CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 22, 2001

H.R. 2586
National Defense Authorization Act for Fiscal Year 2002

As ordered reported by the House Committee on Armed Services on August 1, 2001

SUMMARY

H.R. 2586 would authorize appropriations totaling $343 billion for fiscal year 2002 for the military functions of the Department of Defense (DoD) and the Department of Energy. It also would prescribe personnel strengths for each active duty and selected reserve component of the U.S. armed forces. CBO estimates that appropriation of the authorized amounts for 2002 would result in additional outlays of $338 billion over the 2002-2006 period.

The bill also contains provisions that would raise the costs of discretionary defense programs over the 2003-2006 period. CBO estimates that those provisions would require appropriations of $9 billion over those four years.

The bill contains provisions that would reduce direct spending, primarily through revised payment rates for some services offered under the Tricare for Life program and certain asset sales. We estimate that the direct spending savings resulting from provisions of H.R. 2586 would total $384 million over the 2002-2006 period and $355 million over the 2002-2011 period. Those totals include estimated net receipts from asset sales of $44 million over the next five years and $20 million over 10 years. Because it would affect direct spending, the bill would be subject to pay-as-you-go procedures.

The bill contains several intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA). CBO estimates, however, that the costs of complying with those mandates would not be significant and would not exceed the threshold as specified in UMRA. The bill also contains provisions that affect DoD's Tricare long-term care program and would increase costs in state Medicaid programs. The remaining provisions of the bill are either excluded under Section 4 of UMRA, which excludes from the application of that act any legislative provisions that are necessary for the national security, or contain no mandates.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2586 is shown in Table 1. Most of the costs of this legislation fall within budget function 050 (national defense).

TABLE 1. BUDGETARY IMPACT OF H.R. 2586, THE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2002

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Defense Programs						
Budget Authority [a]	316,051	0	0	0	0	0
Estimated Outlays	301,602	107,667	36,099	13,839	6,256	3,308
Proposed Changes						
Estimated Authorization Level	0	342,945	0	0	0	0
Estimated Outlays	0	226,158	77,322	23,645	8,199	3,000
Spending Under H.R. 2586 for Defense Programs						
Estimated Authorization Level [a]	316,051	342,945	0	0	0	0
Estimated Outlays	301,602	333,825	113,421	37,484	14,455	6,308
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)						
Estimated Budget Authority	0	9	-320	-4	-9	1
Estimated Outlays	0	4	-340	-12	6	2
ASSET SALES [b]						
Estimated Budget Authority	0	-22	-32	-16	-5	31
Estimated Outlays	0	-22	-32	-16	-5	31

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

a. The 2001 level is the amount appropriated for programs authorized by the bill.

b. Asset sale receipts are a credit against direct spending.

BASIS OF ESTIMATE

Spending Subject to Appropriation

The bill would authorize appropriations totaling $343 billion in 2002 (see Table 2). Most of those costs would fall within budget function 050 (national defense). H.R. 2586 also would authorize appropriations of $100 million for the Presidio Trust Fund (function 300—natural resources and environment), $99 million for the Maritime Administration (function 400—transportation), $71 million for the Armed Forces Retirement Home (function 600—income security), and $17 million for the Naval Petroleum Reserves (function 270—energy).

The estimate assumes that the amounts authorized for 2002 will be appropriated near the start of fiscal year 2002. Outlays are estimated based on historical spending patterns.

The bill also contains provisions that would affect various costs, mostly for personnel, that would be covered by the fiscal year 2002 authorization and by authorizations in future years. Table 3 contains estimates of those amounts. In addition to the costs covered by the authorizations in the bill for 2002, these provisions would raise estimated costs by $9 billion over the 2003-2006 period. The following sections describe the provisions identified in Table 3 and provide information about CBO's cost estimates for those provisions.

Multiyear Procurement. In most cases, purchases of weapon systems are authorized annually, and as a result, DoD negotiates a separate contract for each annual purchase. In a small number of cases, the law permits multiyear procurement; that is, it allows DoD to enter into a contract to buy specified annual quantities of a system for up to five years. In those cases, DoD can negotiate lower prices because its commitment to purchase the weapons gives the contractor an incentive to find more economical ways to manufacture the weapon, including cost-saving investments. Funding would continue to be provided on an annual basis for these multiyear contracts, but potential termination costs would be covered by an initial appropriation.

Section 111 would authorize DoD to extend the authorization of multiyear procurement for the Family of Medium Tactical Vehicles by one year through 2002, if the department determines that it is necessary to do so to prevent a break in production of the vehicles. Currently, these vehicles are purchased under a multiyear contract administered by the Army covering a four-year period ending in 2001. The contract allows for an option year in 2002 leading to a new multiyear contract. CBO estimates that the savings from buying the vehicles under the extension would have little or no budgetary impact because the Army assumed that the vehicles planned for purchase in 2002 would be bought at prices similar to prices under the existing multiyear contract.

TABLE 2. SPECIFIC AUTHORIZATIONS IN H.R. 2586

Category	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
Military Personnel					
Authorization Level	82,224	0	0	0	0
Estimated Outlays	76,995	4,605	164	82	0
Operation and Maintenance					
Authorization Level	124,357	0	0	0	0
Estimated Outlays	93,200	24,264	4,041	1,679	501
Procurement					
Authorization Level	62,036	0	0	0	0
Estimated Outlays	16,208	22,452	13,333	5,013	1,988
Research, Development, Test, and Evaluation					
Authorization Level	47,660	0	0	0	0
Estimated Outlays	25,441	17,990	3,138	674	189
Military Construction and Family Housing					
Authorization Level	10,325	0	0	0	0
Estimated Outlays	2,624	3,987	2,303	776	334
Atomic Energy Defense Activities					
Authorization Level	13,514	0	0	0	0
Estimated Outlays	9,162	3,643	709	0	0
Other Accounts					
Authorization Level	2,746	0	0	0	0
Estimated Outlays	2,173	433	77	35	8
General Transfer Authority					
Authorization Level	0	0	0	0	0
Estimated Outlays	280	-60	-120	-60	-20
Total					
Authorization Level [a]	342,862	0	0	0	0
Estimated Outlays	226,083	77,314	23,645	8,199	3,000

a. These amounts comprise nearly all of the proposed changes for authorizations shown in Table 1; they do not include the estimated authorization of $83 million for the Coast Guard Reserve, which is shown in Table 3.

