 241, one of the public-private partnerships could be established as a limited liability corporation where the federal and nonfederal partners could contribute capital, services, or facilities to the corporation.

Under the new pilot program, DoD would be authorized to waive certain restrictions not required by law that hinder the objective of achieving improved efficiencies. The department also would be authorized to use innovative methods of personnel management and technology development. According to information provided by DoD, the laboratories participating in the existing pilot program were granted similar authorities. DoD reported that these laboratories did not substantially change their business practices because, in their view, they already had the authority to waive non-statutory regulations. Thus, CBO assumes that any laboratories selected for the new program would not change their business practices substantially. CBO estimates that spending under these new and extended authorities would not be significant—probably less than $500,000 annually over the 2003-2006 period. (CBO estimates that the provision allowing a limited liability corporation also would increase direct spending by a total of $15 million over the 2004-2006 period. CBO's estimate of those outlays is discussed below under the heading of "Direct Spending.")

Multiyear Procurement of Environmental Remediation Services. Section 827 would give DoD the authority to enter into multiyear contracts for environmental remediation services. Under current law, the total cost of any multiyear remediation service contract must be fully funded at the beginning of the contract. DoD has found this difficult to do for contracts that are expensive and last several years. Instead, DoD often awards these contracts for environmental remediation to cover work for one year and then extends the contract on a year-to-year basis as funds become available. DoD states that contracting in this manner is generally more expensive because contractors charge higher prices when they don't know whether the contract will continue beyond the current year. Thus, allowing DoD to sign multiyear contracts for environmental remediation would most likely produce some savings. DoD could not provide CBO with the necessary data to produce a precise estimate of the annual savings. However, given the high cost of these contracts, CBO believes these savings could be significant. CBO estimates that DoD currently spends about $1.7 billion each year on environmental cleanup related activities. If 10 percent of future contracts were negotiated as multiyear contracts and those contracts produced savings of about 5 percent on average, multiyear contracting for environmental remediation efforts would save about $10 million annually after a five-year phase-in period.

Disposition of Surplus Plutonium. In January 2002, the Secretary of Energy announced that the federal government plans to convert roughly 34 metric tons of surplus weapons grade plutonium currently located at various DOE facilities into mixed-oxide (MOX) fuel that would be suitable for use in U.S. commercial nuclear reactors. The federal government would ship the surplus plutonium to a MOX fuel fabrication facility at its Savannah River Site in Aiken, South Carolina. DOE plans to start construction of the facility in 2004 and expects that construction would be complete by 2007. The facility would be able to convert about 3.5 metric tons of plutonium a year and would complete the conversion in about 12 years.

Section 3182 would require that the Secretary of Energy pay up to $100 million a year to the state of South Carolina beginning in 2011, if the planned conversion schedule was not met. The federal government could avoid these penalties, however, if it removes at least one metric ton of plutonium a year from South Carolina over the 2011-2016 period and removes all remaining plutonium after 2016.

Based on delays in developing the construction plans for the proposed MOX facility, and delays in similar programs such as the Nuclear Waste Repository Site at Yucca Mountain, Nevada, and the Waste Isolation Pilot Program at Carlsbad, New Mexico, CBO believes that there is some chance that construction of the MOX facility could be delayed for several years beyond the 2007 planned completion date and that construction would not be completed by 2011. If DOE does not remove the required surplus plutonium from the state of South Carolina, DOE would need to pay up to $100 million a year to the state starting in 2011.

Direct Spending

The bill contains provisions that would increase direct spending, primarily from the phase-in of concurrent payment of retirement annuities with veterans' disability compensation to retirees from the military and the other uniformed services who have service-connected disabilities rated at 60 percent or greater. The bill also contains a few provisions with smaller direct spending costs. In total, CBO estimates that enacting S. 2514 would result in an increase in direct spending totaling $5.6 billion over the 2003-2007 period (see Table 4).