TABLE 3. ESTIMATED AUTHORIZATIONS OF APPROPRIATIONS FOR SELECTED PROVISIONS IN H.R. 2586

Category	By Fiscal Year, in Millions of Dollars 2002	2003	2004	2005	2006
MULTIYEAR PROCUREMENT					
C-17 Aircraft	0	-117	-293	-272	-252
FORCE STRUCTURE					
DoD Military Endstrengths	230	475	490	504	519
Coast Guard Reserve Endstrengths	83	0	0	0	0
Grade Structure	31	68	84	95	97
18-Month Enlistment Pilot	0	0	12	12	12
COMPENSATION AND BENEFITS (DoD)					
Military Pay Raises	1,026	1,420	1,490	1,558	1,624
Expiring Bonuses and Allowances	616	478	277	171	114
Travel and Transportation Allowances	51	274	351	359	367
Increase Incentive Pay and Bonuses	70	99	103	109	115
Housing Allowances	0	27	36	38	39
New Officer Accession Bonus	18	18	18	20	20
Subsistence Allowances	6	15	8	3	0
Uniform Allowances	4	4	4	4	4
Education and Training	1	6	8	10	13
Other Compensation Provisions	-25	8	3	8	7
DEFENSE HEALTH PROGRAM					
Payment Rates	-144	-90	0	0	0
Long-Term Care Rules	-44	0	0	0	0
Non-Availability Statements	0	0	10	10	10
Other Provisions	8	5	6	6	6
OTHER PROVISIONS					
Limitations on Workforce Reviews	-11	-11	-11	1	105
Service Contracting Reform	15	26	33	27	24
National Guard Challenge Program	0	9	11	13	15
War Medals	0	4	4	5	5
Acquisition Workforce Reduction	-25	-236	-246	-256	-266
Asbestos Differential Pay	-110	-110	-110	-110	-110
Civilian Wage Board Schedule	3	10	10	11	11
Strategic Forces	-20	-70	-140	-200	-220
TOTAL ESTIMATED AUTHORIZATIONS					
Estimated Authorization Level	1,783	2,312	2,159	2,126	2,260

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

Section 122 would authorize DoD to enter into a new multiyear procurement contract (or extend the current multiyear contract) to buy up to 60 additional C-17 aircraft if the Secretary of Defense certifies to the Congressional defense committees, before the enactment of this bill, that it is in the interest of the department to proceed with follow-on multiyear procurement of the C-17. Under the current multiyear contract, the Air Force will buy 15 aircraft in 2002 and another 8 aircraft in 2003. Assuming the Secretary certifies that it is in the interest of the department to proceed with follow-on multiyear procurement of up to 60 additional C-17s, CBO estimates that savings from buying 60 additional C-17s under this contract arrangement would total $934 million or an average of about $250 million a year over the 2003-2006 period. Funding requirements would total just under $8.3 billion instead of the almost $9.2 billion needed under annual contracts. This estimate assumes that the Air Force would purchase the 60 additional aircraft starting in 2003 at a rate of 15 a year.

Force Structure. The bill contains various sections that affect endstrength, personnel grade structure, and periods of enlistment.

Military Endstrength. The bill would authorize active and reserve endstrengths for 2002 and would raise the minimum endstrength authorization in permanent law. The authorized endstrengths for active-duty personnel and personnel in the selected reserve would total about 1,387,000 and 865,000, respectively. Of those selected reservists, about 66,000 would serve on active duty in support of the reserves. The bill would specifically authorize appropriations of $82.2 billion for the discretionary costs of military pay and allowances in 2002. The authorized endstrength represents a net increase of 3,152 servicemembers that would boost costs for salaries and other expenses by $230 million in the first year and about $500 million annually in subsequent years, compared to the authorized strengths for 2001.

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

Grade Structure. Sections 415, 423, 503, and 504 would increase the number of service-members in certain grades. Section 415 would change the grade structure of active-duty personnel in support of the reserves and section 423 would increase the number of Air Force officers in the grade of major. Section 503 would reduce the time-in-grade required for promotion to captain in the Army, Air Force, and Marine Corps, and lieutenant in the Navy when service staffing needs require. Under section 504, the number of servicemembers in pay grade E-8 in the Navy, the Marine Corps, and the Air Force would increase. These changes would not increase the overall endstrength, but would result in more promotions to these ranks. CBO estimates these provisions would cost $31 million in 2002, rising to about $100 million by 2006.

18-Month Enlistment Pilot Program. Section 589 would create a pilot program for 18-month enlistments. CBO estimates that implementing this section would cost $36 million over the 2004-2006 period because of the increased recruitment and training activities needed to accommodate the higher military personnel turnover rate and maintain endstrength levels. CBO estimates that implementing this section would increase turnover by approximately 1,000 positions in the 2004-2006 period, and that the cost to recruit and train these troops would be about $34,000 per person.

Compensation and Benefits. H.R. 2586 contains several provisions that would affect military compensation and benefits.

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

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

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

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

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

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

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

- Accession bonuses for dental officers would have no cost in 2002 and cost $1 million in 2003. (This provision authorizes a three-month extension of the current authority which expires on September 30, 2002); and

- Extension of transition authorities for active and reserve members, including temporary early retirement authority, special separation benefit, voluntary separation incentive, and certain other contingent benefits would cost $52 million in 2002, and $20 million in 2003.

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

Travel and Transportation Allowances. Sections 631 through 637 would affect travel and transportation allowances by expanding eligibility or increasing benefits. CBO estimates that the cost of these changes would be as follows:

- Setting minimum per diem rates equal to the standard rates established for federal civilian travel would have no cost in 2002, but would cost $142 million in 2003 and $731 million over the 2003-2006 period;

- Increasing the maximum daily payment rate from $110 to $180 for temporary subsistence allowances and expanding eligibility to officers would cost $45 million in 2002 and $287 million over the 2002-2006 period;

- Increasing the maximum weight allowances for junior enlisted members would have no cost in 2002, but would cost $20 million in 2003 and $98 million over the 2003-2006 period;

- Raising the pet quarantine fee reimbursement from $275 to $675 would cost $1 million in 2002 and $5 million over the 2002-2006 period;

- Authorizing dislocation allowances (DLA) for married servicemembers without dependents where the spouse is a member of the military, would have no cost in 2002, but would cost $3 million in 2003. Expanding eligibility to receive DLA to members moving to their first duty station would have no cost in 2002, but would cost $39 million in 2003. Authorizing a $500 allowance to compensate members who must move for government convenience (e.g., because of privatization or renovation) would cost $5 million in 2002. CBO estimates that combined these three provisions would cost $280 million over the 2002-2006 period.