TABLE 4. ESTIMATED DIRECT SPENDING FROM CONCURRENT RECEIPT AND OTHER PROVISIONS IN S. 2514

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
Section 641 - Concurrent Receipt					
Estimated Budget Authority	356	628	995	1,439	1,905
Estimated Outlays	356	628	995	1,439	1,905
Section 651 - Education Benefits for the Selected Reserves					
Estimated Budget Authority	2	2	2	2	2
Estimated Outlays	2	2	2	2	2
Section 702 - Mental Health Benefits					
Estimated Budget Authority	1	1	1	1	1
Estimated Outlays	1	1	1	1	1
Section 1102 - Voluntary Separation and Early Retirement Incentives (DoD)					
Estimated Budget Authority	0	31	73	87	28
Estimated Outlays	0	31	73	87	28
Section 3163 - Voluntary Separation and Early Retirement Incentives (DOE)					
Estimated Budget Authority	0	3	4	1	a
Estimated Outlays	0	3	4	1	a
Section 241 - Revitalizing DoD Laboratories					
Estimated Budget Authority	0	6	6	3	0
Estimated Outlays	0	6	6	3	0
Section 2824 - Land Conveyance of Navy Property, Westover Reserve Air Base					
Estimated Budget Authority	0	3	0	0	0
Estimated Outlays	0	3	0	0	0

Continued

TABLE 4. Continued

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
TOTAL CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	359	674	1,081	1,533	1,936
Estimated Outlays	359	674	1,081	1,533	1,936

a. Less than $500,000.

Concurrent Receipt. Section 641 would phase in over five years total or partial concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the uniformed services who have service-connected disabilities rated at 60 percent or greater. Under section 641, the phase-in of concurrent receipt would not take effect until January 1, 2003.

Under current law, disabled veterans who are retired from the uniformed services cannot receive both full retirement annuities and disability compensation from VA. Because of this prohibition on concurrent receipt, such veterans forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit. This section would permit, beginning in 2007, individuals who have significant service-connected disabilities and have a retirement annuity based on years of service, to receive both benefits in full without the reduction called for under current law. Individuals whose retirement pay is based on their degree of disability would continue to forgo retirement pay equal to the VA compensation payment, but only to the extent that their disability had entitled them to a larger retirement annuity than they would have received based on years of service.

This section also would repeal, as of January 1, 2003, a program that partially compensates certain severely disabled retirees for this reduction in their retirement annuities. This program currently pays a fixed benefit of $50 to $300 a month, depending on degree of disability. Taken together, CBO estimates that implementing section 641 would increase direct spending for retirement annuities and veterans’ disability compensation by a net amount of about $356 million in 2003, $5.3 billion over the 2003-2007 period, and $17.3 billion over the 2003-2012 period (see Table 5).

Retirement Annuities. Since the proposed legislation would treat retirees differently based on their type of retirement—nondisability or disability, the potential costs of the legislation depend on the number of beneficiaries, their type of retirement, their disability levels, and their benefit amounts.

Nondisability Retirees. A nondisability retirement is granted based on length of service—usually 20 or more years. Section 641 would allow those longevity retirees whose degree of disability has been rated as 60 percent or greater to receive full retirement annuities and veterans' disability benefits with no offset in 2007, and to receive an increasing portion of their retirement annuities over the 2003-2006 period. Data from the uniformed services indicate that in 2001 the prohibition on paying both benefits concurrently caused about $1.3 billion to be withheld from the annuity payments of about 74,000 eligible DoD retirees with nondisability retirements, and about 900 eligible Coast Guard, PHS, and NOAA retirees. Using current rates of net growth in the population of new beneficiaries, CBO estimates this caseload would rise to about 78,000 nondisability retirees in 2003, and 96,000 nondisability retirees by 2012. 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 the benefits in over five years as specified in the provision, CBO estimates that enacting the legislation would increase direct spending on retirement annuities for nondisability retirees of the uniformed services by $342 million in 2003, $4.7 billion over the 2003-2007 period, and $15.2 billion over the 2003-2012 period.

TABLE 5. ESTIMATED CHANGES IN RETIREE BENEFITS UNDER S. 2514

Description of Benefits Program	By Fiscal Year, in Millions of Dollars 2003	2004	2005	2006	2007
Retirement Annuities					
Nondisability	342	582	861	1,223	1,654
Disability	56	92	127	172	223
Veterans Compensation Payments	0	13	67	104	89
Survivor Benefit Plan Payments	7	7	8	9	9
Special Compensation for Severely Disabled	-49	-66	-68	-69	-70
Total Changes in Retiree Benefits	356	628	995	1,439	1,905

Disability Retirees. Servicemembers who are found to be unable to perform their duties because of service-related disabilities may be granted a disability retirement. Section 641 would allow eligible disability retirees to receive retirement annuities based on their years of service and veterans' disability benefits with no offset in 2007, and partial concurrent receipt of these payments in 2003 through 2006. Disability retirees would be eligible to obtain concurrent receipt of their retirement annuity and veterans' disability compensation if they served 20 or more years in the uniformed services and had a disability rating of 60 percent or greater.

Data from the uniformed services indicate that in 2001, the prohibition on paying both benefits concurrently caused about $200 million to be withheld from annuity payments of about 11,400 eligible DoD retirees with disability retirements, and about 500 eligible Coast Guard, PHS, and NOAA retirees. An analysis of retiree records by DoD indicates that, under the criteria set forth in this section, these retirees would be eligible to receive about 95 percent of their retirement annuity concurrently with their VA disability benefit. Assuming continuation of current trends in population and benefit growth, and phasing the benefit in over five years as specified in this section, CBO estimates that, of the disability retirees who would be receiving VA disability benefits in fiscal year 2003, about 12,100 would be entitled to an additional $56 million in retirement annuities. CBO estimates their retirement annuities would increase by $670 million over the 2003-2007 period and $1.9 billion over the 2003-2012 period.

Other Effects of Concurrent Receipt. Enacting section 641 also would affect Veterans' Disability Compensation, receipts to the Treasury for Survivor Benefit Payments, Special Compensation to Severely Disabled Retirees, and the level of contributions to the Military Retirement Trust Fund.

Veterans' Disability Compensation. Data from DoD indicates that an additional 15,100 disability retirees of the uniformed services—14,500 from DoD and about 600 from the other uniformed services—do not currently receive VA disability benefits that they are entitled to receive. Since many disability retirees are not taxed on their annuities, there is no incentive under current law for these retirees to apply for the tax-free VA benefits, as they will be offset, dollar-for-dollar, against their retirement annuities. Section 641 would provide a significant incentive for the more disabled of these individuals to apply for VA disability benefits. CBO estimates that about 7,000 disability retirees might be eligible for concurrent receipt under section 641, but, because many of these retirees are both disabled and quite elderly, CBO expects that only about half of that number would become aware of this improved benefit and successfully complete the application process. Based on their DoD-assessed degree of disability, CBO estimates that outlays for VA disability benefits would increase by $13 million in 2004, about $270 million over the 2003-2007 period, and $760 million over the 2003-2012 period. Because of the time needed for individuals to prepare and submit their applications and the current backlog in processing applications, CBO estimates that enacting this legislation would not increase outlays for veterans' disability compensation in 2003.

Survivor Benefit Plan Offsetting Receipts. Many retirees have a Survivor Benefit Plan (SBP) premium payment deducted from their retirement annuity. The SBP was established in

Public Law 92-425 to create an opportunity for military retirees to provide annuities for their survivors. Those retirees who are not receiving a paycheck from DoD because their retirement annuity is totally offset by their VA disability benefit may still participate in the SBP by paying the monthly premium to the U.S. Treasury. These payments are recorded as offsetting receipts (a credit against direct spending) to DoD. According to DoD, approximately 34,000 military retirees paid $23 million in SBP premiums to the Treasury in 2001. DoD also indicates that about $7 million of that amount was paid by about 8,000 retirees who would begin to receive annuity checks under section 641. CBO's estimate of the increase in retirement outlays presented above assumes that the SBP premiums of retirees who benefit from the legislation would be deducted from the retirees' annuities, and their payments to the Treasury would cease. Assuming continuation of current trends in population and benefit growth, CBO estimates these offsetting receipts would decrease by about $7 million in 2003, $40 million over the 2003-2007 period, and $90 million over the 2003-2012 period.

Repeal of Special Compensation for Severely Disabled Retirees. Section 641 also would repeal a special compensation program that currently pays a fixed benefit of $50 to $300 a month to certain uniformed service retirees who were determined to be 60 percent to 100 percent disabled within four years of their retirement. These special payments would stop on January 1, 2003, under section 641. Based on information from DoD and assuming the population growth trends continue, CBO estimates that about 36,000 DoD retirees and about 600 retirees of the other uniformed services will receive an average monthly benefit of $150 in 2002. Under current law, this benefit is scheduled to increase over the next two years to $172 a month. CBO estimates that the savings from repealing this program would be $49 million in 2003, about $320 million over the 2003-2007 period, and $690 million over the 2003-2012 period.