In total, these provisions affecting travel and transportation allowances would cost $51 million in 2002 and $1.4 billion over the 2002-2006 period. Those provisions with no cost in 2002 reflect an effective date of January 1, 2003.

Increases in Incentive Pay and Bonuses. Sections 539, 616, and 617 would expand eligibility for bonuses and increase pay for personnel with special skills. Section 539 would expand the population eligible to receive stipends under the Health Professional Stipend Program to include medical and dental school students. Assuming the number of participants would increase gradually, at about 5 percent a year, CBO estimates section 539 would cost less than $500,000 in 2002 and $7 million over the 2002-2006 period.

Under section 616, certain reservists on inactive-duty training would be entitled to a full month of aviation career incentive pay for performing flying duty. Under current law, reservists receive aviation career incentive pay based on a daily rate for only the days they perform flying duty. Section 617 would raise the maximum pay rates for servicemembers performing submarine duty. CBO estimates these pay increases, effective January 1, 2002, would cost $70 million in 2002 and $489 million over the 2002-2006 period. Together, these increases in incentive pay and bonuses would cost $70 million in 2002 and $496 million over the 2002-2006 period.

Housing Allowances. Section 604 would expand eligibility to receive the basic allowance for housing (BAH) to junior enlisted members in grades E-3 and below who are on leave or traveling between permanent duty stations. Currently, only members in grades E-4 and above are eligible to receive BAH under these conditions. Using DoD's estimate of enlisted accessions, and adjusting for losses during training, CBO expects that about 175,000 enlisted members in grades E-3 and below would be eligible to receive BAH while traveling between permanent duty stations. Assuming members would, on average, be between duty stations for ten days, and applying the BAH rates for members with and without dependents, CBO estimates the average cost per member with and without dependents would be about $210 and $180, respectively. Based on an effective date of January 1, 2003, CBO estimates expanding eligibility to these servicemembers would have no cost in 2002, but would cost $27 million in 2003 and $140 million over the 2003-2006 period.

New Officer Accession Bonus. Section 620 would authorize a new accession bonus for officers. The amount of the bonus, limited to $100,000, could be paid in a lump sum or installments. Based on information from DoD, CBO expects that the Air Force and the Navy would use this authority starting in 2002, and that the provision would cost $18 million in 2002 and $94 million over the 2002-2006 period.

Subsistence Allowances. Section 603 would extend the current authority to provide an additional subsistence payment when rations-in-kind are not available. DoD plans to prescribe this incremental subsistence allowance until payments may be fully offset by the annual increases in basic allowance for subsistence (BAS). CBO estimates that under DoD's plan, additional subsistence payments would end in 2005. This section also would delay the termination of BAS transition authority by three months, making termination effective on January 1, 2002, and saving an estimated $15 million in 2002. CBO estimates the combined effects of implementing these provisions would cost $6 million in 2002 and $32 million over the 2002-2006 period, assuming appropriation of the necessary amounts.

Uniform Allowances. Section 605 would loosen restrictions on eligibility of officers to receive an additional $200 clothing allowance by doubling the cap on the dollar amount a member may receive in an initial clothing allowance over the prior two years. Under current law, officers are ineligible to receive the additional allowance if they have received more than $200 in an initial clothing allowance during the past two years. Raising the cap would increase the number of officers eligible for the additional $200 allowance. CBO estimates that implementing this provision would cost $4 million in 2002 and $20 million over the 2002-2006 period, subject to appropriation of the necessary amounts. Because this provision would have an effective date of October 1, 2000, section 605 would authorize retroactive payments of this additional $200 allowance and would thus increase direct spending. Those costs are discussed later in this estimate under the heading of "Direct Spending."

Education and Training. Section 529 would direct the National Defense University (NDU) to continue its concept validation test of joint professional military education for the reserves and to conduct a pilot program in 2003. The scope of the pilot program is undefined, but based on information from NDU, CBO estimates the program will eventually involve about 500 students at a cost of $10,500 per student per year. CBO expects that most of the costs in 2003 would be associated with program startup. CBO estimates minimal cost in 2002 because the validation program would still be ongoing. Overall, CBO estimates that this section would cost $23 million over the 2002-2006 period.

Section 538 would remove the cap on the number of Junior Reserve Officers' Training Corps (JROTC) units. The services plan to have 3,185 units in 2002, less than the current cap of 3,500 units. Based on recent growth rates, CBO expects the number of units would exceed 3,500 in 2005. CBO estimates implementing section 538 would increase JROTC costs by $2 million in 2005, rising to $5 million in 2006.

Under section 535, servicemembers on regular active-duty status could participate in the Senior Reserve Officers Training Corps (ROTC). Under current law, participation in Senior ROTC is limited to members of the reserves. Based on information from the military services, CBO expects that the Air Force and the Army would implement this new authority. Because the Air Force indicates that it would provide the same benefits to active-duty Senior ROTC participants as are paid to those in the Airman Education and Commissioning Program, CBO estimates no cost impact for the Air Force. The Army indicates, however, that it would not pay tuition or provide stipends or scholarships for about 200 active-duty

Senior ROTC participants. Because the Army would save the expense of Officer Candidate School or ROTC scholarships and stipends for members who would receive officer training under this section, CBO estimates savings of $1 million in 2002 and $9 million over the 2002-2006 period. CBO expects that these members would use Montgomery GI Bill (MGIB) benefits to fund their education. Therefore, this provision would increase direct spending. Those costs are discussed later in this estimate under the heading of "Direct Spending."

Section 533 would increase the number of international students authorized to be admitted to the service academies and would eliminate the restrictions on full tuition waivers. CBO estimates that this section would cost $17 million over the 2002-2006 period. Removing the restrictions on tuition waivers would allow about 70 additional international students to receive full tuition assistance each year. This figure includes students admitted because of the higher number of international slots made available under this section, as well as slots that are currently receiving only partial tuition assistance. The current cost of tuition for an international student is about $62,000 a year, and the annual cost of implementing this section would be about $4 million.