Increased Accrual Payment Financing. The military retirement system is financed in part by an annual payment from appropriated funds (an outlay in budget function 050) to the Military Retirement Fund, based on an estimate of the system's accruing liabilities. If this provision is enacted, the yearly contribution to the fund would increase to reflect the added liability from the expected increase in annuities to future retirees. These discretionary costs were discussed earlier in the "Spending Subject to Appropriation" section.

Education Benefits for the Selected Reserve. Section 651 would extend the period during which eligible reservists may use their education benefits from 10 years to 14 years. VA reported that, in 2001, over 82,000 reservists trained under this program and received an average annual benefit of $1,653. This average benefit includes both the basic benefit and a supplemental benefit that DoD can offer to enhance accessions or re-enlistment in critical skill specialties. This benefit increases each year by a cost-of-living adjustment and by the level of supplemental benefits being offered. Based on current usage rates, CBO estimates that enacting this extension would result in an extra 1,500 trainees a year. Based on information from DoD and VA, CBO estimates that enacting this legislation would increase education outlays by $2 million in 2003, $10 million over the 2003-2007 period and by $24 million over the 2003-2012 period. Since DoD makes monthly payments into the DoD Education Benefits Fund in the amount of the net present value of the benefits granted during the previous month, this increase in usage of the education benefit would necessitate an increase in payments to the fund. (The discretionary costs associated with these payments are discussed earlier in the "Spending Subject to Appropriation" section under the heading of "Education and Training.")

Mental Health Benefits. Section 702 would remove a statutory requirement that inpatient mental health care be preauthorized for retirees and dependents who are eligible for Medicare. Under current law, Tricare for Life (TFL), another medical program run by DoD, pays all Medicare copayments and deductibles for those benefits that are covered by both programs. Beginning in 2003, TFL spending for Medicare-eligible retirees and dependents will be considered direct spending. Under current law, Medicare does not require a preauthorization for inpatient mental health care but Tricare does. Removing this requirement would make the mental health benefits identical and reduce confusion among beneficiaries and health care providers.

Although most individuals would seek preauthorization before receiving inpatient mental health care, CBO expects that, under current law, some individuals would fail to obtain the necessary preauthorization from Tricare and would have to pay the copayments and deductibles on their own. Because DoD does not have any available data on the frequency or costs of inpatient mental health care for Medicare-eligible retirees and dependents, CBO extrapolated this data from the general Medicare population. Under section 702, CBO estimates that in 2003 TFL would cover the copayments and deductibles for about 600 additional people at an average cost of about $1,700 per person. Thus, CBO estimates section 702 would raise direct spending by $1 million in 2003, $5 million over the 2003-2007 period, and $15 million over the 2003-2012 period.

Voluntary Separation and Early Retirement Incentives. S. 2514 contains several provisions that would allow the DoD and DOE to offer voluntary separation incentives to their civilian employees. Taken together, CBO estimates enacting these provisions would increase direct spending for federal retirement and retiree health care benefits by $34 million in 2004 and $196 million over the 2004-2012 period.

Section 1102 would provide DoD with authority to offer its civilian employees voluntary retirement incentive payments of up to $25,000 for employees who voluntarily retire or resign in fiscal years 2004 thorough 2006. Current buyout authority for DoD is set to expire on September 30, 2003. CBO estimates that enacting section 1102 would increase direct spending for federal retirement and retiree health care benefits by $31 million in 2004 and $188 million over the 2004-2012 period.

Section 3163 would provide DOE with authority to offer payments of up to $25,000 to employees who voluntarily retire or resign in calendar year 2004. Current buyout authority for DOE is scheduled to expire on December 31, 2003. CBO estimates enacting section 3163 would increase direct spending for federal retirement and retiree health care benefits by about $3 million in 2004 and about $8 million during the 2004-2012 period.

DoD Retirement Spending. CBO assumes that about 16,500 DoD employees would participate in the buyout program over the three-year period and that many workers who take a buyout would begin collecting federal retirement benefits several years earlier than they would under current law. Inducing some workers to retire earlier would result in additional 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. CBO estimates that enacting section 1102 would increase direct spending for federal retirement benefits by $24 million in 2004 and $136 million over the 2004-2012 period. (The discretionary costs over the 2004-2006 period 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 1102 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 $7 million in 2004 and $52 million over the 2004-2012 period.

DOE Retirement Spending. CBO assumes that about 350 DOE employees would participate in the buyout program in calender year 2004 and that many workers who take a buyout would begin collecting federal retirement benefits several years earlier than they would under current law. Inducing some workers to retire earlier 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 3163, CBO estimates spending for federal retirement benefits would increase by $3 million in 2004 and by $8 million over the 2004-2012 period.

DOE Retiree Health Care Spending. Section 3163 would also increase spending on federal retiree health benefits because many employees who would accept the buyouts continue to eligible for coverage under the FEHB program. CBO estimates that these additional FEHB benefits would increase direct spending by less than $500,000 a year over the 2004-2006 period.

Revitalizing DoD Laboratories. Section 241 would allow DoD to establish a new three-year pilot program beginning in March 2003 at various DoD laboratories to pursue improved efficiencies for performing research and development work at these laboratories. The section also would extend through 2006 authorizations for similar pilot projects that will expire in 2003. Finally, section 241 would permit laboratories participating in this new pilot program to enter into public-private partnerships and other business arrangements with private firms to achieve improved efficiencies. The authority to enter into such partnerships would expire in 2006. Under section 241, one of the public-private partnerships could be established as a limited liability corporation where the federal and nonfederal partners could contribute capital, services, or facilities to the corporation.

CBO has little information about how this limited liability corporation would be structured, but one of the purposes of this corporation would be to finance improvements to DoD's research, test, and evaluation functions. CBO considers such hybrid entities as governmental. Hence, their activities should be recorded in the federal budget. CBO treats the assets that are expected to be contributed by the private party as borrowed by the federal government. Borrowing authority is treated as budget authority in the year and in the amounts that CBO estimates the private party would contribute to the limited liability corporation. This budgetary treatment is consistent with the recommendations of the President's 1967 Commission on Budget Concepts, which suggests that entities jointly capitalized with private and public assets be included in the federal budget until they are completely privately owned.

CBO assumes that DoD would need about one year to develop the policies and regulations for the new corporation that would be authorized under section 241. Based on information provided by DoD, CBO estimates that the additional expenses of the limited liability corporation could total between $4 million and $7 million a year. Assuming costs fall midway within that range, CBO estimates that federal borrowing would be about $6 million starting in 2004 and total about $15 million over the 2004-2006 period.

The budget also would record any cash proceeds collected by the corporation from the public. Any payments from federal agencies would be an intragovernmental transfer and would have no net budgetary impact. In contrast, any proceeds accruing to the corporation from nonfederal entities would be recorded as offsetting collections and would reduce the net cost of the partnership over time. For this estimate, CBO assumes that the government would use most of the services of this corporation. As a result, CBO estimates that proceeds from nonfederal sources would not be significant.

Land Conveyance and Other Property Transactions. Title XXVIII would authorize a variety of property transactions involving both large and small parcels of land.

Section 2824 would allow the Secretary of the Navy to convey 30.38 acres and 133 housing units located at Westover Reserve Air Base to the city of Chicopee, Massachusetts, without receiving payment for this property. Under current law, the Navy will soon declare this property excess and transfer it to the General Services Administration (GSA) 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 the housing and land will likely be sold under current law after the entire parcel is screened for other uses in 2003. As a result, CBO estimates that this conveyance would result in forgone receipts totaling about $3 million in 2004.

Section 2828 would authorize the Secretary of the Interior to convey to the city of West Wendover, Nevada, and Tooele County, Utah, without consideration, two parcels of federal land located in those states and identified in the bill. According to the Bureau of Land Management, those lands, which are withdrawn for military purposes, currently generate no offsetting receipts and are not expected to in the foreseeable future. Hence, CBO estimates that conveying the lands would not affect offsetting receipts. According to the U.S. Air Force, portions of the lands that could be conveyed have been used as a bombing range by the Air Force. Under the Comprehensive Environmental Response, Compensation, and Liability Act, the Air Force would have to remediate any expended and unexploded ordnance prior to conveying those lands. Based on information from the Air Force, we estimate that initial remediation activities would cost at least $2 million, assuming appropriation of the necessary amounts. Although we do not have sufficient information to estimate the cost of subsequent remediation activities that may be necessary, CBO expects that such costs could be significant. Any spending for additional remediation would be subject to appropriation.