Other Compensation Provisions. Section 619 would allow servicemembers electing to receive the 15-year career status bonus to have this bonus paid in installments. Currently this $30,000 bonus is offered as a lump-sum payment. CBO assumes that about 10 percent of those electing to receive the bonus would, on average, choose to receive two payments of $15,000 spread over two years. Because these decisions would shift some payments from one year into the next, CBO estimates section 619 would save $30 million in 2002 and about $25 million over the 2002-2006 period. The somewhat lower total savings over the five-year period reflects small costs in some years that result from the estimated yearly change in the number of servicemembers with 15 years of service.

Section 507 would allow an active-duty servicemember who is being separated from the armed services because of a physical disability to have his separation pay based on the rank to which he would have been promoted had he not been separated. Based on current pay tables and information from DoD, about 17 percent of such members would have been approved for promotion and, under section 507, would be entitled to a 17 percent pay increase in separation pay. CBO estimates implementing section 507 would increase separation pay by about 3 percent or $5 million a year.

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

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

Section 701 would require DoD to implement these rates by January 1, 2002. Under this provision, DoD would be able to lower its costs for both hospital outpatient and long-term care services over the 2002-2003 period before the regulations would have been implemented. These savings would affect spending subject to appropriation as well as direct spending for retirees of the other uniformed services in 2002 and 2003 and the TFL trust fund that starts operation in 2003. CBO estimates that the total savings in spending subject to appropriation for hospital outpatient and long-term care services would be about $230 million over the 2002-2003 period, assuming appropriations are reduced by the estimated amounts. Section 701 would affect two different programs: Tricare (under 65) and Tricare for Life. Those two effects are discussed below.

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

Under section 701, DoD also would lower the rates paid for skilled nursing and home health care. This change would primarily affect the TFL program since beneficiaries under age 65 do not use much long-term care (DoD spent only $10 million on long-term care for those under 65 in 2000). Savings arise because Tricare's skilled nursing benefit has no time limit while Medicare's benefit expires after 100 days. The change in payment rates would have no impact on Tricare for the first 100 days because Tricare would only be liable for the deductibles and copayments charged under Medicare. However, this provision would lower the amount that Tricare would pay for those beneficiaries who need more than 100 days of skilled nursing care. Additionally, Tricare would reduce its costs for providing skilled nursing and home health care to those beneficiaries who use these services without a prior hospital stay and are thus not Medicare-eligible.

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

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

Section 704 would require DoD to structure the Tricare long-term care program to resemble Medicare, which requires prior hospitalization before being eligible for skilled nursing and home health care. Under section 704, DoD would be required to implement this provision on October 1, 2001. Requiring prior hospitalization under Tricare's long-term care program would reduce the benefit for those beneficiaries that would otherwise have used long-term care and would save DoD the cost of providing this care over the 2002-2003 period before the DoD's the new long-term care rules would have gone into effect under DoD's plan. CBO estimates that some of those beneficiaries would likely be able to get a prior hospitalization before seeking care. In those instances, Medicare would become the first payer while a few beneficiaries would end up using Medicaid. Thus the savings to DoD would be partially offset by increased costs to both Medicare and Medicaid (discussed below).

Using data from DoD and the Agency for Healthcare Research and Quality, CBO estimates that about 3,500 beneficiaries, who would have used skilled nursing without a hospital stay, would be affected by these new rules along with about 24,000 beneficiaries who would have used home health care. CBO estimates that some of those beneficiaries would pay for the long-term care through Medicare or Medicaid, while others would pay the costs themselves, use other insurance, or do without the long-term care. For those beneficiaries who would be covered by Medicare, DoD would not save the full cost because Tricare would be liable for all deductibles and copayments. Taking this information into account, CBO estimates that, under section 704, Tricare spending would be reduced by about $40 million in 2002, assuming appropriations are reduced by the estimated amounts. (There would also be direct spending savings of about $120 million for both the trust fund and the other uniformed services in 2003 and Medicare and Medicaid costs in both 2002 and 2003.)

Non-Availability Statements. Under current law, users of military health care have the option of enrolling in Tricare Prime, an HMO-like plan that centers its provision of services around military treatment facilities. Users who do not enroll in Tricare Prime have the option of using Tricare Extra, a preferred provider network, or Tricare Standard, a traditional fee-for-service insurance plan. Beneficiaries who live within 40 miles of a military hospital must get a statement from the hospital that it cannot provide the requested care before the beneficiary may use Tricare Standard or Extra. Absent that statement, Tricare does not have to pay for the care received at a nonmilitary facility.

Section 702 would prohibit the requirement of such statements beginning sometime in fiscal year 2004 (two years after the enactment of this bill), unless the Secretary of Defense certifies that they are still needed for each medical procedure. Based on information from DoD, CBO expects that the Secretary of Defense would certify that these statements are necessary in most cases, although not in all cases. For those cases where a statement would no longer be necessary, CBO estimates that this provision would cost about $10 million in 2004 and $30 million over the 2004-2006 period, assuming appropriation of the estimated amounts.

Other Defense Health Care Provisions. H.R. 2586 also contains two proposals that would cost relatively little over the 2002-2006 period. CBO estimates that implementing these two additional health care provisions would cost $8 million in 2002 and $31 million over the 2002-2006 period.

- Section 705 would allow DoD to reimburse the parent or guardian of minors for travel costs associated with the minor receiving care at a military treatment facility more than 100 miles away from the minor's home. CBO estimates that this proposal would cost about $5 million a year.

- Section 588 would allow government agencies to pay the employee's share of the insurance premium paid under the Federal Employee Health Benefits program, if the employee is involuntarily called to active duty for a contingency operation. It also would allow the agencies to reimburse past premium payments for employees called up after December 8, 1995. CBO estimates that this provision would cost about $3 million in 2002 (primarily for reimbursements), less than $500,000 in 2003, and $1 million a year beginning in 2004.

Limitations on Workforce Reviews. Section 331 would limit the ability of DoD to conduct outsourcing studies to only 3,053 civilian positions in fiscal year 2002. CBO estimates that this section would cost about $70 million over the 2002-2006 period, assuming appropriation of the necessary amounts.

DoD currently plans to conduct outsourcing studies on approximately 13,000 civilian positions in 2002. Under section 331, DoD would review 10,000 fewer positions than planned. Based on information from the General Accounting Office (GAO) and DoD, CBO estimates that each outsourcing study takes three years to accomplish and costs approximately $3,500 per position studied. CBO estimates that reducing the number of positions reviewed in 2002 would result in a savings of approximately $34 million over the 2002-2004 period. CBO also estimates that an additional $51 million would be saved in 2005 because the department would not have to pay the involuntary separation costs associated with the workforce reductions resulting from the reviews. CBO estimates that separation costs would average $5,200 for each position studied. While actual separation costs range between $20,000 to $25,000 for each position, the average cost per position studied considers the fact that only half of the civilian positions reviewed would result in job eliminations, and that many of the civilians whose jobs were eliminated would be transferred to other positions within the department.

The costs associated with section 331 would result from DoD having to reduce future savings estimates for the years 2005 and beyond. Based on information from DoD and GAO, CBO estimates that recurring savings would be approximately $10,500 for each position studied. CBO estimates that, under it's current plan, DoD would begin to realize savings from outsourcing studies begun in 2002 in the second half of 2005 and that the annual savings under DoD's current plan would be approximately $140 million in 2006 and every year thereafter. Under the proposed limits in this provision, CBO estimates that DoD would realize savings of only $33 million in 2006 and thereafter. The reduction in savings for the 2005-2006 period would be approximately $155 million.

Service Contracting Reform. Subtitle G of title III would extend workforce review studies to new requirements and work previously outsourced to the private sector. CBO estimates that implementing these sections would cost approximately $125 million over the 2002-2006 period.

Section 383 would require workforce studies on all new requirements not previously performed by DoD or contractor personnel that result in contracts greater than $1 million. Based on information from DoD, CBO estimates that this provision would affect approximately 10,000 contractor positions each year and that the cost to review each position would be approximately $3,500. Because the requirements of this provision would be phased in over a four-year period so that only 30 percent of the requirement would need to be met by 2005, CBO estimates that implementing this provision would cost $20 million over the 2002-2006 period.

Section 385 would require DoD to subject an equivalent number of contractor positions to workforce reviews for each civilian position review planned. Based on information from

DoD and GAO, CBO estimates that DoD would study approximately 34,000 contractor positions at a cost of $105 million over the 2002-2006 period.

CBO estimates no significant savings as a result of these reviews. Although some evidence suggests that subjecting contractors to competition could reduce costs in some instances, most estimated savings from workforce reviews are due to reductions of government personnel and overhead. It is also uncertain as to what extent government organizations could organize themselves to formally compete for work currently performed by the private sector.

National Guard Challenge Program. Section 587 would eliminate the spending cap on the National Guard Challenge Program beginning in fiscal year 2003, and would also increase the federal contributions to state programs from 60 percent to 75 percent. CBO estimates that implementing this section would cost $48 million over the 2003-2006 period. CBO estimates that increasing the federal contributions to 75 percent would increase the annual cost for each space by about $1,000. Applying this cost to the 6,600 spaces in the program and allowing program costs to increase with inflation would result in an average annual cost for the program of about $10 million over the 2003-2006 period.

War Medals. Sections 546 and 547 would establish two new service medals. Section 546 would create a Korea Defense service medal for those servicemembers who served in the Republic of Korea or the adjacent waters at any time during the period beginning July 28, 1954, and ending at a time to be determined by the Secretary of Defense. CBO expects that on average about 200,000 medals would be awarded each year. Section 547 would authorize a Cold War service medal for members who served on active duty between September 2, 1945, and December 26, 1991. CBO estimates that about 500,000 eligible members, or their survivors, would apply each year. CBO estimates that these provisions would have no cost in 2002, but would cost $18 million over the 2003-2006 period. CBO estimates no cost in 2002 to account for the delay in designing and minting these medals, and processing applications.

Reductions in Defense Acquisition Workforce. Section 901 would limit the size of the defense acquisition workforce by requiring a reduction of at least 13,000 military and civilian personnel during fiscal year 2002. Because the total number of military personnel is determined by endstrength requirements, CBO assumes that the provision would lead to their transfer to other activities rather than separation from the services. Separations of civilian personnel, who comprise about 80 percent of the acquisition workforce, would account for the remaining reductions. Because these civilian reductions would exceed those expected under current law, CBO estimates savings of $25 million in 2002, $236 million in 2003, and $1 billion over the 2002-2006 period. Savings would be relatively small during the first year because the cost of separation payments would offset most of the initial savings in salaries.

Asbestos Differential Pay. Under section 1108, federal wage-grade employees would be subject to the same standards as general schedule employees when determining eligibility for environmental differential pay (EDP), based on exposure to asbestos. Under current law, general schedule employees are entitled to 8 percent hazard differential pay if they are exposed to asbestos that exceeds the Occupational Safety and Health Administration (OSHA) permissible exposure limits. The current EDP standard for wage-grade employees entitles them to the same 8 percent of pay, but does not set an objective measure for determining the level of asbestos exposure necessary to qualify for EDP. In several instances where wage-grade employees have sought back pay for EDP, arbitrators found in favor of the employees when asbestos levels were below those consistent with OSHA standards. Based on information from DoD on prior and pending arbitration rulings, CBO expects that implementing section 1108 would reduce the amount of back pay federal agencies would be required to pay for EDP based on asbestos exposure. Assuming these cases would be handled administratively, CBO estimates establishing OSHA standards for asbestos EDP would save $110 million in 2002 and $550 million over the 2002-2006 period, assuming appropriations are reduced by the estimated amounts.

DoD Civilian Wage-Grade Schedule. Section 1110 would establish the same guidelines for determining the pay schedule for DoD wage-grade employees as those in place, under current law, for non-DoD wage-grade employees when there are an insufficient number of comparable positions in the local private industry to generate the wage schedule. Under current law, DoD may only consider local private-industry rates when constructing the wage schedules for various wage areas across the country. This section would instruct DoD to consider private-industry rates in both the local area and a similar wage area, with more comparable private-sector positions. Based on information from the Office of Personnel Management, CBO estimates that section 1110 would increase the wages of DoD wage-grade employees in ceratin wage areas and would cost $3 million in 2002 and $45 million over the 2002-2006 period, assuming appropriation of the estimated amounts. The lower cost in the first year reflects CBO's assumption that the adjustments to the wage schedules would occur at the same time of year that the wage schedule would normally be adjusted.

Strategic Forces. Section 1044 would repeal subparagraph (D) of section 1302(a)(1) of the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85), as amended by section 1501(a) of the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65), to allow DoD to initiate actions to retire or dismantle the Peacekeeper intercontinental ballistic missile force. CBO estimates that the provision would save about $600 million over the 2002-2006 period. Those savings would come from eliminating the cost to operate the missiles starting immediately in 2002, eventually saving about $200 million a year. These savings would be partially offset by the costs of removing the missiles and warheads from the silos and the costs of monitoring the silos. CBO assumes that the retirement process would take about three years and that the missiles would be completely retired by the end of 2004. CBO estimates missile retirement costs would total about $100 million over the 2002-2004 period.

Military Housing Privatization Initiative (MHPI). Section 2804 would permanently extend special authorities to finance the construction and renovation of military family housing. Those authorities, which expire on December 31, 2004, allow DoD to use direct loans, loan guarantees, long-term leases, rental guarantees, barter, direct government investment, and other financial arrangements to encourage private-sector participation in building military housing. Funding for those activities derives from the Family Housing Improvement Fund and consists of appropriations to the fund, transfers from other accounts, receipts from property sales and rents, returns on any capital, and other income from operations or transactions connected with the program. Currently the amounts in the fund are available to acquire housing using the various techniques mentioned above, but the total value of budget authority for all contracts and investments undertaken is limited to $1 billion.

Based on how the Office of Management and Budget (OMB) has treated recent use of the authority, CBO does not estimate any budgetary impact from extending the authorities. (This bill authorizes the appropriation of $2 million to the fund for fiscal year 2002, and that amount is included in the budget estimates.) However, CBO believes that OMB's current accounting for MHPI initiatives is at odds with government-wide standards for recording obligations and outlays. Those standards call for different treatments depending on the character of the transaction. The OMB accounting treats certain initiatives primarily as credit transactions that have relatively little cost in terms of recorded obligations and outlays. In contrast, CBO considers those initiatives as having the characteristics of lease-purchases, which call for recording higher levels of up-front obligations and outlays. The Administration's approach will allow DoD to obligate significantly more federal resources than the $1 billion limitation for such projects.

Management of the Presidio of San Francisco. Section 2863 would increase from $50 million to $150 million the amount that the Presidio Trust may borrow, subject to appropriation, from the U.S. Treasury. Based on recent spending patterns of the Trust (which is a wholly owned government corporation that manages the Presidio in California), CBO estimates that this money would be borrowed and spent slowly over the next five years.

Direct Spending

The bill contains provisions that would reduce direct spending, primarily through revision to payments rates for certain defense health care program services and certain asset sales from the National Defense Stockpile. The bill also contains a few provisions with small direct spending costs. On balance, CBO estimates that enacting H.R. 2586 would result in net savings in direct spending totaling $384 million over the 2002-2006 period.

TABLE 4. ESTIMATED DIRECT SPENDING FROM HEALTH CARE AND OTHER PROVISIONS IN H.R. 2586

	By Fiscal Year, in Millions of Dollars				
	2002	2003	2004	2005	2006
CHANGES IN DIRECT SPENDING (EXCLUDING ASSET SALES)					
Section 535 - Active-Duty Participation in Senior ROTC					
Estimated Budget Authority	1	1	1	1	1
Estimated Outlays	1	1	1	1	1
Section 605 - Retroactive Uniform Allowances					
Estimated Budget Authority	3	0	0	0	0
Estimated Outlays	3	0	0	0	0
Medical Care Trust Fund					
Section 701 - Payment Rates					
Estimated Budget Authority	-2	-220	0	0	0
Estimated Outlays	-2	-220	0	0	0
Section 704 - Long-Term Care Rules					
Estimated Budget Authority	21	-47	0	0	0
Estimated Outlays	21	-47	0	0	0
Section 811- Recovery Audits					
Estimated Budget Authority	-11	-55	-6	-10	0
Estimated Outlays	-16	-75	-14	5	1
Section 2845 - Land Conveyance of Navy Property in Maine					
Estimated Budget Authority	0	1	1	0	0
Estimated Outlays	0	1	1	0	0
Subtotal					
Estimated Budget Authority	9	-320	-4	-9	1
Estimated Outlays	4	-340	-12	6	2
ASSET SALES[a]					
National Defense Stockpile - New Sales					
Estimated Budget Authority	-2	-2	-2	-2	-2
Estimated Outlays	-2	-2	-2	-2	-2
National Defense Stockpile - Accelerated Cobalt Sales					
Estimate Budget Authority	-20	-30	-14	-3	33
Estimated Outlays	-20	-30	-14	-3	33
Subtotal					
Estimated Budget Authority	-22	-32	-16	-5	31
Estimated Outlays	-22	-32	-16	-5	31

(Continued)

TABLE 4. CONTINUED

TOTAL CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	-13	-352	-20	-14	32
Estimated Outlays	-18	-372	-28	1	33

a. Asset sale receipts are a credit against direct spending.

Active-Duty Participation in Senior ROTC. Section 535 would allow servicemembers to participate in the Senior Reserve Officers Training Corps (ROTC) while on regular active-duty status. Under current law, participation in Senior ROTC is limited to members of the reserves. Based on information from the military services, the Army would allow about 200 active-duty enlisted members a year to enroll in college under this program. While the Army would not pay for their education, these members would continue to receive pay and benefits during their college career. CBO expects that these members would use Montgomery GI Bill benefits to fund their education. Under current law, CBO assumes that half of these members would not use their MGIB benefits. Therefore, CBO estimates that section 535 would increase MGIB outlays by $1 million a year, starting in 2002.

Retroactive Uniform Allowances. Section 605 would authorize retroactive payments of an additional $200 clothing allowance for certain officers who were ineligible during fiscal year 2001 because they had received more than $200 in an initial uniform allowance over the prior two-year period. CBO estimates that these retroactive payments would cost $3 million in 2002.

Medical Care Trust Fund. Sections 701 and 704 would change the way DoD administers long-term care and the way it pays for that care under the Tricare for Life program. DoD has the regulatory authority to make the changes that are directed in these sections but thinks it will take upwards of two years to implement the changes by regulation. Section 701 would require that the changes be implemented by January 1, 2002, and section 704 would take effect on October 1, 2001. Accordingly, DoD would save money over the roughly two-year period before the regulations would have been implemented. The Tricare for Life program will begin on October 1, 2001, but the trust fund will not begin operation until one year later, so only the savings to DoD in fiscal year 2003 would be considered direct spending savings. There also would be some minor savings in 2002 for retirees of the other uniformed services.

Payment Rates. Under current regulations, the Tricare for Life program will pay all deductibles and copayments associated with Medicare's skilled nursing benefit and will pay for skilled nursing care in excess of the Medicare benefit (100 days). Additionally, Tricare will pay for skilled nursing and home health care even if the beneficiary does not have a prior hospital admission. (Tricare will pay 75 percent of billed charges, with no maximum charge, until the beneficiary has paid $3,000 in out-of-pocket costs and then will pay 100 percent of billed charges after that point.) Section 701 would require DoD to set maximum allowable charges for skilled nursing and home health care, which would lower its cost of providing long-term care. CBO estimates that implementing new charges based on Medicare rates would lower what DoD pays for skilled nursing and home health care by about 30 percent. Under section 701, CBO estimates that direct spending from the trust fund for DoD retirees would decline by about $215 million in 2003. (The discretionary savings for 2002 are discussed earlier in the "Spending Subject to Appropriation" section under the heading of "Defense Health Program.")

The Tricare for Life program also covers retired members of the Coast Guard and retired uniformed members of the Public Health Service and the National Oceanic and Atmospheric Administration. Health care spending for these retirees is considered direct spending. Under section 701, CBO estimates that the other uniformed services would save about $2 million in 2002 and $5 million in 2003.

Long-Term Care Rules. Under current law, Medicare will not pay for skilled nursing and home health care unless the beneficiary has been hospitalized before receiving that care. Tricare, on the other hand, will pay for long-term care without a prior hospitalization. For those cases, Tricare becomes the primary insurance because Medicare will not pay. Section 704 would require DoD to structure its long-term care benefit to resemble Medicare's, which requires prior hospitalization. Implementing this provision would lower DoD's costs because fewer beneficiaries would be eligible for skilled nursing and home health care. CBO estimates that under section 704, direct spending from the trust fund would decline by about $120 million in 2003. CBO also estimates that, under section 704, the other uniformed services would save less than $500,000 in 2002 and about $1 million in 2003. (There would also be discretionary savings of about $40 million, as discussed earlier.)

The Tricare for Life program would be able to lower costs by shifting many of those costs to their beneficiaries and other government programs, primarily Medicare. CBO estimates that about 50 percent of individuals who would have used long-term care without a prior hospital stay would be able to qualify under the Medicare rules (about 1,600 for skilled nursing and about 12,000 for home health care). CBO further estimates that the average cost of skilled nursing is about $250 a day, and for home health care about $2,300 for 60 days of care, which is the Medicare benefit. Accordingly, CBO estimates that under section 704 direct spending for Medicare benefits would increase by $20 million in 2002 and $70 million in 2003. In addition, a few beneficiaries would eventually become eligible for Medicaid, which also provides long-term care benefits. CBO estimates that Medicaid costs under section 704 would be $1 million in 2002 and $3 million in 2003.

Recovery Audits. Subtitle B of title VIII would require federal agencies to conduct specialized audits of those accounts that purchase at least $500 million of goods and services from the private sector. The goal of these audits would be to find and recover sums erroneously paid to private vendors. The legislation also would allow agencies to retain and spend some of the funds recovered under certain conditions. Recovered funds that still would be available for obligation could be spent on the original purposes of those funds, and 25 percent of all other funds could be spent on management improvement projects.

CBO estimates that implementing this program would reduce net direct spending by about $100 million over the 2002-2006 period, by increasing the federal government's recovery of erroneous payments made in prior years. For this estimate, we assume that most agencies would audit at least three years of such payments. Implementing the bill could yield additional savings from payments made after 2001, but such savings would depend on future appropriations. In addition, CBO estimates that the Office of Management and Budget would spend less than $500,000 a year to oversee and report on the bill's implementation, subject to be availability of appropriated funds. The savings from this legislation fall within multiple budget functions.

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

CBO estimates that agencies would spend about 45 percent of recovered funds, which is our estimate of the maximum that could be spent under this provision. First, we assume that agencies would spend all of the recovered funds that still would be available for obligation (i.e., funds that were provided under multiyear obligation authority). In addition, we assume that agencies would spend the allowed 25 percent of all other recovered funds (i.e., those recoveries for which the original obligation authority has expired). Based on the obligation authority provided in appropriations for fiscal year 2001, and accounting for certain exclusions that would be allowed under the bill, CBO estimates that agencies could spend at most about 45 percent of recovered funds.

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

The bill would result in direct spending by authorizing a conveyance that would reduce offsetting receipts collected by the federal government. Under section 2845, the Navy would be authorized to convey 485 acres of property to the state of Maine or other governmental jurisdictions. Under current law, however, the Navy will declare that property excess to its needs and transfer it to the General Services Administration (GSA) for disposal. Under normal procedures, GSA sells property not needed by other federal agencies or by non-federal entities in need of property for public-use purposes such as parks or educational facilities. Information from GSA indicates that portions of the land will likely be sold under current law after the entire parcel is screened for other uses in 2002. As a result, CBO estimates that the conveyance in the bill would result in forgone receipts totaling about $1 million in 2003 and $1 million in 2004.

Section 2861 would direct the Secretary of the Interior to transfer administrative jurisdiction over 35 acres of federal lands in Park City, Utah, to the Secretary of the Air Force, for purposes of building a recreational facility. Title XXIX also would direct the Secretary of the Interior to transfer administrative jurisdiction over approximately 110,000 acres of federal lands in San Bernardino County, California, to the Secretary of the Army. Based on information from the Department of the Interior (DOI), CBO estimates that those transfers would not significantly affect the federal budget. According to DOI, the lands currently generate no significant receipts, and the agency does not expect the lands to generate significant receipts over the next 10 years.

CBO estimates that other provisions would not result in significant costs to the federal government because they would either authorize DoD to exchange one piece of property for another or would authorize DoD to convey land that under current law is likely to be given away.

Concurrent Receipt. Upon passage of qualifying, offsetting legislation, section 641 would allow total or partial concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the military, the Coast Guard, the Public Health Service, and the National Oceanic and Atmospheric Administration who have service-connected disabilities. The provision also would discontinue special compensation for certain severely disabled uniformed services retirees.

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

Section 641 would become effective only upon passage of legislation that would fully offset its costs in each of the first 10 fiscal years after passage of the offsetting legislation. If qualifying, offsetting legislation were enacted in 2001, CBO estimates that implementing this section in 2002 would increase direct spending for retirement payments and veterans' disability compensation by about $3 billion in 2002, $17 billion over the 2002-2006 period, and $41 billion over the 2002-2011 period. Because those effects are contingent upon subsequent legislation, they are not included in Table 4.

In addition, the military retirement system is financed in part by an annual payment from appropriated funds to the military retirement trust fund, based on an estimate of the system's accruing liabilities. If section 641 were implemented, the yearly contribution to the military retirement trust fund (an outlay in budget function 050) would increase to reflect the added liability from the expected increase in annuities to future retirees. CBO estimates that implementing this provision would increase such payments by about $1 billion in 2002, and $6 billion over the 2002-2006 period, assuming appropriation of the necessary amounts.

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

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

- Section 512 would allow the Service Secretaries to hold special selection boards to consider reserve officers from below the promotion zone who, through error, were either not considered for promotion or were passed over on or after October 1, 1996. Under current law, special selection boards may only consider members who were in or above the promotion zone. Because members would be entitled to back pay if they receive retroactive promotions, enacting this provision would increase direct spending. CBO expects the number of retroactive promotions to be small and we estimate that outlays would increase by less than $500,000 a year.

- Section 514 would allow disability retirement for reservists whose disability was incurred or aggravated while remaining overnight before inactive-duty training, or between successive periods of such training. Currently, reservists are only covered during overnight stays for such periods if they are outside reasonable commuting distance of their residences.

- Section 515 would reduce the time-in-grade requirement for certain reserve officers who are retired because of a non-service-connected disability. In order to retire at a given grade, they would have to have served six months in that grade, rather than the three years required under current law.

- Section 528 would allow the National Defense University (NDU) to collect and spend tuition receipts for up to 10 civilian students from the private sector at any one time. Currently, NDU accepts about 3 civilian students a year, on average, and their tuition is paid to the Treasury. CBO estimates this section would result in a negligible loss of receipts to the Treasury.

- Section 542 would require the military to review the records of certain Jewish American and Hispanic American war veterans to determine if any of these veterans should be awarded the Medal of Honor. A $600 a month pension is available to living Medal of Honor recipients. Based on similar reviews in the past, CBO estimates that a small number of awards would be presented (many posthumously), resulting in an increase in direct spending of less than $500,000 a year.

- Section 574 would allow DoD to accept voluntary legal services as a way to provide legal help to DoD beneficiaries. Although the service is voluntary, in the event of a legal malpractice suit the government would be liable for any claims against the legal volunteer. Payment of those claims is considered direct spending, but CBO estimates that this provision would cost less than $500,000 each year.

- Section 713 would establish a pilot program to allow certain hospitals to provide trauma and other medical care to individuals who are not currently eligible for care at military treatment facilities. The hospital would bill the individuals based on private rates and would have the authority to spend the receipts collected without the requirement for annual appropriations. Based on information provided by DoD, CBO estimates that the department would collect and spend less than $500,000 a year.

- Section 1104 would provide greater pension portability for certain civilian employees who have been employed by a Nonappropriated Fund Instrumentality (NAFI) and then become federal workers or vice versa. The provision would make it easier for workers who move between a NAFI employer and the civil service to transfer any accrued service credits from one retirement system to another. Based on information from DoD indicating relatively few workers would be affected by this provision, CBO estimates that section 1104 would change direct spending by less than $500,000 a year.

Asset Sales

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

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

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending that are subject to pay-as-you-go procedures are shown in Table 5. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 5. ESTIMATED IMPACT OF H.R. 2586 ON DIRECT SPENDING AND RECEIPTS

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	0	-18	-372	-28	1	33	33	-1	-1	-1	-1
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

Section 4 of UMRA excludes from the application of that act any legislative provisions that are necessary for the national security. Many of the provisions in this bill would fall under that exclusion.

Other sections of HR 2586 contain several intergovernmental mandates, including two preemptions of state law. None of the mandates would impose significant costs; therefore, the threshold established by UMRA ($56 million for intergovernmental mandates in 2001, adjusted annually for inflation) would not be exceeded. The bill also would provide for several land conveyances between the federal government and state, local, and tribal governments and includes provisions that would protect those governments from unnecessary cleanup costs should an environmental hazard be discovered on that land.

A provision in title 5 (Military Personnel Policy) would require public secondary schools to provide military recruiters with access to students and to student information in the same manner that such access and information is provided to employers and institutions of higher education. The requirement to provide access and information to the military would be a mandate as defined by UMRA. Because this information is already provided to other parties, the costs of complying with this mandate would be minimal.

The two preemptions in this bill deal with land management. Section 2811 (Use of Military Installations for Certain Recreational Activities) would amend current law to allow the Secretary of Defense to waive compliance with state or territorial fish and game laws at a military installation or facility if the Secretary determines that those laws could result in undesirable consequences for public safety or adverse effects on morale. Under current law, the Secretary must require each military installation or facility under the jurisdiction of any military department to adhere to the appropriate fish and game laws. Such a preemption of state law would be a mandate. However, the costs of complying with this mandate would be minimal, since the states would not be required to take any specific action or spend any money to comply.

Section 2864 (Effect of Limitation on Construction of Roads or Highways, Marine Corps Base, Camp Pendleton, California) would preempt any California state law passed after January 1, 2001, that directly or indirectly prohibits or restricts the construction or approval of a road or highway within an easement granted by the Secretary of the Navy on the Camp Pendleton Marine Corps Base. The costs of complying with this mandate also would be minimal since the state would not be required to take any specific action or spend any money to comply.

Finally, the changes to DoD's Tricare long-term care program would result in additional Medicaid costs to states of about $1 million in 2002 and over $2 million in 2003. Because states have sufficient flexibility in the Medicaid program to alter their programmatic and financial responsibilities, these additional costs would not result from intergovernmental mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On May 22, 2001, CBO prepared a cost estimate for S. 170 and H.R. 303, identical bills titled the Retired Pay Restoration Act of 2001. S. 170 and H.R. 303 would provide identical benefits to those specified in Section 641 of H.R. 2586. If section 641 is implemented by October 1, 2001, the costs would be identical to those estimate for S. 170 and H.R. 303. As noted above, however, the provisions of section 641 cannot be implemented until additional legislation is enacted (to offset the section's costs). S. 170 and H.R. 303 do not contain such a contingency requirement.

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