CBO estimates that other provisions in title XXVIII would not result in significant costs to the federal government because they would either authorize DoD to convey land for fair market value, to exchange one piece of property for another or would authorize DoD to convey land that under current law is unlikely to be declared excess and sold or is likely to be given away.

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

- Section 111 would extend through 2004 the authority for a pilot program that allows industrial facilities within the Army to sell manufactured goods to the private sector even if the goods are manufactured in the domestic market. Section 111 also would direct that a portion of the sales proceeds in excess of $20 million a year be made available for ammunition demilitarization. CBO estimates, however, that there would likely be less than $5 million in annual sales under this pilot program over the 2003-2004 period, based on data provided by the Army, and that since the industrial facilities are allowed to spend any sales proceeds, the net effect on direct spending would be insignificant.

- Section 642 would increase the retirement annuity of enlisted servicemembers who are retired from a reserve component of the Armed Forces and have been credited by their service secretary with extraordinary heroism in the line of duty. Under section 642, these retirees would be entitled to a 10 percent increase in their retirement annuity. CBO estimates that enacting section 642 would increase direct spending by less than $500,000 a year.

- Section 1063 would extend through 2006 DoD’s authority to sell aircraft and aircraft parts for use in responding to oil spills. Based on information from DoD, CBO does not anticipate any transactions would occur under this authority.

- Section 3151 would require that the program to eliminate weapons-grade plutonium production in Russia be transferred from the Department of Defense to the Department of Energy. Funds appropriated for the program for 2000 through 2002 would be transferred to DOE and would be made available for obligation until expended. Under current law, those funds have a three-year period of availability, thus this provision could result in a reappropriation because it would extend the availability of some funds that would otherwise lapse. CBO estimates that about $120 million has been appropriated for this program over the 2000-2002 period and that nearly all of those funds will be obligated and spent under current law. As a result, CBO estimates that reappropriations under section 3151 would not be significant—probably less than $500,000 annually from 2003 through 2005.

- Section 3162 would allow the Department of Energy to penalize contractors operating at DOE facilities for occupational safety violations. These penalties would most likely be levied by reducing the fees owed to the contractor. Based on information about penalties levied over the last few years for nuclear safety violations, CBO estimates that the reduction in contract fees due to occupational safety violations would be less than $500,000 annually.

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 6. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

TABLE 6. ESTIMATED IMPACT OF S. 2514 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	359	674	1,081	1,533	1,936	2,132	2,261	2,391	2,529	2,676
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2514 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 3, 2002, CBO transmitted a cost estimate for H.R. 4546, the Bob Stump National Defense Authorization Act for Fiscal Year 2003, as ordered reported by the House Committee on Armed Services on May 1, 2002. The House bill would authorize approximately $382 billion in defense funding for fiscal year 2003 ($10 billion less than S. 2514 would authorize for 2003) and an estimated $14 billion in additional defense funding for 2002 (as also contained in S. 2514).

Both H.R. 4546 and S. 2514 would increase direct spending over the 2003-2007 period, but the Senate bill contains about $200 million less spending. Both bills contain provisions that would phase in over five years total or partial payment of retirement annuities together with veterans' disability compensation to retirees from the uniformed services who have service-connected disabilities rated at 60 percent or greater but the provisions specify different rates and schedules for phasing in the increased payments. Differences in the other estimated costs reflect differences in the legislation.

ESTIMATE PREPARED BY:

Federal Costs:
Defense Outlays: Kent Christensen
Defense Laboratories and Department of Energy: Raymond Hall
Military Construction: David Newman
Military and Civilian Personnel: Michelle Patterson and Dawn Regan
Military Retirement and Education Benefits: Sarah Jennings
Health Programs: Sam Papenfuss
Multiyear Procurement: David Newman
Operation and Maintenance: Matt Schmit
Voluntary Separation and Early Retirement Incentives: Geoffrey Gerhardt

Impact on State, Local, and Tribal Governments: Elyse Goldman

Impact on the Private Sector: R. William Thomas

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis